PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
March 17, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of March, 2011

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65
20031-912 - Rio de Janeiro, RJ
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F _______

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

Yes _______ No___X____

This report on Form 6-K is incorporated by reference in the Registration Statement on Form F-3 of Petróleo Brasileiro -- Petrobras (No. 333-163665).

Petróleo Brasileiro S.A. -
Petrobras and subsidiaries

Consolidated Financial Statements December 31, 2010, 2009 and 2008 with Report of Independent Registered Public Accounting Firm

MANAGEMENT's REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's Audit Committee, Chief Executive Officer, Chief Financial Officer and effected by the Company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission COSO. Based on that assessment, management has concluded that as of December 31, 2010 the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010 has been audited by KPMG Auditores Independentes, the Company's independent registered public accounting firm, as stated in their report, dated March 15, 2011, included herein.

/s/ José Sergio Gabrielli de Azevedo	/s/ Almir Guilherme Barbassa
José Sergio Gabrielli de Azevedo	Almir Guilherme Barbassa
Chief Executive Officer	Chief Financial Officer
March 15, 2011	March 15, 2011

PETRÓLEO BRASILEIRO S.A. - PETROBRAS
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Notes to the Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Petróleo Brasileiro S.A. -Petrobras and subsidiaries ("the Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. We also have audited the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petróleo Brasileiro S.A. - Petrobras and subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, Petróleo Brasileiro S.A. - Petrobras and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in COSO.

/s/ KPMG Auditores Independentes
KPMG Auditores Independentes

Rio de Janeiro, Brazil
March 15, 2011

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

Expressed in Millions of United States Dollars

	As of December 31,	
	2010	**2009**
Assets		
Current assets		
Cash and cash equivalents (Note 4)	**17,633**	16,169
Marketable securities (Note 5)	**15,612**	72
Accounts receivable, net (Note 6)	**10,572**	8,115
Inventories (Note 7)	**11,834**	11,117
Deferred income taxes (Note 3)	**534**	660
Recoverable taxes (Note 8)	**5,260**	3,940
Advances to suppliers	**786**	1,136
Other current assets	**1,632**	1,435
	63,863	42,644
Property, plant and equipment, net (Note 9)	**218,567**	136,167
Investments in non-consolidated companies and other investments (Note 10)	**6,312**	4,350
Non-current assets		
Accounts receivable, net (Note 6)	**2,905**	1,946
Advances to suppliers	**3,077**	3,267
Petroleum and alcohol account - receivable from Federal Government (Note 11)	**493**	469
Marketable securities (Note 5)	**3,099**	2,659
Restricted deposits for legal proceedings and guarantees (Note 18 (b))	**1,674**	1,158
Recoverable taxes (Note 8)	**6,407**	5,462
Goodwill (Note 17(a))	**192**	139

Prepaid expenses	**516**	618
Other assets	**1,578**	1,391
	19,941	17,109
Total assets	**308,683**	200,270

See the accompanying notes to the consolidated financial statements.

	As of December 31,	
	2010	**2009**
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	**10,468**	9,882
Current debt (Note 12)	**8,960**	8,431
Current portion of capital lease obligations (Note 14)	**105**	227
Income taxes payable	**898**	825
Taxes payable, other than income taxes	**5,135**	5,149
Payroll and related charges	**2,617**	2,118
Dividends and interest on capital payable (Note 16 (f))	**2,158**	1,340
Employees' postretirement benefits obligation Pension and		
Health Care (Note 15 (a))	**782**	694
Other payables and accruals	**2,429**	2,299
	33,552	30,965
Long-term liabilities		
Long-term debt (Note 12)	**60,471**	49,041
Capital lease obligations (Note 14)	**117**	203
Employees' postretirement benefits obligation - Pension and		
Health Care (Note 15 (a))	**13,740**	10,963
Deferred income taxes (Note 3)	**12,704**	9,844
Provision for abandonment (Note 9 (b))	**3,194**	2,812
Contingencies (Note 18 (b))	**760**	469
Other liabilities	**748**	553
	91,734	73,885
Shareholders' Equity		
Shares authorized and issued (Note 16 (a))		
Preferred share 2010 - 5,602,042,788 shares and 2009 - 3,700,729,396 shares	**45,840**	15,106
Common share 2010 - 7,442,454,142 shares and 2009 - 5,073,347,344 shares	**63,906**	21,088
Additional paid in capital	**(86)**	707
Retained earnings		
Appropriated	**47,147**	36,987
Unappropriated	**13,758**	15,062
Accumulated other comprehensive income		
Cumulative translation adjustments	**13,539**	6,743
Postretirement benefit reserves adjustments net of tax ((US$1,401) and		

(US$848) for December 31, 2010 and 2009, respectively) - Pension cost		
and Health Care cost (Note 15 (a))	**(2,719)**	(1,646)
Unrealized gains (losses) on available-for-sale securities, net of tax	**124**	24
Unrecognized loss on cash flow hedge, net of tax	**(15)**	(13)
Petrobras' Shareholders' Equity	**181,494**	94,058
Noncontrolling interest	**1,903**	1,362
Total Equity	**183,397**	95,420
Total liabilities and Shareholders' Equity	**308,683**	200,270

See the accompanying notes to the consolidated financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

December 31, 2010, 2009 and 2008

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

	Year ended December 31,		
	2010	**2009**	**2008**
Sales of products and services	**150,852**	115,892	146,529
Less:			
Value-added and other taxes on sales and services	**(26,459)**	(20,909)	(25,046)
Contribution of Intervention in the Economic Domain Charge CIDE	**(4,341)**	(3,114)	(3,226)
Net operating revenues	**120,052**	91,869	118,257
Cost of sales	**(70,694)**	(49,251)	(72,865)
Depreciation, depletion and amortization	**(8,507)**	(7,188)	(5,928)
Exploration, including exploratory dry holes	**(1,981)**	(1,702)	(1,775)
Impairment (Note 9 (c) and Note 20(b))	**(402)**	(319)	(519)
Selling, general and administrative expenses	**(8,977)**	(7,020)	(7,429)
Research and development expenses	**(993)**	(681)	(941)
Employee benefit expenses for non-active participants	**(752)**	(719)	(841)
Other operating expenses	**(3,588)**	(3,120)	(2,665)
Total costs and expenses	**(95,894)**	(70,000)	(92,963)
Operating income	**24,158**	21,869	25,294
Equity in results of non-consolidated companies (Note 10)	**413**	157	(21)
Financial income (Note 13)	**2,630**	1,899	1,641
Financial expenses (Note 13)	**(1,643)**	(1,295)	(848)
Monetary and exchange variations (Note 13)	**714**	(175)	1,584
Other taxes	**(523)**	(333)	(433)

Other expenses, net	**82**	(61)	(225)
	1,673	192	1,698
Income before income taxes	**25,831**	22,061	26,992

See the accompanying notes to the consolidated financial statements.

	Year ended December 31,		
	2010	**2009**	**2008**
Income taxes expenses (Note 3)			
Current	**(3,396)**	(4,378)	(6,904)
Deferred	**(2,960)**	(860)	(2,355)
	(6,356)	(5,238)	(9,259)
Net income for the year	**19,475**	16,823	17,733
Plus/(Less): Net income attributable to the noncontrolling interests	**(291)**	(1,319)	1,146
Net income for the year attributable to Petrobras	**19,184**	15,504	18,879
Net income applicable to each class of shares			
Common	**11,043**	8,965	10,916
Preferred	**8,141**	6,539	7,963
Net income for the year attributable to Petrobras	**19,184**	15,504	18,879
Basic and diluted earnings per: (Note 16 (e))			
Common and preferred share	**1.94**	1.77	2.15
Common and preferred ADS	**3.88**	3.54	4.30
Weighted average number of shares outstanding			
Common	**5,683,061,430**	5,073,347,344	5,073,347,344
Preferred	**4,189,764,635**	3,700,729,396	3,700,729,396

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2010, 2009 and 2008

Expressed in Millions of United States Dollars

	Year ended December 31,		
	2010	**2009**	**2008**
Cash flows from operating activities			
Net income for the year	**19,475**	16,823	17,733
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	**8,507**	7,188	5,928
Dry hole costs	**1,201**	1,251	808
Equity in the results of non-consolidated companies	**(413)**	(157)	21
Foreign exchange (gain)/loss	**(401)**	(1,051)	2,211
Impairment	**402**	319	519
Deferred income taxes	**2,960**	860	2,355
Other	**942**	(9)	617
Working capital adjustments:			
Increase in accounts receivable, net	**(2,347)**	(777)	(1,098)
Increase in inventories	**(427)**	(672)	(568)
(Decrease) increase in advances to suppliers	**454**	(428)	(1,684)
Increase in recoverable taxes	**(1,749)**	(882)	(1,431)
Increase in trade accounts payable	**251**	206	2,246
(Decrease) increase in taxes payable	**(668)**	1,086	(207)
Increase in employees post-retirement benefits - Pension and health care	**572**	323	795
Increase in contingencies	**226**	42	114
Increase in payroll and related charges	**387**	244	282
Increase (decrease) in other working capital adjustments	**(877)**	554	(421)
Net cash provided by operating activities	**28,495**	24,920	28,220
Cash flows from investing activities			

Additions to property, plant and equipment	**(45,078)**	(35,134)	(29,874)
Investments in affiliated companies	**(2,276)**	(240)	452
Marketable securities and other investments activities	**(15,666)**	254	(44)
Net cash used in investing activities	**(63,020)**	(35,120)	(29,466)
Cash flows from financing activities			
Shares issuance costs	**(279)**	-	-
Acquisition of noncontrolling interest	**(350)**	-	-
Net borrowing under line-of-credit agreement	**-**	1,100	-
Short-term debt, net issuances and repayments	**460**	1,286	380
Proceeds from issuance and draw-down of long-term debt	**20,189**	27,345	15,049
Payments of long-term debt	**(9,898)**	(5,084)	(7,904)
Issuance of common and preferred shares	**30,563**	-	-
Dividends and interest on Shareholders' Equity paid to shareholders and minority interest	**(5,299)**	(7,712)	(4,747)
Net cash used in financing activities	**35,386**	16,935	2,778
Increase (Decrease) in cash and cash equivalents	**861**	6,735	1,532
Effect of exchange rate changes on cash and cash equivalents	**603**	2,935	(2,020)
Cash and cash equivalents at the beginning of the year	**16,169**	6,499	6,987
Cash and cash equivalents at the end of the year	**17,633**	16,169	6,499

See the accompanying notes to the consolidated financial statements.

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	Year ended December 31,		
	2010	**2009**	**2008**
Supplemental cash flow information:			
Cash paid during the period for			
Interest, net of amount capitalized	**3,700**	3,059	2,304
Income taxes	**2,816**	4,929	6,271
Withholding income tax on financial investments	**1,746**	2,224	1,176
	8,262	10,212	9,751
Non-cash investment and financing transactions during the year			
Recognition of asset retirement obligation - ASC Topic 410-20	**1,088**	(423)	75
Acquisitition of property, plant and equipment on credit	**-**	70	-
Acquisition of fixed assets on contract with transfer of benefits, risks and control of assets	**-**	63	6
Capital increase with Financial Treasury Bill used for payment of part of the Assignment Agreement	**39,768**	-	-
	40,856	(290)	81

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN Shareholders' Equity

December 31, 2010, 2009 and 2008

Expressed in Millions of United States Dollars (except per-share amounts)

	Year ended December 31,		
	2010	**2009**	**2008**
Preferred shares			
Balance at January 1,	**15,106**	15,106	8,620
Capital increase from capital reserve (Note 16 (a))	**171**	-	251
Capital increase from statutory reserve	**300**	-	-
Capital increase from undistributed earnings reserve (Note 16(a))	**1,580**	-	6,235
Capitalization	**28,683**	-	-
Balance at December 31,	**45,840**	15,106	15,106
Common shares			
Balance at January 1,	**21,088**	21,088	12,196
Capital increase from capital reserve (Note 16 (a))	**125**	-	345
Capital increase from statutory reserve	**219**	-	-
Capital increase from undistributed earnings reserve (Note 16 (a))	**1,152**	-	8,547
Capitalization	**41,322**	-	-
Balance at December 31,	**63,906**	21,088	21,088
Additional paid in capital			
Balance at January 1,	**707**	-	-
Change in the year	**(514)**	707	-
Shares issuance costs	**(279)**	-	-
Balance at December 31,	**(86)**	707	-
Accumulated other comprehensive loss			
Cumulative translation adjustments			
Balance at January 1,	**6,743**	(15,846)	4,155

Change in the year	**6,796**	22,589	(20,001)
Balance at December 31,	**13,539**	6,743	(15,846)
Postretirement benefit reserves adjustments net of tax -			
Pension cost and Health Care cost			
Balance at January 1,	**(1,646)**	37	(2,472)
Other decreases (increases)	**(1,626)**	(2,550)	3,801
Tax effect on above	**553**	867	(1,292)
Balance at December 31,	**(2,719)**	(1,646)	37

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	Year ended December 31,		
	2010	**2009**	**2008**
Unrecognized gains (losses) on available-for-sale securities, net of tax			
Balance at January 1,	**24**	(144)	331
Unrealized gains (losses)	**151**	255	(490)
Realized gains	**-**	-	(229)
Tax effect on above	**(51)**	(87)	244
Balance at December 31,	**124**	24	(144)
Unrecognized loss on cash flow hedge, net of tax			
Balance at January 1	**(13)**	(39)	(9)
Change in the year	**(2)**	26	(30)
Balance at December 31,	**(15)**	(13)	(39)
Appropriated retained earnings			
Capital reserve - tax incentive			
Balance at January 1,	**296**	221	877
Capital increase	**(296)**	-	(596)
Transfer from unappropriated retained earnings	**-**	75	(60)
Balance at December 31,	**-**	296	221
Legal reserve			
Balance at January 1,	**5,419**	3,257	4,297
Transfer from unappropriated retained earnings, net of gain or loss on translation	**1,124**	2,162	(1,040)
Balance at December 31,	**6,543**	5,419	3,257
Undistributed earnings reserve			
Balance at January 1,	**30,755**	12,123	30,280
Capital increase	**(2,732)**	-	(14,782)
Transfer from unappropriated retained earnings, net of gain or loss on translation	**12,344**	18,632	(3,375)

Balance at December 31,	**40,367**	30,755	12,123
Statutory reserve			
Balance at January 1,	**517**	216	286
Capital increase	**(520)**	-	-
Transfer from unappropriated retained earnings, net of gain or loss on translation	**240**	301	(69)

	Year ended December 31,		
	2010	**2009**	**2008**
Balance at December 31,	**237**	517	217
Total appropriated retained earnings	**47,147**	36,987	15,818
Unappropriated retained earnings			
Balance at January 1,	**15,062**	25,889	6,618
Net income for the year attributable to Petrobras	**19,184**	15,504	18,879
Dividends and interest on Shareholders' Equity (per share: 2010 - US$0.69 to common and preferred shares; 2009 - US$0.59 to common and preferred shares; 2008 - US$0.47 to common and preferred shares)	**(6,780)**	(5,161)	(4,152)
Appropriation to reserves of tax incentives	**-**	(75)	-
Appropriation to reserves	**(13,708)**	(21,095)	4,544
Balance at December 31,	**13,758**	15,062	25,889
Total Petrobras' Shareholders' Equity	**181,494**	94,058	61,909
Noncontrolling interest			
Balance at January 1,	**1,362**	659	2,332
Net income for the period	**291**	1,319	(1,146)
Dividends and interest on shareholders's equity paid	**36**	-	(358)
Transfer to additional paid in capital	**103**	(707)	-
Other increases (decreases)	**111**	91	(169)
Balance at December 31,	**1,903**	1,362	659
Total equity	**183,397**	95,420	62,568
Comprehensive income (loss) is comprised as follows:			
Net income for the year	**19,475**	16,823	17,733
Cumulative translation adjustments	**6,796**	22,589	(20,001)
Postretirements benefit reserves adjustments net of tax - Pension cost and Health Care cost	**(1,073)**	(1,683)	2,509
Unrealized gains (losses) on available-for-sale securities	**100**	168	(475)
Unrecognized gains (losses) on cash flow hedge	**(2)**	26	(30)

Total comprehensive income	**25,296**	37,923	(264)
Less: Net comprehensive income attributable to			
noncontrolling interest	**(402)**	(1,410)	1,315
Comprehensive income attributable to Petrobras	**24,894**	36,513	1,051

See the accompanying notes to the consolidated financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Millions of United States Dollars

(except when specifically indicated)

1. The Company and its Operations

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

2. Summary of Significant Accounting Policies

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

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

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

Events subsequent to December 31, 2010 were evaluated until the time of the Form 6-K filing with the Securities and Exchange Commission.

2. Summary of Significant Accounting Policies (Continued)

a) Basis of financial statements preparation

The accompanying consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC). U.S. GAAP differs in certain respects from International Financial Reporting Standards (IFRS), as issued by 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). The Brazilian Corporation Law was amended in 2007 to permit Brazilian GAAP to converge with International Financial Reporting Standards, and Petrobras chose to present its financial statements for local purposes for the first time in accordance with IFRS in the first quarter of 2010 (see more details in Note 2 - item p).

The U.S. dollar amounts for the years presented have been translated from the Brazilian Real amounts in accordance Accounting Standard Codification-ASC Topic 830-Foreign Currency Matters as applicable to entities operating in non-hyperinflationary economies. Transactions occurring in foreign currencies are first remeasured to the Brazilian Real and then translated to the U.S. dollar, with remeasurement gains and losses being recognized in the statements of income. While Petrobras has selected the U.S. Dollar as its reporting currency, the functional currency of Petrobras and all Brazilian subsidiaries is the Brazilian Real. The functional currency of Petrobras International Finance Company-PifCo and some subsidiaries and certain of the special purpose companies that operate in the international economic environment is the U.S. dollar, and the functional currency of Petrobras Argentina is the Argentine Peso.

The Company has translated all assets and liabilities into U.S. dollars at the current exchange rate (R$1.666 and R$1.741 to US$1.00 at December 31, 2010 and 2009, respectively), and all accounts in the statements of income and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the year. The net translation gain in the amount of US$6,796 in 2010 (net translation gain in 2009 - US$22,589 and net translation loss in 2008 - US$20,001) resulting from this remeasurement process was excluded from income and presented as a cumulative translation adjustment ("CTA") within "Accumulated other comprehensive income" in the consolidated statements of changes in Shareholders' Equity.

2. Summary of Significant Accounting Policies (Continued)

b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries in which (a) the Company directly or indirectly has either a majority of the equity of the subsidiary or otherwise has controlling financial interest, or (b) the Company has determined itself to be the primary beneficiary of a variable interest entity in accordance with Codification Topic 810-10-25 ("Variable Interest Entities"). All significant intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies (Continued)

b) Principles of consolidation (Continued)

The following subsidiaries and variable interest entities are consolidated:

Subsidiaries	**Activity**
Petrobras Química S.A. - Petroquisa and subsidiaries	Petrochemical
Petrobras Distribuidora S.A. - BR and subsidiaries	Distribution
Braspetro Oil Services Company - Brasoil and subsidiaries	International operations
Braspetro Oil Company - BOC and subsidiaries	International operations
Petrobras International Braspetro B.V. - PIBBV and subsidiaries	International operations
Petrobras Gás S.A. - Gaspetro and subsidiaries	Gas transportation
Petrobras International Finance Company - PifCo and subsidiaries	Financing
Petrobras Transporte S.A. - Transpetro and subsidiary	Transportation
Downstream Participações Ltda. and subsidiary	Refining and distribution
Petrobras Netherlands BV - PNBV and subsidiaries	Exploration and Production
Petrobras Comercializadora de Energia Ltda. - PBEN	Energy
Petrobras Negócios Eletrônicos S.A. - E-Petro and subsidiary	Corporate
5283 Participações Ltda.	Corporate
Fundo de Investimento Imobiliário RB Logística - FII	Corporate
FAFEN Energia S.A. and subsidiary	Energy
Baixada Santista Energia Ltda.	Energy
Sociedade Fluminense de Energia Ltda. SFE	Energy
Termoaçu S.A.	Energy
Termobahia S.A.	Energy
Termoceará Ltda.	Energy
Termorio S.A.	Energy
Termomacaé Ltda.	Energy
Termomacaé Comercializadora de Energia Ltda.	Energy
Ibiritermo S.A.	Energy
Usina Termelétrica de Juiz de Fora S.A.	Energy
Petrobras Biocombustível S.A.	Energy
Companhia Locadora de Equipamentos Petrolíferos S.A. CLEP	Exploration and Production
Comperj Participações S.A.	Petrochemical
Comperj Petroquímicos Básicos S.A.	Petrochemical
Comperj PET S.A.	Petrochemical
Comperj Estirênicos S.A.	Petrochemical
Comperj MEG S.A.	Petrochemical
Comperj Poliolefinas S.A.	Petrochemical

Refinaria Abreu e Lima S.A.	Refining
Cordoba Financial Services Gmbh CFS and subsidiary	Corporate
Cayman Cabiunas Investments Co.	Exploration and Production
Breitener Energética S.A.	Energy

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2. Summary of Significant Accounting Policies (Continued)

b) Principles of consolidation (Continued)

Special purpose entities consolidated according to ASC TOPIC 810-10-25	**Activity**
Albacora Japão Petróleo Ltda.	Exploration and Production
Companhia de Desenvolvimento e Modernização de Plantas Industriais - CDMPI	Refining
PDET Offshore S.A.	Exploration and Production
Companhia de Recuperação Secundária S.A.	Exploration and Production
Nova Transportadora do Nordeste S.A. NTN	Transportation
Nova Transportadora do Sudeste S.A. - NTS	Transportation
Gasene Participações Ltda.	Transportation
Charter Development LLC- CDC	Exploration and Production
Companhia Mexilhão do Brasil	Exploration and Production
Fundo de Investimento em Direitos Creditórios não-padronizados do Sistema Petrobras **(1)**	Corporate

(1) At December 31, 2010, the Company had amounts invested in the Petrobras Group's Non-Standardized Credit Rights Investment Fund (Fundo de Investimento em Direitos Creditórios não-padronizados do Sistema Petrobras - "FIDC-NP"). This investment fund is predominantly intended for acquiring credit rights, performed and/or non-performed, in the Petrobras System companies, and aims to optimize the Company's cash management.

2. Summary of Significant Accounting Policies (Continued)

c) Cash and cash equivalents

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

d) Marketable securities

Marketable securities have been classified by the Company as available-for-sale, held-to-maturity or trading based upon intended management's strategies with respect to such securities. The Company classifies and accounts for marketable securities under ASC Topic 320 Investments:

Trading securities, which are marked-to-market through current period earnings;

Available-for-sale securities, which are marked-to-market through other comprehensive income;

Held-to-maturity securities, which are recorded at amortized cost.

The interest and monetary restatement of the securities are recorded in the statement of income. There were no material transfers between categories.

e) Inventories

Inventories are stated as follows:

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

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

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

2. Summary of Significant Accounting Policies (Continued)

f) Investments in non-consolidated companies

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

g) Property, plant and equipment

Costs incurred in oil and gas producing activities

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

Capitalized costs

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

Property acquisition costs

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

2. Summary of Significant Accounting Policies (Continued)

g) Property, plant and equipment (Continued)

Exploratory costs

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

Development costs

Costs of development wells including wells, platforms, well equipment and attendant production facilities are capitalized.

Production costs

Costs incurred with producing wells are recorded as inventories and are expensed when the products are sold.

Abandonment costs

The Company makes its annual reviews and revision of its 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 in estimated asset retirement obligation are principally related to the commercial declaration of new fields, certain changes in cost estimates, and revisions to abandonment information provided for non-operated joint ventures, considering the useful economic life of the fields and the expected cash flows, to present value, at a rate of interest free of risks, adjusted by the Petrobras risk.

2. Summary of Significant Accounting Policies (Continued)

g) Property, plant and equipment (Continued)

Depreciation, depletion and amortization

Depreciation, depletion and amortization of leasehold costs of producing properties are recorded using the unit-of-production method applied on a field by field basis as a ratio of proved developed reserves. Production platform under capital lease which is not tied to the respective wells, are depreciated on a straight-line basis over the estimated useful lives of the platforms. Depreciation, depletion and amortization of all other capitalized costs (both tangible and intangible) of proved oil and gas producing properties is recorded using the unit-of-production method applied on a field by field basis as a ratio of proved developed reserves produced. The straight-line method is used for assets with a useful life shorter than the life of the field.

Other plant and equipment are depreciated on a straight line basis, based on the following estimated useful lives:

Class of assets	Useful life average weighted
Buildings and improvements	25 years (25-40 years)
Equipment and other assets	20 years (3-31 years)

Impairment

In accordance with Codification Topic 360-10, management reviews long-lived assets, primarily property, plant and equipment to be used in the business and capitalized costs relating to oil and gas producing activities, whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable on the bases of undiscounted future cash flows. The reviews are carried out at the lowest level of assets to which the Company is able to attribute identifiable future cash flows. The net book value of the underlying assets is adjusted to their fair value using a discounted future cash flows model, if the sum of the expected undiscounted future cash flows is less than the book value.

The main assumptions of cash flows are: prices based on last strategic plan presented, production curves associated to existent projects comprising the Company's portfolio, operating market costs and investments needed for projects conclusion.

2. Summary of Significant Accounting Policies (Continued)

g) Property, plant and equipment (Continued)

Maintenance and repairs

Maintenance and repairs, that do not embody significant improvements, are expensed as incurred, as well as planned major maintenances. Expenditures which appreciably extend the life, increase the capacity, or improve the efficiency of existing property are capitalized.

Capitalized interest

Interest is capitalized in accordance with Codification Topic 835-20 - Capitalization of Interest Cost. Interest is capitalized on specific projects when a construction process involves considerable time and involves major capital expenditures. Capitalized interest is allocated to property, plant and equipment and amortized over the estimated useful lives or unit-of-production method of the related assets. Interest is capitalized at the Company's weighted average cost of borrowings.

h) Revenues, costs and expenses

Revenue from sales of crude oil and oil products, petrochemical products, natural gas and other related products is recognized when title passes to the customer, because at that time the amount can be reasonably measured, collectibility is reasonably assured, persuasive evidence of an arrangement exists, the seller's price to the buyer is fixed or determinable and the significant risks and rewards of ownership have been transferred. Title is transferred to the customer when delivery occurs pursuant to the terms of the sales contracts. Revenues from the production of natural gas properties in which Petrobras has an interest with other producers are recognized based on the actual volumes sold during the period. Subsequent adjustments to revenues based on production sharing agreements or volumetric delivery differences are not significant. Costs and expenses are accounted for on an accrual basis. Purchases and sales of inventory with the same counterparty (buy/sell arrangements) are combined and recorded on a net basis and reported in "Cost of Sales" on the Consolidated Statements of Income.

2. Summary of Significant Accounting Policies (Continued)

i) Income taxes

The Company accounts for income taxes in accordance with Codification Topic 740 -Accounting for Income, which requires an asset and liability approach to recording current and deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company records the tax benefit of all net operating losses as a deferred tax asset and recognizes a valuation allowance for any part of this benefit which management believes will not be recovered against future taxable income using a "more likely than not" criterion.

In accordance with Codification Topic 740-10, the Company recognizes the effect of an income tax position only if that position is more likely that not of being sustained upon examination, based on technical merits of the position. A recognized income tax position is measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgement occurs. The Company records interests and penalties related to unrecognized tax benefits in "Other expenses" .

j) Employees' postretirement benefits

The Company sponsors a contributory defined-benefit pension plan covering substantially all of its employees, which is accounted and disclosured for by the Company in accordance with Codification Topic 715 Compensation-Retirement Benefits.

In addition, the Company provides certain health care benefits for retired employees and their dependents. The cost of such benefits is recognized in accordance with Codification Topic 715 Compensation-Retirement Benefits.

The Company also contributes to the Brazilian pension and government sponsored pensions of international subsidiaries, social security and redundancy plans at rates based on payroll, and such contributions are expensed as incurred. Further indemnities may be payable upon involuntary severance of employees but, based on current operating plans, management does not believe that any amounts payable under this plan will be significant.

2. Summary of Significant Accounting Policies (Continued)

k) Earnings per share

Earnings per share are computed using the two-class method, which is an earnings allocation formula that determines earnings per share for both preferred shares, which are participating securities and common shares as if all of the net income for each year had been distributed in accordance with a predetermined formula described in Note 16(f).

l) Accounting for derivatives and hedging activities

The Company applies Codification Topic 815 Derivatives and Hedging, together with its amendments and interpretations, referred to collectively herein as "ASC 815" . These rules require that all derivative instruments be recorded in the balance sheet of the Company as either an asset or a liability and measured at fair value. ASC 815 requires that changes in the derivative's fair value be recognized in the income statement unless specific hedge accounting criteria are met; and the Company designates. For derivatives designated as accounting hedges, fair value adjustments are recorded either in the income statements or "Accumulated other comprehensive income", a component of Shareholders' Equity, depending upon the type of accounting hedge and the degree of hedge effectiveness.

The Company uses derivative financial instruments, not designated as hedge accounting, to mitigate the risk of unfavorable price movements for crude oil purchases. These instruments are marked-to-market with the associated gains or losses recognized as "Financial income" or "Financial expenses".

The Company may also use non-hedging derivatives to mitigate the risk of unfavorable exchange-rate movements on its foreign currency-denominated funding. Gains and losses from changes in the fair value of these contracts are recognized as "Financial income" or "Financial expenses".

The Company may also use hedging derivatives to protect exchange of interest rates in different currencies. These hedging derivatives used as well as the risk being hedged are accounted for a cash flow model. Under this model, the gains and losses associated with the derivative instruments are deferred and recorded in "Accumulated other comprehensive income" until such time as the hedged transaction impacts earnings, with the exception of any hedge ineffectiveness, which is recorded directly in the statements of income.

2. Summary of Significant Accounting Policies (Continued)

m) Recently issued accounting pronouncements

Intangibles Goodwill and Other (Topic 350): When to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts (ASU 2010-28)

The ASU 2010-28 establishes when to perform the Step 2 of the Goodwill Impairment Test for Reporting Units with zero or negative carrying amounts. Under this new guidance an entity must consider whether it is more likely than not that goodwill impairment exists for each reporting unit with a zero or negative carrying amount. If it is considered that goodwill impairment exists, the second step of the Goodwill Impairment Test must be performed. The Company does not have goodwill recorded in reporting units with zero or negative carrying amounts.

n) Recently adopted accounting pronouncements

Transfers and Servicing (ASC 860), Accounting for Transfers of Financial Assets (ASU 2009-16)

The FASB issued 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 the Company's results of operations, financial position or liquidity.

2. Summary of Significant Accounting Policies (Continued)

n) Recently adopted accounting pronouncements (continued)

Consolidation (ASC 810), Improvements to Financial Reporting by Enterprises Involved With Variable Interest Entities (ASU 2009-17)

The FASB issued ASU 2009-17 in December 2009. This standard became effective for the Company 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 the Company's results of operations, financial position or liquidity.

Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20)

The ASU 2010-20 enhance 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 on December, 2010. Adoption of the standard did not change the Company's existing disclosures.

Plan Accounting-Defined Contribution Pension Plans (Topic 962): Reporting Loans to Participants by Defined Contribution Pension Plans (a consensus of the FASB Emerging Issues Task Force) (ASU 2010-25)

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 on December, 2010, and did not impact the Company's results of operations, financial position or liquidity, other than disclosure.

2. Summary of Significant Accounting Policies (Continued)

o) Change in accounting estimates

The Company changed at the beginning of 2010, as a consequence of the periodic assessment of the expected useful lives of its assets, depreciation rates from thermoelectric power plants and facilities from Refining, Transportation and Marketing segment, based on reports prepared by independent appraisers. The changes were accounted for prospectively in accordance with ASC 250 (Accounting changes and error corrections) and the Company's results of operations were increased in US$352, net of taxes, in the year ended December 31, 2010.

The table below provides the previous and the current depreciation rates as a result of the assessment:

Estimated useful life	Previous	New (average)
Optic system equipment	7 years	20 years
Equipment and facilities of distribution	10 years	14 years
Industrial refining equipment and assemblies	10 years	20 years
Equipment and industrial plant fertilizer	10 years	22 years
Product storage tanks	10 years	26 years
Pipelines	10 years	31 years
Plataforms	16 years	27 years
Thermoelectric power plants	20 years	23 years
Vessels	20 years	25 years

p) IFRS adoption for local purposes

The Brazilian Corporation Law was amended in 2007 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 as per current tax legislation, the resulting adjustments in relation to the previous practice are not included in the determination of current income tax charge.

The Company chose to present its financial statements for local purposes for the first time in accordance with IFRS in the first quarter of 2010. The Company's financial statements prepared in accordance with U.S. GAAP were not affected by the adoption of IFRS other than dividends and profit sharing payable to our employees, which are based on the net income calculated under IFRS.

3. Income Taxes

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal income tax. The statutory enacted tax rates for income tax and social contribution have been 25% and 9%, respectively for the years ended December 31, 2010, 2009 and 2008.

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

The following table reconciles the tax calculated based upon the Brazilian statutory tax rate of 34% to the income taxes expenses recorded in the consolidated statements of income.

	Year ended December 31,		
	2010	**2009**	**2008**
Income before income taxes and minority interest:			
Brazil	**24,107**	20,770	28,080
International	**1,724**	1,291	(1,088)
	25,831	22,061	26,992
Tax expense at statutory rates- (34%)	**(8,783)**	(7,501)	(9,177)
Adjustments to derive effective tax rate:			
Non-deductible postretirement and health-benefits	**(206)**	(148)	(254)
Change in valuation allowance	**(106)**	(98)	(1,004)
Foreign income subject to different tax rates	**339**	556	25
Tax incentive **(1)**	**131**	167	219
Equity	**104**	114	(7)
Tax benefit from interest on Shareholders' Equity (see Note 16 (f))	**1,991**	1,331	995
Technological Innovations	**157**	134	162
Goodwill Impairment (see Note 17 (a))	**-**	-	(76)
Other	**17**	207	(142)
Income taxes expenses per consolidated statement of income	**(6,356)**	(5,238)	(9,259)

(1) On May 10, 2007, the Brazilian Federal Revenue Office recognized Petrobras' right to deduct certain tax incentives from income tax payable, covering the tax years from 2006 thru 2015. During the year ended December 31, 2010, Petrobras recognized a tax benefit in the amount of US$131 (US$167 on December 31, 2009 and US$219 on December 31, 2008) primarily related to these incentives in the Northeast, within the region covered by the Northeast Development Agency (ADENE), granting a 75% reduction in income tax payable, calculated on the profits of the exploration of the incentive activities, which have been accounted for under the flow through method.

3. Income Taxes (Continued)

The following table shows a breakdown between domestic and international income taxes benefits (expenses) attributable to income from continuing operations:

	Year ended December 31,		
	2010	**2009**	**2008**
Brazil:			
Current	**(3,156)**	(3,987)	(6,583)
Deferred	**(2,887)**	(932)	(2,463)
	(6,043)	(4,919)	(9,046)
International:			
Current	**(240)**	(391)	(321)
Deferred	**(73)**	72	108
	(313)	(319)	(213)
Income taxes expenses	**(6,356)**	(5,238)	(9,259)

All the deferred tax assets and liabilities recorded are principally related to Brazil and there are no significant deferred tax assets and liabilities from international locations. There is no netting of deferred taxes between jurisdictions.

3. Income Taxes (Continued)

The major components of the deferred income taxes accounts in the consolidated balance sheets are as follows:

	As of December 31,	
	2010	**2009**
Current assets	**540**	669
Valuation allowance	**(5)**	(8)
Current liabilities	**(1)**	(15)
Net current deferred tax assets	**534**	646
Non-current assets		
Employees' postretirement benefits, net of Accumulated postretirements benefit reserves adjustments	**1,458**	879
Tax loss carryforwards	**2,364**	2,194
Other temporary differences, not significant individually	**801**	1,091
Valuation allowance	**(1,803)**	(1,691)
	2,820	2,473
Non-current liabilities		
Capitalized exploration and development costs	**(11,292)**	(8,912)
Property, plant and equipment	**(1,597)**	(1,609)
Exchange variation	**(1,390)**	(995)
Other temporary differences, not significant individually	**(928)**	(526)
	(15,207)	(12,042)
Net non-current deferred tax liabilities	**(12,387)**	(9,569)
Non-current deferred tax assets	**317**	275
Non-current deferred tax liabilities	**(12,704)**	(9,844)
Net deferred tax liability	**(11,853)**	(8,923)

3. Income Taxes (Continued)

The Company has domestic accumulated tax loss carryforwards amounting to US$1,313 as of December 31, 2010, which are available to offset future taxable income, limited to 30% of taxable income in any individual year. These tax loss carryforwards can be carried forward indefinitely in Brazil. Management believes that for the tax benefits where valuation allowance is more likely than not that it will realize those tax benefits within ten years at the maximum.

The Company has foreign accumulated tax loss carryforwards amounting to US$5,684 as of December 31, 2010. Tax loss carryfowards exists in many international jurisdictions. Whereas some of these tax loss carryfowards do not have expiration date, others expire at various times from 2011 to 2030.

Valuation allowance has been established for certain credit loss carryfowards that reduce deferred tax to an amount that will, more likely than not, be realized. Annually management evaluates the realization of its deferred tax assets taking into consideration, among other elements, the level of historical taxable income, the projected future taxable income, tax-planning strategies, expiration dates of the tax loss carryforwards, and scheduled reversal of the existing temporary differences. The amount of the deferred tax asset considered realizable could, however, be reduced if estimates of future taxable income are reduced. The following presents the net change in the valuation allowance for the years ended December 31, 2010, 2009 and 2008:

	Year ended December 31,		
	2010	**2009**	**2008**
Balance at January 1,	**(1,699)**	(1,614)	(667)
Additions	**(146)**	(185)	(1,071)
Reductions allocated to income tax expense	**40**	88	67
Cumulative translation adjustments	**(3)**	12	57
Balance at December 31,	**(1,808)**	(1,699)	(1,614)
Current valuation allowance	**(5)**	(8)	(5)
Long term valuation allowance	**(1,803)**	(1,691)	(1,609)

Valuation allowance additions of US$146 in 2010 and US$185 in 2009, primarily related to tax loss carryforwards from foreign operations and domestic thermoelectric power plants for which no tax benefit is expected to be realized in the foreseeable future.

3. Income Taxes (Continued)

The Company has not recognized a deferred tax liability of approximately US$449 for the undistributed earnings of its foreign operations that arose in 2010 and prior years as the Company considers these earnings to be indefinitely reinvested (US$280 in 2009). A deferred tax liability will be recognized when the Company no longer demonstrates that it plans to indefinitely reinvest the undistributed earnings. As of December 31, 2010, the undistributed earnings of these subsidiaries were approximately US$1,321 (US$823 as of December 31, 2009).

The Company has no unrecognized tax benefits relating to uncertain tax positions and accrued penalties and interest as of January 1, 2008, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010. In addition, the Company does not expect that the amount of unrecognized tax benefits will increase significantly within the next 12 months.

The Company and its subsidiaries file tax returns in Brazilian jurisdiction and in many foreign jurisdictions for which is open for inspection depending on legislation applicable individually to them. In the case of the Brazilian and Argentinean tax positions, income tax returns remain subject to examination by the respective tax authorities for the years beginning in 2004.

4. Cash and Cash Equivalents

	As of December 31,	
	2010	**2009**
Cash	**1,974**	1,478
Investments - Brazilian reais **(1)**	**7,819**	10,780
Investments - U.S. dollars **(2)**	**7,840**	3,911
	17,633	16,169

(1) Comprised primarily federal public bonds with immediate liquidity and the securities are tied to the American dollar quotation or to the remuneration of the Interbank Deposits - DI.

(2) Comprised primarily by Time Deposit and securities with fixed income.

5. Marketable Securities

	As of December 31,	
	2010	**2009**
Marketable securities classification:		
Available-for-sale	**3,162**	2,551
Trading	**15,395**	-
Held-to-maturity	**154**	180
	18,711	2,731
Less: Current portion of marketable securities	**(15,612)**	(72)
Long-term portion of marketable securities	**3,099**	2,659

Available-for-sale securities are presented as "Non-current assets", as they are not expected to be sold or liquidated within the next twelve months. As of December 31, 2010, Petrobras had a balance of US$2,939 linked to B Series National Treasury Notes, which are accounted for as available-for-sale securities in accordance with Codification Topic 320.

On October 23, 2008, the B Series National Treasury Notes, included in available for sale, were used as a guarantee after the confirmation of the agreements into with Petros, Petrobras' pension plan (see Note 15 (a)). The nominal value of the NTN-Bs is restated based on variations in the Amplified Consumer Price Index (IPCA). The maturities of these notes are 2024 and 2035 and they bear interest coupons of 6% p.a., which is paid semi-annually. At December 31, 2010, the balances of the National Treasury Notes - Series B (NTN-B) are measured in accordance to their market value, based on the average prices disclosed by the National Association of Open Market Institutions (ANDIMA).

During the third quarter of 2010, Petrobras invested a portion of the resources raised from the Global Offering (see Note 9(a)) primarily in Brazilian Treasury Securities with original maturity of more than three months. These securities were classified as trading, in accordance with Codification Topic 320, due to the purpose of selling them in the near term.

6. Accounts Receivable, Net

Accounts receivable, net consisted of the following:

	As of December 31,	
	2010	**2009**
Trade	**15,085**	11,507
Less: Allowance for uncollectible accounts	**(1,608)**	(1,446)
	13,477	10,061
Less: Long-term accounts receivable, net	**(2,905)**	(1,946)
Current accounts receivable, net	**10,572**	8,115

		As of December 31,	
	2010	**2009**	**2008**
Allowance for uncollectible accounts			
Balance at January 1,	**(1,446)**	(1,191)	(1,290)
Additions	**(196)**	(130)	(84)
Write-offs	**100**	88	16
Cumulative translation adjustments	**(66)**	(213)	167
Balance at December 31,	**(1,608)**	(1,446)	(1,191)
Allowance on short-term receivables	**(1,028)**	(875)	(638)
Allowance on long-term receivables	**(580)**	(571)	(553)

At December 31, 2010 and 2009, long-term receivables include US$642 and US$633, respectively relating to payments made by the Company to suppliers and subcontractors on behalf of certain contractors. These contractors had been hired by the subsidiary Brasoil for the construction/conversion of vessels into FPSO ("Floating Production, Storage and Offloading") and FSO ("Floating, Storage and Offloading") and failed to make the payments to their suppliers and subcontractors. The Company made the payments to avoid further delays in the construction/conversion of the vessels and consequent losses to Brasoil.

The Company's management has determined that these payments can be reimbursed, since they represent Brasoil's rights with respect to the contractors, for which reason judicial action was filed with international courts to seek reimbursement. However, as a result of the uncertainties related to the realization of such receivables, the Company recorded an allowance for all credits not backed by collateral. Such allowance amounted to US$570 and US$561 as of December 31, 2010 and 2009, respectively.

7. Inventories

	As of December 31,	
	2010	**2009**
Products:		
Oil products	**3,799**	3,379
Fuel alcohol	**286**	267
	4,085	3,646
Raw materials, mainly crude oil	**5,690**	5,494
Materials and supplies	**2,044**	1,917
Others	**69**	75
	11,888	11,132
Current inventories	**11,834**	11,117
Long-term inventories	**54**	15

Inventories are stated at the lower of cost or net realization value. As a result of the decline in the market prices of oil products, the Company recognized a loss of US$333 for the year ended December 31, 2010 (US$308 for the year ended December 31, 2009), which was classified as other operating expenses in the consolidated income statement.

8. Recoverable Taxes

Recoverable taxes consisted of the following:

	As of December 31,	
	2010	**2009**
Local:		
Domestic value-added tax (ICMS) **(1)**	**3,022**	2,816
PASEP/COFINS **(2)**	**6,885**	4,858
Income tax and social contribution	**1,265**	1,315
Foreign value-added tax (IVA)	**42**	42
Other recoverable taxes	**453**	371
	11,667	9,402
Less: Long-term recoverable taxes	**(6,407)**	(5,462)
Current recoverable taxes	**5,260**	3,940

(1) Domestic value-added sales tax (ICMS) is composed of credits generated by commercial operations and by the acquisition of property, plant and equipment and can be offset against taxes of the same nature.

(2) Composed of credits arising from non-cumulative collection of PASEP and COFINS, which can be compensated with other federal taxes payable.

The recoverable income taxes and social contribution will be offset against future income taxes payable.

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

9. Property, Plant and Equipment, Net

Property, plant and equipment, at cost, are summarized as follows:

	As of December 31,					
	2010			2009		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Buildings and improvements	**9,710**	**(2,062)**	**7,648**	7,093	(1,982)	5,111
Capitalized expenses	**58,146**	**(26,082)**	**32,064**	47,958	(21,633)	26,325
Equipment and other assets	**83,017**	**(32,664)**	**50,353**	60,592	(27,637)	32,955
Capital lease - platforms and vessels	**516**	**(45)**	**471**	813	(63)	750
Petroleum Production Rights Assignment Agreement	**43,868**	**-**	**43,868**	-	-	-
Rights and concessions	**4,835**	**(1,421)**	**3,414**	3,172	(1,009)	2,163
Land	**757**	**-**	**757**	574	-	574
Materials	**4,566**	**-**	**4,566**	4,360	-	4,360
Expansion projects:						
Construction and installations in progress:						
Exploration and Production	**33,491**	**-**	**33,491**	27,664	-	27,664
Refining, Transportation & Marketing	**33,062**	**-**	**33,062**	22,683	-	22,683
Gas & Power	**6,218**	**-**	**6,218**	11,010	-	11,010
Distribution	**328**	**-**	**328**	285	-	285
International	**158**	**-**	**158**	680	-	680
Corporate	**2,169**	**-**	**2,169**	1,607	-	1,607
	280,841	**(62,274)**	**218,567**	188,491	(52,324)	136,167

9. Property, Plant and Equipment, Net (Continued)

a) Accounting treatment of Assignment Agreement ("Cessão Onerosa")

On September 3, 2010, Petrobras entered into an agreement with the Brazilian federal government (Assignment Agreement), under which the government assigned to the Company the right to conduct research activities and the exploration and production of fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent up to 40 years renewable for more five years upon certain conditions.

The Assignment Agreement was approved by the Company's Board of Directors and by the minority shareholders, following a valuation procedure based on, among other factors, an assessment prepared by independent third party experts.

The total purchase price of the rights acquired under the Assignment Agreement was US$43,868, paid to the Federal Government through funds obtained by the global offering of shares of the Company (see Note 16(a)), US$39,768 through the transfer of Brazilian Treasury Securities and the remaining US$4,100 in cash.

In accordance with ASC 932 "Extractive Activities - Oil and Gas", the rights acquired by the Company were recognized as Property Plant & Equipment (long-term asset) as acquisition costs. The acquisition cost will be depreciated based on the unit-of-production method during the period of production of the related reserves and will also be subject to the impairment test. After the production of all the volumes that we were entitled, the acquisition costs will be completely depreciated.

The Assignment Agreement provides for a subsequent revision of the volume and the price, based on an independent third party assessment. If the contract parties determine that the value of the rights acquired is higher than the initial purchase price, the Company may either pay the difference to the Brazilian federal government, in which case is expected the recognition of the difference as Property Plant & Equipment (long-term asset), or reduce the total volume acquired under the contract, in which case there would be no impact on the balance sheet. If the contract parties determine that the value of the rights acquired is lower than the initial purchase price, the Brazilian federal government will pay for the difference in cash and/or bonds, dependent of Government Budget conditions and it is expected a reduction of the amount originally recorded as Property Plant & Equipment (long-term asset) by the amount received from the Brazilian federal government.

The knowledge of the reserves and the geological uncertainties remain unchanged since the signing of the assignment agreement. The final value of the cost of the assignment will depend mainly on full knowledge: of the reserves, of the production scenarios and the technologies to be developed, which should occur not later than 2014, the deadline stipulated for the declaration of commercialization.

The Company will record any adjustment to the acquisition cost, when it is probable and determinable it will pay or receive in the future, amounts as a result of the subsequent revision.

9. Property, Plant and Equipment, Net (Continued)

b) Codification Topic 410 - Asset Retirement Obligations

In accordance with Codification Topic 410-20, adopted by Petrobras since January 2003, the fair value of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically at the time the related assets are installed. Amounts recorded for the related assets will be increased by the amount of these obligations and depreciated over the related useful lives of such assets. Over time, the amounts recognized as liabilities will be accreted for the change in their present value until the related assets are retired or sold.

Measurement of asset retirement obligations is based on currently enacted laws and regulations, existing technology and site-specific costs. There are no assets legally restricted to be used in the settlement of asset retirement obligations.

A summary of the annual changes in the asset retirement obligations is presented as follows:

	Liabilities
Balance as of December 31, 2008	2,825
Accretion expenses	164
Liabilities incurred	24
Liabilities settled	(4)
Revision of provision	(955)
Cumulative translation adjustment	758
Balance as of December 31, 2009	2,812
Accretion expenses	137
Liabilities incurred	1,088
Liabilities settled	(124)
Revision of provision	(858)
Cumulative translation adjustment	139
Balance as of December 31, 2010	3,194

9. Property, Plant and Equipment, Net (Continued)

c) Impairment

For the years ended December 31, 2010, 2009 and 2008, the Company recorded impairment charges of US$402, US$319 and US$519, respectively. During 2010, the impairment charge was primarily related to producing properties in Brazil (US$346) and due to the impairment of assets held for sale, referring to the refining and distribution segments in Argentina (US$56). 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.

10. Investments in Non-Consolidated Companies and Other Investments

Petrobras conducts portions of its business through investments in companies accounted for using the equity and cost methods. These non-consolidated companies are primarily engaged in the petrochemicals and product transportation businesses.

			Investments
	Total ownership	**2010**	**2009**
Equity method	20 % - 50% (1)	**5,957**	3,988
Investments at cost		**355**	362
Total		**6,312**	4,350

(1) As described further in this Note, certain thermoelectrics with ownership of 10% to 50% are also accounted as equity investments due to particularities of significant influence.

At December 31, 2010, the Company had investments interest of 36.1% with balance of US$2,867 in Braskem S.A., that were recorded according to equity method.

The Company also has investments in companies for the purpose of developing, constructing, operating, maintaining and exploring thermoelectric plants included in the federal government's Priority Thermoelectric Energy Program, with equity interests of between 10% and 50%. The balance of these investments as of December 31, 2010 and 2009 includes US$118 and US$110 respectively, and are included as equity method investments due to the Company's ability to exercise significant influence over such operations.

11. Petroleum and Alcohol Account - Receivable from Federal Government

Changes in the Petroleum and Alcohol account

The following summarizes the changes in the Petroleum and Alcohol account for the years ended December 31, 2010 and 2009:

	Year ended December 31,	
	2010	2009
Opening balance	**469**	346
Financial income (Note 22)	**3**	4
Translation gain	**21**	119
Ending balance	**493**	469

In order to conclude the settlement of accounts with the Federal Goverment, pursuant to Provisional Measure nº 2.181, of August 24, 2001, and after providing all the information required by the National Treasury Office - STN, Petrobras is seeking to settle all the remaining disputes between the parties.

The remaining balance of the Petroleum and Alcohol account may be paid as follows: (1) National Treasury Bonds issued at the same amount as the final balance of the Petroleum and Alcohol account; (2) offset of the balance of the Petroleum and Alcohol account, with any other amount owed by Petrobras to the Federal Government, including taxes; or (3) by a combination of the above options.

12. Financing

The Company has utilized project financing to continue its development of exploration, production and related projects.

The VIE's associated with the project financing projects are consolidated based on ASC Topic 810-10-25 ("Variable Interest Entities").

The weighted average annual interest rates on outstanding short-term borrowings were 2.31% and 2.53% at December 31, 2010 and 2009, respectively.

The Company's short-term borrowings are principally sourced from commercial banks and include import and export financing denominated in United States dollars, as follows:

12. Financing (Continued)

	As of December 31,			
	Current		Non- current	
	2010	2009	2010	2009
Abroad				
Financial institutions	**6,381**	**5,307**	17,460	10,421
Bearer bonds - Notes	**587**	**583**	11,573	11,723
Suppliers	**-**	**-**	5	6
Trust Certificates Senior/Junior	**71**	**70**	194	263
Other	**2**	**2**	302	384
	7,041	**5,962**	29,534	22,797
In Brazil				
BNDES	**1,269**	**842**	19,384	18,181
Debentures BNDES	**148**	**137**	496	518
Debentures Other financial institutions	**41**	**807**	931	802
FINAME Earmarked for construction of Bolívia				
Brazil gas pipeline	**42**	**44**	233	58
Advance on exchange contracts (ACC)	**22**	**3**	-	-
Export credit notes	**66**	**632**	6,295	3,548
Bank credit certificate	**32**	**4**	2,164	2,071
Other	**299**	**-**	1,434	1,066
	1,919	**2,469**	30,937	26,244
	8,960	**8,431**	60,471	49,041
Interest on debt	**869**	**766**		
Current portion of long-term debt	**2,883**	**3,406**		
Current debt	**5,208**	**4,259**		
Total debt	**8,960**	**8,431**		

12. Financing (Continued)

b) Long-term debt (Continued)

Composition of foreign currency denominated debt by currency

	As of December 31,	
	2010	**2009**
Currencies:		
United States dollars	**27,583**	21,339
Japanese Yen	**1,651**	1,377
Euro	**131**	53
Other	**169**	28
	29,534	22,797

Maturities of the principal of long-term debt

The long-term portion at December 31, 2010 becomes due in the following years:

2012	**4,137**
2013	**2,503**
2014	**3,517**
2015	**5,311**
2016	**22,596**
2017 and thereafter	**22,407**
	60,471

Interest rates on long-term debt were as follows:

	As of December 31,	
	2010	**2009**
Foreign currency		
6% or less	**21,900**	13,943
Over 6% to 8%	**6,285**	7,102
Over 8% to 10%	**1,219**	1,615
Over 10% to 12%	**33**	32
Over 12%	**97**	105

	29,534	22,797
Local currency		
6% or less	**2,426**	1,433
Over 6% to 8%	**17,932**	14,437
Over 8% to 10%	**592**	5,147
Over 10% to 12%	**9,987**	5,227
	30,937	26,244
	60,471	49,041

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12. Financing (Continued)

c) Issuance of long-term debt

The main long-term funding carried out in the period from January to December 2010 is shown in the following table:

c.1) Foreign

Company	Date	Amount US$ million	Maturity	Description
Petrobras	Feb/2010	2,000	2019	Financing obtained from the China Development Bank (CDB), with a cost of Libor plus spread of 2.8% p.a.
Petrobras	March/2010	2,000	2019	
PNBV	Apr/2010	1,000	2015	Financing obtained from the Credit Agriclole and Investment Bank, at a rate of Libor plus spread of 1.625% p.a.
PNBV	Jul/2010	1,000	2017	Financing obtained from the Standard Chartered Bank, at a rate of Libor plus 1.79% p.a.
PNBV	Aug/2010	1,000	2015	Financing obtained from the Citibank, at a rate of Libor plus 1.61% p.a.
PNBV	Nov/2010	500	2016	Loan from Société Générale Libor plus 1.62%p.a.
PNBV	Nov/2010	314	2021	Loan from Citibank and EKSPORTFINANS Libor plus 0.725% p.a.
		7,814		

12. Financing (Continued)

c) Issuance of long-term debt (Continued)

c.2) In Brazil

Company	**Date**	**Amount (US$ million)**	**Maturity**	**Description**
Refap	Feb and Mar/2010	360	2015	Export credit note with an interest rate between 109.4% and 109.5% of average rate of CDI.
Petrobras	Jun/2010	1,320	2016	Financing obtained from Banco do Brasil, through issuance of export credit notes at a rate of 110.5% of average rate of CDI + flat fee of 0.85%.
Petrobras	Jun/2010	1,200	2017	Financing obtained from Caixa Economica Federal, through issuance of export credit notes at a rate of 112.9% of average rate of CDI.
Petrobras	Nov/10	2,371	2016	Financing obtained from Banco do Brasil, through the issuance of export credit notes at a rate of 109% of average rate of CDI + flat fee of 1.25%.
		5,251		

12. Financing (Continued)

d) Financing with offcial credit agencies

d.1) Foreign

		Amount in US$			
Company	**Agency**	**Contracted**	**Used**	**Balance**	**Description**
Petrobras	China Development Bank	10,000	7,000	3,000	Libor +2.8% p.a.

d.2) In Brazil

		Amount in US$			
Company	**Agency**	**Contracted**	**Used**	**Balance**	**Description**
Transpetro (*)	BNDES	5,404	326	5,078	Program for Modernization and Expansion of the FLEET (PROMEF) - TJLP+2.5% p.a. + 3% p.a. for imported products.
Transportadora Urucu Manaus TUM(**)	BNDES	1,910	1,896	14	Coari-Manaus gas pipeline - TJLP+1.76%/1.96% p.a.
Transportadora GASENE	BNDES	1,329	1,329	-	Cacimbas-Catu gas pipeline (GASCAC) TJLP+1.96% p.a.
Transportadora GASENE	BNDES	570	570	-	Cabiúnas - Vitoria gas pipeline (GASCAV) TJLP+1.96% p.a.
Petrobras	Banco do Brasil	300	212	88	Commercial Credit Certificate

					(FINAME) 4.5% p.a.
Petrobras	Caixa Economica Federal	180	-	180	Bank Credit Certificate revolving credit - 110% of average CDI.

(*)Agreements for conditioned purchase and sale of 41 ships and 20 convoy vessels with 6 Brazilian shipyards in the amount of US$6,005, where 90% is financed by BNDES.

(**) On August 18, 2010 SPE Transportadora Urucu Manaus (TUM) was taken over by Transportadora Associada de Gás (TAG).

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12. Financing (Continued)

e) Guarantees and covenants

Financial institutions abroad do not require guarantees from the Company. The financing granted by BNDES - National Bank for Social and Economic Development is guaranteed by a lien on the assets being financed (carbon steel pipes for the Bolivia-Brazil gas pipeline and vessels).

On account of a guarantee agreement issued by the Federal Goverment in favor of Multilateral Loan Agencies, motivated by financings funded by TBG, counter guarantee agreements were signed, which had as signatories the Federal Government, TBG, Petrobras, Petroquisa and Banco do Brasil S.A., where TBG undertakes to entail its revenues to the order of the Brazilian Treasuary until the settlement of the obligations guaranteed by the Federal Government. This debt had an outstanding balance of US$213 and US$253 at December 31, 2010 and 2009, respectively.

In guarantee of the debentures issued, REFAP has a short-term investment account (bank deposits indexed to credit operations), tied to variations of the Interbank Deposit Certificate -CDI. REFAP has to maintain three times the value of the sum of the last installment due of the amortization of the principal and related charges.

At December 31, 2010 and 2009, Gaspetro had secured certain debentures issued to finance the purchase of the transportation rights in the Bolivia/Brazil pipeline with 3,000 shares of its interest in TBG, a subsidiary of Gaspetro responsible for the operation of the pipeline.

The Company's debt agreements contain affirmative covenants regarding, among other things provision of information; financial reporting; conduct of business; maintenance of corporate existence; maintenance of government approvals; compliance with applicable laws; maintenance of books and records; maintenance of insurance; payment of taxes and claims; and notice of certain events. The Company's debt agreements also contain negative covenants, including: without limitation; limitations on the incurrence of indebtedness; limitations on the incurrence of liens; limitations on transactions with affiliates; limitations on the disposition of assets; limitation on consolidations, mergers, sales and/or conveyances; negative pledge restrictions; change in ownership limitations; ranking; use of proceeds limitations; and required receivables coverages. Petrobras' management affirms that the Company is in compliance with the covenants within debt agreements.

13. Financial Income (Expenses), Net

Financial expenses, financial income, monetary and exchange variation, allocated to income for the years ended at December 31, 2010, 2009 and 2008 are as follows:

	Years ended December 31,		
	2010	**2009**	**2008**
Financial expenses			
Loans and financing	**(4,127)**	(2,405)	(1,634)
Leasing	**(10)**	(30)	(41)
Losses on derivative instruments (Note 19)	**(173)**	(427)	(425)
Repurchased securities losses	**(27)**	(31)	(35)
Other	**(544)**	(511)	(163)
	(4,881)	(3,404)	(2,298)
Capitalized interest	**3,238**	2,109	1,450
	(1,643)	(1,295)	(848)
Financial income			
Investments	**985**	712	533
Clients	**153**	123	129
Marketable Securities	**701**	392	183
Gains on derivative instruments (Note 19)	**174**	247	636
Other	**617**	425	160
	2,630	1,899	1,641
Monetary and exchange variations	**714**	(175)	1,584
	1,701	429	2,377

14. Capital Lease Obligations

The Company leases certain offshore platforms and vessels, which are accounted for as capital leases. At December 31, 2010, assets under capital leases had a net book value of US$471 (US$750 at December 31, 2009).

The following is a schedule by year of the future minimum lease payments as of December 31, 2010:

2011	**107**
2012	**42**
2013	**18**
2014	**18**
2015	**18**
2016	**20**
2017 and thereafter	**47**
Estimated future lease payments	**270**
Less amount representing interest at 6.2% to 12.0% annual	**(48)**
Present value of minimum lease payments	**222**
Less current portion of capital lease obligations	**(105)**
Long-term portion of capital lease obligations	**117**

15. Employees' Postretirement Benefits and Other Benefits

The balances related to Employees Postretirement Benefits are represented as follows:

	As of					
	December 31, 2010			December 31, 2009		
	Pension Benefits	Health Care Benefits	Total	Pension Benefits	Health Care Benefits	Total
Current liabilities						
Defined-benefit plan	**369**	**374**	**743**	182	325	507
Variable Contribution plan	**39**	**-**	**39**	187	-	187
Employees' postretirement projected benefits obligation	**408**	**374**	**782**	369	325	694
Long-term liabilities						
Defined-benefit plan	**5,719**	**7,889**	**13,608**	4,419	6,544	10,963
Variable Contribution plan	**132**	**-**	**132**	-	-	-
Employees postretirement projected benefits obligation	**5,851**	**7,889**	**13,740**	4,419	6,544	10,963
	6,259	**8,263**	**14,522**	4,788	6,869	11,657
Shareholders' Equity - Accumulated other comprehensive income						
Defined-benefit plan	**3,322**	**609**	**3,931**	2,282	121	2,403
Variable Contribution plan	**189**	**-**	**189**	91	-	91
Tax effect	**(1,194)**	**(207)**	**(1,401)**	(807)	(41)	(848)
Net balance recorded in Shareholders' Equity	**2,317**	**402**	**2,719**	1,566	80	1,646

15.1) Pension plans in Brazil Defined benefit and variable contribution

a) Petros Plan - Fundação Petrobras de Seguridade Social

The Fundação Petrobras de Seguridade Social (Petros) was established by Petrobras as a private, legally separate nonprofit pension entity with administrative and financial autonomy.

The Petros plan is a contributory defined-benefit pension plan introduced by Petrobras in July of 1970, to supplement the social security pension benefits of employees of Petrobras and its Brazilian subsidiaries and affiliated companies. The Petros Plan is now closed to new employees of the Petrobras system since September 2002.

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.1) Pension plans in Brazil Defined benefit and variable contribution (Continued)

a) Petros Plan - Fundação Petrobras de Seguridade Social (Continued)

Additionally, Petros is funded by income resulting from the investment of these contributions. The Company's funding policy is to contribute to the plan annually the amount determined by actuarial calculations. In the calendar 2010 year, benefits paid totaled US$1,054 (US$911 in 2009).

The Company's liability 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 assets that guarantee the pension plan are presented as a reduction to the net actuarial liabilities.

The actuarial gains and losses generated by the differences between the values of the obligation and assets determined based on projections and the actual figures are respectively included or excluded from the calculation of the net actuarial liability and recorded as "Postretirement benefit reserves adjustments net of tax - pension cost", in Shareholders' Equity. Actuarial gains and losses are amortized during the average remaining service period of the active employees of approximately 6.5 years at December 31, 2009, in accordance with the procedure established by Codification Topic 715.

The relation between contributions by the sponsors and participants of the Petros Plan, considering only those attributable to the Company and subsidiaries in the 2010 and 2009 financial years was 1.00 to 1.00. The Company's best estimate of contributions expected to be paid in 2011 respective to the pension plan approximates US$540, with total pension benefit payments in 2011 expected to be US$1,695.

According to Constitutional Amendment No. 20 of 1998, the computation of any deficit in the defined-benefit plan in accordance with the actuarial method of the current plan (which differs from the method defined in Codification Topic 715), must be equally shared between the sponsor and the participants, by an adjustment to the normal contributions.

Petrobras and its subsidiaries sponsoring the Petros plan, trade unions and Petros executed a Financial Commitment Agreement on October 23, 2008, after legal homologation on August 25, 2008, to cover commitments with pension plans, which will be paid in semi-annually installments with interest of 6% p.a. on the debtor balance updated by the IPCA, for the next 20 years, as previously agreed during the renegotiation. At December 31, 2010, the balance of the obligation of Petrobras and subsidiaries referring to the Financial Commitment Agreement was US$2,874, of which US$175 matures in 2011, which are recognized in these consolidated financial statements.

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.1) Pension plans in Brazil Defined benefit and variable contribution (Continued)

a) Petros Plan - Fundação Petrobras de Seguridade Social (Continued)

The Company's obligation, through the Financial Commitment Agreement, presents a counterpart to the concessions made by the members/beneficiaries of the Petros Plan in the amendment of the plan's regulations, in relation to the benefits, and in the closing of existing litigations.

At December 31, 2010, Petrobras had long-term National Treasury Notes in the amount of US$2,939 (US2,363 at December 31, 2009), acquired to balance liabilities with Petros, which will be held in the Company's portfolio and used as a guarantee for the Financial Commitment Agreement.

Petrobras has aggregated information for all defined benefit pension plans. The domestic benefit plans of Petrobras, BR Distribuidora, Petroquisa, and REFAP contain similar assumptions and the benefit obligation related to Petrobras Argentina, the international plan, is not significant to the total obligation and thus has also been aggregated. All Petrobras group pension plans have accumulated benefit obligation in excess of plan assets.

The determination of the expense and liability relating to the Company's pension plan 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.

According to the requirements of Codification Topic 715, and subsequent interpretations, the discount rate should be based on current prices for settling the pension obligation. Applying the precepts of Codification Topic 715, in historically inflationary environments such as Brazil creates certain issues as the ability for a company to settle a pension obligation at a future point in time may not exist as long-term financial instruments of suitable grade may not exist locally as they do in the United States.

Although the Brazilian market has been demonstrating signs of stabilization under the present economic model, as reflected in market interest rates, it is not yet prudent to conclude that market interest rates will be stable.

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.1) Pension plans in Brazil Defined benefit and variable contribution (Continued)

b) Petros Plan 2 - Fundação Petrobras de Seguridade Social

As from July 01, 2007, the Company implemented the new supplementary pension plan, a Variable Contribution (CV) or mixed plan, called Petros Plan 2, for employees with no supplementary pension plan.

Petrobras and the other sponsors fully assumed the contributions corresponding to the period in which the participants had no plan. This past service shall consider the period as from August 2002, or from the date of hiring, until August 29, 2007. The plan will continue to admit new subscribers after this date but no longer including any payment for the period relating to past service.

A portion of this plan with defined benefits characteristics refers to the risk coverage for disability and death, a guarantee 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, was recognized in the results for the year as the contributions are made. In fiscal year 2010, the contribution of Petrobras and subsidiaries to the defined contribution portion of this plan was US$231.

The disbursements related to the cost of past service will be made on a monthly basis over the same number of months during which the participant had no plan and, therefore, should cover the part related to the participants and the sponsors.

The actuarial evaluation in 2009 of Fundação Petros, to attend the rules for Supplementary Pensions, showed evidence of a lower level of loss from risk events in the year, and it also observed that the balance of the collective risk fund presented an amount sufficient to cover the estimated benefits for 2010. Accordingly, the Foundation followed the actuary's suggestion that the risk contributions were redirected to the member's account in the plan during the first semester of 2010.

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.2) Pension plans abroad - Defined benefit

The main defined benefit plans offered by the subsidiaries of Petrobras Internacional Braspetro B.V. (PIB BV), are as follows:

Petrobras Energía S.A.

a) "Termination Indemnity" Plan

This is a benefit plan in which employees who meet certain targets are eligible on retirement to receive one month's salary for each year they have worked in the company, according to a decreasing scale, according to the number of the years the plan has existed.

b) "Compensating Fund"

This benefit is available to all Pesa employees who have joined the defined contribution plans in force in the past and who joined the company prior to May 31, 1995 and have accumulated the required time of service.

Nansei Sekiyu S.A.

The Nansei Sekiyu Refinery offers its employees a programmed supplementary retirement benefits plan, a defined benefit plan, where the members in order to become eligible for the benefit need to be at least 50 years old and have 20 years service in the company. Contributions are made only by the sponsor.

15.3) Other defined contribution plans

The subsidiaries Transpetro and some subsidiaries of Petrobras sponsor defined contribution retirement plans for their employees

15.4) Plan assets

Investment Policies and Strategies

The Corporation's investment strategy for benefit plan assets reflects a long-term view, a careful assessment of the risks inherent in various asset classes and diversification to reduce the risk of the portfolio. The plan asset portfolio should follow the policies established by the Central Bank of Brazil. The fixed income funds are largely invested in corporate and government debt securities. The target asset allocation for the period between 2011-2015 is (25%-70%) fixed income, (15%-50%) variable income, (1,5%- 8%) real estate, (0%-15%) loans to participants of the plan and (2,5% - 15%) other investments.

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.4) Plan assets (Continued)

Fair Value Measurements at December 31, 2010 (US$ millions)

Asset Category	**Total Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Allocation %**
Fixed Income	**14,810**	**9,483**	**5,327**	**-**	**54%**
Corporate bonds	**5,254**	-	5,254	-	19%
Government bonds - Brazil	**9,483**	9,483	-	-	35%
Others	**73**	-	73	-	-
Variable income	**10,974**	**6,280**	**1,319**	**3,375**	**40%**
Brazilian Equity Securities	**6,280**	6,280	-	-	23%
Equity funds	**4,670**	-	1,296	3,374	17%
Other Investments	**24**	-	23	1	-
Real estate	**877**	**-**	**-**	**877**	**3%**
	26,661	**15,763**	**6,646**	**4,252**	**97%**
Loans	**679**				3%
Total	**27,340**				**100%**

Loans are valued at cost, which approximates fair value. Fair values of fixed income assets include government bonds and the fair value is based on observable quoted prices that are traded on active exchanges (Level 1).

Fair values of Brazilian equity securities categorized in Level 1 are primarily based on quoted market prices. The equity securities include investments in the Company's common stock and preferred shares in the amount of US$1,042 and US$790, respectively, at December 31, 2010.

Corporate debt securities are estimated using observable inputs of comparable market transactions. Other equity funds have their fair value estimated using the variation of quoted prices in active markets for identical assets adjusted for transaction costs of the funds and are treated as a Level 2.

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.4) Plan assets (Continued)

The fair value of equity funds Level 3 are calculated using the discounted cash flow. The effect of fair-value measurements using significant unobservable inputs on changes in Level 3 plan assets for the period is:

	US$ million			
	Private equity funds	**Other Investiments**	**Real estate**	**Total**
Total at December 31,2009	**2,403**	**10**	**505**	**2,918**
Profitability of Plan Assets:	841	-	142	983
Purchases, Sales and Settlements	8	(9)	202	201
Gain on translation	122	-	28	150
Total at December 31, 2010	**3,374**	**1**	**877**	**4,252**

The investment portfolio of the Petros Plan and Petros 2 at December 31, 2010 was composed of: 54% of fixed income, with expected profitability of 6.2% p.a.; 40% of variable income, with expected profitability of 8% p.a.; and 6% of other investments (transactions with members, real estate and infrastructure projects), which resulted in an average interest rate of 6.78% p.a.

15.5) Health care benefits - "Assistência Multidisciplinar de Saúde" (AMS)

Petrobras and its Brazilian subsidiaries maintain a health care benefit plan (AMS), which offers defined benefits and covers all employees (active and inactive) together with their dependents. The plan is managed by the Company, 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, besides the Medicine Benefit, which provides special terms on the acquisition of certain medicines from participating drugstores, located throughout Brazil.

The Company's 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, the Company makes benefit payments based on costs incurred by plan participants.

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.5) Health care benefits - "Assistência Multidisciplinar de Saúde" (AMS)

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed upon adoption of Codification Topic 715. The annual rate was assumed to decrease to 4.5% from 2007 to 2036.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One percentage point-increase	**One percentage point-decrease**
Effect on total of services and interest cost component	147	(119)
Effect on postretirement benefit obligation	1,210	(991)

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.6) Funded Status, net periodic benefit cost and accumulated other comprehensive income

a) Funded status of the plans

The funded status of the plans at December 31, 2010 and 2009, based on the report of the independent actuary, and amounts recognized in the Company's balance sheets at those dates, are as follows:

	2010			**2009**		
	Pension Plans			**Pension Plans**		
	Defined-Benefits	**Variable Contribution**	**Health Care Benefits**	**Defined-Benefits**	**Variable Contribution**	**Health Care Benefits**
Change in benefit obligation:						
Benefit obligation at beginning of year	**27,276**	**302**	**6,869**	16,041	128	4,225
Service cost	**239**	**61**	**117**	165	53	75
Interest cost	**3,094**	**35**	**783**	2,371	19	630
Plan change	**-**	**-**	**-**	-	-	-
Actuarial loss (gain)	**2,292**	**28**	**480**	3,403	42	575
Benefits paid	**(1,052)**	**(2)**	**(309)**	(909)	(2)	(236)
Variable contribution new pension plan	**-**	**-**	**-**	-	-	-
Other	**(3)**	**-**	**-**	(20)	1	-
Gain on translation	**1,308**	**16**	**328**	6,225	61	1,600
Benefit obligation at end of year	**33,154**	**440**	**8,268**	27,276	302	6,869
Change in plan assets:						
Fair value of plan assets at beginning of year	**22,674**	**116**	**-**	14,079	36	-
Actual return on plan assets	**3,812**	**19**	**-**	3,703	14	-
Company's contributions	**460**	**-**	**309**	327	23	236
Employees' contributions	**219**	**-**	**-**	179	23	-
Benefits paid	**(1,052)**	**(2)**	**(309)**	(909)	(2)	(236)
Other	**2**	**-**	**-**	(5)	-	-
Gain on translation	**1,088**	**4**	**-**	5,300	21	-
Fair value of plan assets at end of year	**27,203**	**137**	**-**	22,674	116	-
Funded status	**(5,951)**	**(303)**	**(8,268)**	(4,602)	(186)	(6,869)

Amounts recognized in the balance sheet consist of:

Current liabilities	**(105)**	**(303)**	**(374)**	(183)	(186)	(325)
Long-term liabilities	**(5,846)**	**-**	**(7,894)**	(4,419)	-	(6,544)
	(5,951)	**(303)**	**(8,268)**	(4,602)	(186)	(6,869)
Unrecognized net actuarial loss	**3,047**	**62**	**590**	2,200	29	101
Unrecognized prior service cost	**275**	**127**	**19**	82	62	20
Accumulated other comprehensive income	**3,322**	**189**	**609**	2,282	91	121
Net amount recognized	**(2,629)**	**(114)**	**(7,659)**	(2,320)	(95)	(6,748)

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.6) Funded Status, net periodic benefit cost and accumulated other comprehensive income (Continued)

b) Net periodic benefit cost

	2010			**2009**		
	Pension Plans		**Health Care Benefits**	**Pension Plans**		**Health Care Benefits**
	Defined-Benefits	**Variable Contribution**		**Defined-Benefits**	**Variable Contribution**	
Service cost-benefits earned during the year	**243**	**62**	**119**	165	53	75
Interest cost on projected benefit obligation	**3,148**	**36**	**797**	2,371	19	630
Expected return on plan assets	**(2,682)**	**(17)**	**-**	(1,995)	(8)	-
Amortization of net prior service cost	**64**	**10**	**4**	59	9	2
Gain (loss) on translation	**(1)**	**-**	**-**	53	6	104
	772	**91**	**920**	653	79	811
Employees' contributions	**(223)**	**-**	**-**	(179)	(23)	-
Net periodic benefit cost	**549**	**91**	**920**	474	56	811

c) Accumulated other comprehensive income

	2010			**2009**		
	Pension Plans		**Health Care Benefits**	**Pension Plans**		**Health Care Benefits**
	Defined Benefits	**Variable Contribution**		**Defined Benefits**	**Variable Contribution**	
Accumulated other comprehensive income at beginning of year	**2,282**	**90**	**121**	253	95	(404)
Net actuarial loss/(gain)	**1,118**	**96**	**480**	1,800	(82)	575
Amortization of actuarial (loss)/gain	**(1)**	**(1)**	**-**	-	-	-
Net prior service cost	**-**	**-**	**-**	-	-	-
Amortization of net prior service cost	**(60)**	**(9)**	**(2)**	(51)	(8)	2
Gain/(loss) on translation	**(17)**	**13**	**10**	280	86	(52)
Accumulated other comprehensive income at end of year	**3,322**	**189**	**609**	2,282	91	121

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.6) Funded Status, net periodic benefit cost and accumulated other comprehensive income (Continued)

c) Accumulated other comprehensive income (Continued)

Amounts included in accumulated other comprehensive income at December 31, 2010, that are expected to be amortized into net periodic postretirement cost during 2011 are provided below:

	Pension Plans		Health
	Defined	Variable	Care
	Benefits	Contribution	Benefits
Unrecognized net actuarial loss (gain)	1	1	2
Unrecognized prior service cost	61	9	-

d) Assumptions

The main assumptions adopted in 2010 and 2009 for the actuarial calculation are summarized as follows:

	2010	2009
Discount rate	Inflation 5.3% to 4.3% p.a.(1) + interest 5.91% p.a.(2)	Inflation 4.5% to 4% p.a.(1) + interest: 6.57% p.a.(2)
Growth rate for salaries	Inflation 5.3% to 4.3% p.a.(1) + 2.220% p.a	Inflation 4.5% to 4% p.a.(1) + 2.295% p.a
Expected return rate from the pension plan assets	Inflation 5.3% p.a.(1) + interest: 6.78% p.a.	Inflation 4.5% p.a.(1) + interest:6.74.% p.a.
Turnover rate of the health plans	0.660% p.a.(3)	0.768% p.a.(3)
Turnover rate of the pension plans	Null	Null
Rate for hospital medical costs	7.89% to 4.3% p.a. (4)	7.5% to 4% p.a. (4)
Mortality table	AT 2000, sex specific	AT 2000, sex specific
Disability table	TASA 1927	TASA 1927
Mortality table for disabled persons	AT 49, sex specific	AT 49, sex specific

(1) Inflation decreasing linearly in the next 5 years when it becomes constant.

(2) The Company uses a methodology for computing an equivalent real rate from the future curve of return of the longest term government bonds, considering in the calculation of this rate the maturity profile of the pension and health care liabilities.

(3) Average turnover which varies according to age and time of service.

(4) Decreasing rate attaining in the next 30 years the projected long-term expectations for inflation.

15. Employees' Postretirement Benefits and Other Benefits (Continued)

15.6) Funded Status, net periodic benefit cost and accumulated other comprehensive income (Continued)

e) Cash contributions and benefit payments

In 2010, the Company contributed US$460 to its pension plans. In 2011, the Company expects contributions to be approximately US$540. Actual contribution amounts are dependent upon investment returns, changes in pension obligations and other economic factors. Additional funding may ultimately be required if investment returns are insufficient to offset increases in plan obligations.

The following benefit payments, which include estimated future service, are expected to be paid by the pension fund in the next 10 years:

	Pension Plans		**Health**
	Defined Benefits	**Variable Contribution**	**Care Benefits**
2011	1,687	8	370
2012	1,887	13	411
2013	2,082	19	456
2014	2,287	26	499
2015	2,510	34	552
Subsequent five years	16,247	364	3,641

16 Shareholders' Equity

a) Capital

The Company's subscribed and fully paid-in capital at December 31, 2010 consisted of 7,442,454,142 common shares and 5,602,042,788 preferred shares (5,073,347,344 common shares and 3,700,729,396 preferred shares at December 31, 2009). The preferred shares do not have any voting rights and are not convertible into common shares and vice-versa. Preferred shares have priority in the receipt of dividends and return of capital.

The Extraordinary General Meeting held on March 24, 2008, decided to effect a split of each Company's share into two, resulting: (a) in a free distribution of 1 (one) new share of the same type for each original share and based on the shareholding structure at April 25, 2008; (b) in a free distribution of 1 (one) new American Depository Shares (ADS) of the same type for each original ADS and based on the shareholding structure at April 25, 2008. At the same date, an amendment to article 4 of the Company's bylaws to cause capital be divided into 8,774,076,740 shares, of which 5,073,347,344 are common shares and 3,700,729,396 are preferred shares, with no nominal value, was approved. This amendment to the Company's bylaws is effective from April 25, 2008. The relation between the ADS and shares of each class remains of 2 (two) shares for one ADS. All share, ADS, per share and per ADS information in the accompanying financial statements and notes have been adjusted to reflect the result of the share split.

Current Brazilian law requires that the Federal Government retains ownership of 50% plus one share of the Company's voting shares.

a.1) Capital increase

Capital increase with reserves in 2010

The Special General Shareholders' Meeting, held jointly with the General Shareholders' Meeting on April 22, 2010, approved the increase in the Company's capital from US$36,194 (R$78,967 million) to US$39,741 (R$85,109 million), through the capitalization of part of the profit reserves in the amount of US$3,251 (R$5,627 million), where US$519 (R$899 million) is from the statutory reserve, US$2,724 (R$4,713 million) from the profit retention reserve, in accordance with article 199, of Law 6404/76, US$8 (R$15 million) from part of the tax incentive reserve formed in 2009, in compliance with article 35, paragraph 1, of Ordinance 2091/07 of the Government Ministry of National Integration, and from capital reserves in the amount of US$296 (R$515 million).

16.Shareholders' Equity (Continued)

a) Capital (Continued)

a.1) Capital increase (Continued)

Capital increase with issuing of shares

On September 23, 2010, the Board of Directors of Petrobras approved a capital increase from US$39,741 (R$85,109 million) to US$106,655 (R$200,161 million) through the issuance of 2,293,907,960 common shares and 1,788,515,136 preferred shares, with the same rights of its existing shares.

On September 29, 2010, as a result of the Global Offering of the abovementioned shares, Petrobras raised US$66,914 (R$115,052 million), US$39,768 (R$67,816 million) represented by Brazilian Treasury Shares and the remaining US$27,146 (R$47,236 million) in cash. All the Brazilian Treasury Shares and part of the cash raised was used to settle the Assignment Agreement (see Note 9(a)).

As a result of the issuance, Petrobras' total capital was represented by 7,367,255,304 common shares and by 5,489,244,532 preferred shares as of September 30, 2010.

On October 1, 2010, the Board of Directors of Petrobras approved the issuance of 75,198,838 common shares and 112,798,256 preferred shares, resulting from the offering green shoe, with the same prices and rights of the previously shares issuance. As a result of the issuance, Petrobras raised US$3,091 (R$5,196 million) and its total capital is represented by 7,442,454,142 common shares and by 5,602,042,788 preferred shares.

Capital increase with reserves in 2011

The Management of Petrobras will propose to the Special General Shareholders' Meeting to be held jointly with the General Shareholders' Meeting for 2011, a capital increase for the Company from US$109,746 (R$205,357) to US$109,760 (R$205,380), through capitalization of part of the tax incentive profit reserve established in 2010 in the amount of US$14 (R$23), in compliance with article 35, paragraph 1, of Ordinance 2091/07 of the Government Minister for National Integration. This capitalization will be made without issuing new shares, pursuant to article 169, paragraph 1, of Law 6404/76.

16. Shareholders' Equity (Continued)

a) Capital (Continued)

a.2) Subsequent Amendment of the Bylaws

Subsequent to the balance sheet date, at an Extraordinary Shareholders' Meeting, held on January 31, 2011, it was approved the amendment of the Company's bylaws as follows:

a) to amend article 4, main clause, in order to establish that the Company's capital is now reported as being US$109,746 (R$205,357), divided into 13,044,496,930 registered, book-entry shares, with no par value, of which 7,442,454,142 are common shares and 5,602,042,788 are preferred shares;

b) to exclude paragraphs 1, 2 and 3 of article 4, in order to withdraw the limit of authorized capital for common and preferred shares issued by the Company, which, in the terms of Law 6.404/76, would permit under certain circumstances an increase in the Company's capital regardless of statutory amendments, through a decision of the Board of Directors;

c) to insert a new first paragraph in article 4, in order to establish that capital increases through the issuing of shares will be submitted previously to the decision of the General Shareholders' Meeting;

d) to renumber as paragraph 2, the current paragraph 4 of article 4;

e) to renumber as paragraph 3, the current paragraph 5 of article 4;

f) to exclude clause IX of the article, which establishes the jurisdiction for the Board of Directors to decide on capital increases within the authorized limit, since the Company will no longer have authorized capital;

g) to amend clause III of article 40, which defines increases in capital as jurisdiction of the General Shareholders' Meeting, deleting the exceptions to the hypotheses of authorized capital, which will no longer exist; and

h) to exclude article 62, which defines the transitory provisions approved in the Special General Shareholders' Meeting of June 22, 2010.

16. Shareholders' Equity (Continued)

b) Additional Paid in Capital

b.1) Expenditures with the issuing of shares

The Global Offering direct costs in the amount of US$279, net of taxes, were recorded in Shareholders' Equity.

c) Appropriated retained earnings

Brazilian Law and the Company's bylaws require that certain appropriations be made from retained earnings to reserve accounts annually. The purpose and basis of appropriation to such reserves are as follows:

Legal reserve

This reserve is a requirement for all Brazilian corporations and represents the annual appropriation of 5% of net income as stated in the statutory accounting records up to a limit of 20% of capital stock. The reserve may be used to increase capital or to compensate for losses, but may not be distributed as cash dividends.

Statutory reserve

This reserve is provided through an amount equivalent to a minimum of 0.5% of subscribed and fully paid in capital at year-end. The reserve is used to fund the costs incurred with research and technological development programs. The accumulated balance of this reserve cannot exceed 5% of the capital stock, according to Article 55 of the Company's bylaws.

Tax incentive reserve

This reserve consists of investments in tax incentives, arising from allocations of part of the Company's income tax. It relates to tax incentives in the Northeast, within the region covered by the Northeast Development Agency (ADENE), granting a 75% reduction in income tax payable, calculated on the profits of the exploration of the incentived activities. Up to December 31, 2010, this incentive amounted to US$131 (US$167 on December 31, 2009), which may only be utilized to offset losses or for a capital increase, as provided for in Article 545 of the Income Tax Regulations and has been accounted for under the flow through method.

On May 10, 2007, the Brazilian Federal Revenue Office recognized Petrobra's right to deduct this incentive from income tax payable, covering the tax years of 2006 until 2015.

16. Shareholders' Equity (Continued)

c) Appropriated retained earnings (Continued)

Undistributed earnings reserve

The destination of net income for the year ended December 31, 2010, includes retention of profits of US$12,914 with a US$12,172 amount, arising from net income for the year, and US$742 originating from the initial adoption of IFRS. This proposal is intended cover to partially meet the annual investment program established in the 2011 capital budget, to be decided in the General Shareholders' Meeting for 2011.

16. Shareholders' Equity (Continued)

d) Basic and diluted earnings per share

Basic and diluted earnings per share amounts have been calculated as follows:

	Year ended December 31,		
	2010	**2009**	**2008**
Net income for the year attributable to Petrobras	**19,184**	15,504	18,879
Less priority preferred share dividends	**(2,370)**	(1,159)	(749)
Less common shares dividends, up to the priority preferred shares dividends on a per-share basis	**(3,148)**	(1,589)	(1,027)
Remaining net income to be equally allocated to common and preferred shares	**13,666**	12,756	17,103
Weighted average number of shares outstanding			
Common/ADS	**5,683,061,430**	5,073,347,344	5,073,347,344
Preferred/ADS	**4,189,764,635**	3,700,729,396	3,700,729,396
Basic and diluted earnings per share			
Common and preferred	**1.94**	1.77	2.15
Basic and diluted earnings per ADS	**3.88**	3.54	4.30

e) Dividends and interest on shareholders' equity

In accordance with the Company's bylaws, holders of preferred and common shares are entitled to a minimum dividend of 25% of annual net income as adjusted under Brazilian Corporate Law. In addition, the preferred shareholders have priority in the receipt of an annual dividend of at least 3% of the book value of the shares or 5% of the paid-in capital in respect of the preferred shares as stated in the statutory accounting records. As of January 1, 1996, amounts attributed to shareholders as interest (see below) can be deducted from the minimum dividend computation. Dividends are paid in Brazilian reais. No withholding tax is payable on distributions of dividends made since January 1, 1996.

16. Shareholders' Equity (Continued)

e) Dividends and interest on shareholders' equity (Continued)

The Company provides either for its minimum dividends or for the total interest on shareholders' equity where the tax benefit has been recognized as of December 31.

Brazilian corporations are permitted to attribute interest on Shareholders' Equity, which may either be paid in cash or be used to increase capital stock. The calculation is based on Shareholders' Equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the Taxa de Juros de Longo Prazo (long-term interest rate or the "TJLP") as determined by the Brazilian Central Bank. Such interest may not exceed the greatest of 50% of net income or 50% of retained earnings plus revenue reserves. Interest on Shareholders' Equity, is subject to withholding tax at the rate of 15%, except for untaxed or exempt shareholders, as established by Law No. 9,249/95.

e.1) Dividends and interest on shareholders' equity fiscal year 2010

The proposed dividends as of December 31, 2010, in the amount of US$6,780 include interest on Shareholders' Equity in the total amount of US$5,857, approved by the Board of Directors, as follows:

Portion	Date of board of Directors approval	Shareholders positions	Date payment	Value of the portion US$ million
1st Portion Interest on Shareholders' Equity	05.14.2010	05.21.2010	05.31.2010	982
2nd Portion Interest on Shareholders' Equity	07.16.2010	07.30.2010	08.31.2010	966
3rd Portion Interest on Shareholders' Equity	10.22.2010	11.01.2010	11.30.2010	1,062
4th Portion Interest on Shareholders' Equity	12.10.2010	12.21.2010	12.30.2010	1,539
5th Portion Interest on Shareholders' Equity	02.25.2011	03.21.2010		1,308
Dividends	02.25.2011			923
				6,780

16. Shareholders' Equity (Continued)

e) Dividends and interest on shareholders' equity (Continued)

e.1) Dividends and interest on shareholders' equity fiscal year 2010 (Continued)

This interest on shareholders' equity should be discounted from the remuneration that will be distributed at the closing of the fiscal year 2010. The amount will be monetarily updated according to the variation of the SELIC rate since the date of effective payment until the end of the aforementioned fiscal year.

Interest on shareholders' equity was included with the proposed dividend for the year, as established in the Company's bylaws, and generated an income tax and social contribution credits of US$1,991 (US$1,331 in 2009, and US$995 in 2008) (see Note 3).

17. Acquisition/Sales of Assets and Interests

a) Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the acquisition of a business. In accordance with Codification Topic 350 -Goodwill and Other Intangible Assets ("ASC 350"), the Corporation's goodwill is not amortized, but is tested for impairment at a reporting unit level, which is an operating segment or one level below an operating segment. The Company conducts its annual goodwill impairment review in the fourth quarter of each year and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable.

Goodwill impairment encompasses a two step approach. In the first step the Company compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value is lower than the carrying amount including goodwill, there is an indication of impairment loss that is measured by performing the second step. In the second step, the estimated fair value from the first step is used as the purchase price in a hypothetical acquisition of the reporting unit. Purchase business combination accounting rules are followed to determine a hypothetical purchase price allocation to the reporting unit's assets and liabilities. The residual amount of goodwill that results from this hypothetical purchase price allocation is compared to the recorded amount of goodwill for the reporting unit, and the recorded amount is written down to the hypothetical amount, if lower.

Change in the balance of goodwill for the years ended December 31, 2010 and 2009:

Balance as of December 31, 2008	**118**
Cumulative translation adjustment	21
Balance as of December 31, 2009	**139**
Acquisitions in Chile	49
Cumulative translation adjustment	4
Balance as of December 31, 2010	**192**

17. Acquisition/Sales of Assets and Interests (Continued)

b) Business combinations

Acquisition of distribution interests in Chile

On April 30, 2009, Petrobras, through its wholly owned subsidiaries Petrobras Venezuela Investments & Services B.V. e Petrobras Participaciones, S.L., located in the Netherlands and Spain, respectively, concluded the process for the acquisition of the distribution and logistics businesses of ExxonMobil in Chile, with the payment of US$463, net of the cash and cash equivalents of the purchased companies. During 2010, the Company recorded goodwill of US$49 after concluding fair value assessment of the distribution and logistics business acquired in Chile. Due to immateriality, proforma information has not been presented.

On December 1, 2009 Petrobras acquired Chevron Chile S.A.C, which produces and sells lubricants of the Texaco brand in Chile, for approximately US$14.

Increase of interest in the capital of Breitener Energética S.A.

On December 31, 2009, Petrobras had 30% of the capital of Breitener Energética S.A., a company established for the purpose of generating electric power, located in the city of Manaus, in the state of Amazonas. On February 12, 2010, Petrobras obtained control of Breitener by acquiring an additional 35% of interest for US$2. As a result of the acquisition, Petrobras has 65% of interest in Breitener Energética S.A. Due to immateriality, proforma information has not been presented.

c) Acquisition of affiliated companies

Acquisitions in the Biofuel Segments

In 2009 and 2010, Petrobras acquired interest in companies of the biofuel segment, as follows:

Date of the acquisition	**Company**	**% of shares**	**Value of the acquisition US$ million**
December 8, 2009	BSBios Marialva Indústria e Comércio	50	32
August 24, 2010	Bioóleo Industrial e Comercial	50	11
November 1, 2010	Nova Fronteira Bioenergia S.A.	37.05	155
January 18, 2010	Total Agroindústria Canavieira S.A.	40.37	79
May 14, 2010	Açúcar Guarani S.A.	45.7	380

17. Acquisition/Sales of Assets and Interests (Continued)

c) Acquisition of affiliated companies (Continued)

Brasil Carbonos S.A.

On December 22, 2010, the Company acquired 49% of the total shares of Brasil Carbonos S.A from the Unimetal Group for the amount of US$ 27. In the evaluation of the fair value of the net assets acquired, a surplus value of US$ 17 was identified in the property, plant and equipment.

Investment agreement between Petrobras, Petroquisa, Braskem, Odebrecht and Unipar

On January 22, 2010, Petrobras and Odebrecht and Unipar entered into an agreement to consolidate all its petrochemical interests into Braskem, which was concluded on December 27, 2010, through the following transactions:

In April 2010, Petrobras contributed to Braskem approximately US$1,388, through an affiliate, as a result of a private subscription.

On April 27, 2010, Braskem acquired from Unipar 60% of Quattor Participações and, on May 10, 2010, 100% of Unipar Comercial and 33.33% of Polibutenos.

On June 18, 2010, shares representing 40% of interest in Quattor Participações S.A. held by Petrobras were exchanged by 18,000,087 new common shares issued by Braskem. The exchange was accounted for in accordance with ASC 860 "Transfers and Servicing", based on the fair value of the interest received from Braskem at the date of the transaction. As a result of the transaction a loss of US$226, net of tax, was recognized.

On August 17, 2010, Braskem transferred 1,515,433 of its preferred shares held by Odebrecht to the Company, for a nominal amount in order to accomplish the terms of the agreement.

On August 30, 2010, shares representing 10% of interest in Rio Polímeros S.A. held by Petrobras were exchanged into 1,280,132 new preferred shares issued by Braskem. The exchange was accounted for in accordance with ASC 860 "Transfers and Servicing", based on the fair value of the interest received from Braskem at the date of the transaction. As a result of the transaction a loss of US$ 46, net of tax, was recognized.

On December 27, 2010, the incorporation of the shares of Quattor Petroquímica into Braskem was concluded.

17. Acquisition/Sales of Assets and Interests (Continued)

c) Acquisition of affiliated companies (Continued)

Investment agreement between Petrobras, Petroquisa, Braskem, Odebrecht and Unipar (Continued)

As a result of the abovementioned transactions, Petrobras increased its interest in Braskem from 25.41% to 36.1% throughout 2010.

d) Acquisition of minority interest

Sale option of the Pasadena refinery by Astra

In a decision reached on April 10, 2009, in the existing arbitration process between Petrobras America Inc - PAI and others and Astra Oil Trading NV - ASTRA and others, the exercise of the put option by ASTRA with respect to PAI, of the remaining 49.13% of the shares of ASTRA in Pasadena Refinery Systems Inc. ("PRSI"), was considered valid.

According to the decision reached, the consideration to acquire the remaining shareholding interest in the refinery and in the trading company in Pasadena was fixed at US$466.

In March 2009, a loss was recognized in the amount of US$147, corresponding to the difference between the fair value of the net assets and the value defined by the arbitration panel. As a result of this decision, the Company recorded a charge of US$289 in Additional Paid in Capital due to the acquisition of the remaining 49.13% of the shares of ASTRA in Pasadena Refinery Systems Inc. ("PRSI").

There are still judicial proceedings ongoing asking for indemnifications by both parties and others revindications.

Sale option of the Nansei Sekiyu refinery

On April 1, 2010 the Sumitomo Corporation announced its interest in exercising the right of sale to Petrobras, through its wholly owned subsidiary Petrobras Internacional Braspetro B.V., "PIBBV", of 12.5% of the shares of the capital of the Nansei Sekiyu K.K. refinery (Nansei). The remaining shares (87.5%) are already owned by PIBBV since 2008.

The share purchase agreement was signed on September 29, 2010, and on October 20, 2010 the payment was made in the amount equivalent to US$29 (R$48,843 thousand -JPY 2,365,268 thousand), through the delivery of the shares.

17. Acquisition/Sales of Assets and Interests (Continued)

d) Acquisition of minority interest (Continued)

Sale option of the Nansei Sekiyu refinery (Continued)

As a result of the exercise of the right of sale by Sumitomo Corporation, a loss was recognized in the amount of US$10 corresponding to the difference between the fair value of the shares and the estimated purchase price.

Acquisition of a shareholding interest in Refinaria Alberto Pasqualini S.A. - REFAP

On December 14, 2010 Downstream Participações Ltda signed the Agreement for Purchase and Sale of Shares with Repsol YPF for acquisition of 30% of the capital of Refinaria Alberto Pasqualini S.A. (Refap) for US$350. This transaction with minority shareholders resulted in a decrease of US$71 in the net equity attributable to the Company's shareholders, as an additional paid in capital.

With this acquisition, Downstream holds 100% of the control of the shares of Refap. Repsol had acquired a 30% interest in 2001, as a result of an exchange of assets made between the companies.

Specific purpose entities

In 2009 and 2010 Petrobras exercised options to acquire all the shares from non-controlling owners of certain Variable Interest Entities, which were previously consolidated. In accordance with ASC 810, these acquisitions were accounted for in Additional Paid in Capital.

Date of option	Project	Corporate name of the SPE	% of shares 2009	% of shares 2010	Additional paid in capital 2009	Additional paid in capital 2010
04/30/2009	Marlim	Marlim Participações S.A	100%			
12/11/2009	CLEP	Companhia Locadora de Equipamentos Petrolíferos	100%		983	
12/30/2009	NovaMarlim	NovaMarlim Participações S.A.	43.43%	56.57%	13	1
03/16/2010	Cabuínas	Cayman Cabiúnnas Investment Co. Ltd.		100%		
08/05/2010	Amazônia	Transportadora Urucu Manaus S.A - TUM		100%		99
09/01/2010	Barracuda & Caratinga	Barracuda & Caratinga Holding Company B.V.		100%		(572)
					996	(472)

17. Acquisition/Sales of Assets and Interests (Continued)

e) Sale of assets and other information

Sale of the San Lorenzo refinery and part of the distribution network in Argentina

On May 4, 2010, Petrobras Argentina S.A. (formerly Petrobras Energia S.A.) approved the terms and conditions of the agreement for the sale to Oil Combustibles S.A. of refining and distribution assets in Argentina. The deal comprises a refinery located in San Lorenzo in the province of Santa Fé, a fluvial unit and a fuel trading network connected to this refinery, consisting of 360 sales points and associated wholesaler clients.

The offer for the aforementioned assets was approximately US$36. In addition, on the closing date the petroleum inventories and the different products will be sold to Oil Combustibles for approximately US$74. The total amount of the transaction is estimated at around US$110.

The transaction is in the process of approval by the administrative authorities required by the prevailing legislation in Argentina.

The transaction does not consider the sale of the reformer unit that Petrobras Argentina has in its Puerto General San Martín Petrochemical Complex.

Acquisition of Gás Brasiliano Distribuidora S.A.

On May 26, 2010 Petrobras S.A., through its subsidiary Petrobras Gás S.A. (Gaspetro), entered into an agreement with Enti Nazionale Idrocarburi's.p.A. (ENI) for acquisition of 100% of the shares of Gas Brasiliano Distribuidora S.A. (GBD), for the approximate amount of US$250, subject to adjustments due to the value of the company's working capital on the date of settlement of the transaction.

Transfer of the control will be made only after the conclusion of the transaction, which is subject to approval by the Regulatory Agency for Sanitation and Energy of the State of Sao Paulo (ARSESP).

17. Acquisition/Sales of Assets and Interests (Continued)

e) Sale of assets and other information (Continued)

Operations in Ecuador

In 2006, the Ecuadorian government began a series of tax and regulatory reforms with respect to hydrocarbon activities, which significantly affected the agreements for participation in exploration blocks. As from November 24, 2010, all the exploration agreements in force until then had to migrate to service agreements.

Petrobras Argentina S.A. (PESA), through Sociedade Ecuador TLC S.A., holds a 30% interest in the exploration agreements for Block 18 and the unified Palo Azul field, located in the Oriente basin of Ecuador.

PESA decided not to accept the final proposal to migrate its agreements to the new contractual model, thus it is the responsibility of the Ecuadorian Government to indemnify the investments made in those exploration blocks.

Also in Ecuador, PESA has a Ship or Pay agreement entered into with Oleoducto de Crudos Pesados Ltd (OCP) for transporting oil, which is in force since November 10, 2003 with an effective term of 15 years. On account of the commitments assumed for the transport capacity contracted and not used due to the decrease in the volume of oil traded, it recorded liabilities of US$85 at December 31, 2010.

18. Commitments and Contingencies

a) Commitments

Commitments for purchase of natural gas

Petrobras entered into an agreement with Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), to purchase a total of 201.9 billion m^3 of natural gas during the term of the agreement, undertaking to purchase minimum annual volumes at a price calculated according to a formula indexed to the price of fuel oil. The agreement is valid until 2019 and will be renewed until the total contracted volume has been consumed. The pipeline achieved an average throughput of 22.0 million cubic meters per day during 2010.

In the period between 2002 and 2005, Petrobras bought less than the minimum volume established in the agreement with YPFB and paid US$81, referring to the volumes not transported, the credits for which will be realized through the drawing of future volumes.

The commitments for purchases of gas up to the end of the agreement represent annual average volumes of 24 million cubic meters per day.

In the fourth quarter of 2009 Petrobras and YPFB signed a contractual addendum which regulates the payment of additional amounts to YPFB referring to the quantity of liquids (heavy hydrocarbons) present in the natural gas imported by Petrobras from YPFB through a Gas Supply Agreement (GSA). The addendum establishes additional amounts between US$100 and US$180 per year, applied to the volumes of gas delivered as from May 2007. With respect to 2007, the obligation for additional payment by Petrobras was recorded as a provision and was settled in February 2010. The payment of the amounts referring to subsequent years will only be due after compliance with a condition precedent established in the addendum, which will demand additional negotiations with YPFB.

Commitments for purchase of oil and oil products

In an effort to ensure procurement of oil products for the Company's customers, the Company currently has several short and long-term normal purchase contracts with maturity dates up to 2019, which collectively obligate it to purchase a minimum of approximately 453,802 barrels of crude oil and oil products per day at market prices.

18. Commitments and Contingencies (Continued)

a) Commitments (Continued)

Minimum operating lease payments

The Company is committed to make the following minimum payments related to operating leases as of December 31, 2010:

2011	10,645
2012	9,511
2013	7,622
2014	6,232
2015	3,481
2016 and thereafter	10,587
Minimum operating lease payment commitments	48,078

The Company incurred US$5,943, US$3,939 and US$2,983, in rental expense on operating leases at December 31, 2010, 2009 and 2008, respectively.

Guarantees for concession agreements for petroleum exploration

Petrobras provided guarantees to the ANP for the minimum exploration program defined in the concession contracts for exploration areas, totaling US$3,209 (US$2,355 in 2009). Out of this total, US$2,849 (US$2,042 in 2009) represents a pledge on the oil to be extracted from previously identified fields already in production, for areas in which the Company had already made commercial discoveries or investments. For areas whose concessions were obtained by bidding from the ANP, Petrobras has given bank guarantees totaling US$1,096 through December 31, 2010 (US$333 in 2009).

b) Litigation

Petrobras is subject to a number of commitments and contingencies arising in the normal course of its business. Additionally, the operations and earnings of the Company have been, and may be in the future, affected from time to time in varying degrees by political developments and laws and regulations, such as the Federal Government's continuing role as the controlling shareholder of the Company, the status of the Brazilian economy, forced divestiture of assets, tax increases and retroactive tax claims, and environmental regulations. The likelihood of such occurrences and their overall effect upon the Company are not predictable.

18. Commitments and Contingencies (Continued)

b) Litigation (Continued)

The Company is a defendant in numerous legal actions involving civil, tax, labor, corporate and environment issues arising in the normal course of its business. Based on the advice of its internal legal counsel and management's best judgment, the Company has recorded accruals in amounts sufficient to provide for losses that are considered probable and reasonably estimable. At December 31, 2010 and 2009, the respective amounts accrued by type of claims are as follows:

	As of December 31,	
	2010	**2009**
Labor claims	**119**	**71**
Tax claims	**361**	**94**
Civil claims	**214**	**272**
Commercials claims and other contingencies	**66**	**63**
Total	**760**	**500**
Current contingencies	**-**	**(31)**
Long-term contingencies	**760**	**469**

As of December 31, 2010 and 2009, in accordance with Brazilian law, the Company had paid US$1,674 and US$1,158 respectively, into federal depositories to provide collateral for these and other claims until they are settled. These amounts are reflected in the balance sheet as restricted deposits for legal proceedings and guarantees.

18. Commitments and Contingencies (Continued)

b) Litigation (Continued)

b.1) Proceedings classified as probable losses

The principal proceedings, disclosed previously as a possible loss, this quarter are classified as a probable loss, due to the development of the legal case or agreements in progress, as follows:

ICMS - Sinking of Platform P-36

In 2001, Platform P-36 was imported by Petrobras through temporary admission in accordance with the special regime for imports and exports (REPETRO) which suspends taxation and, therefore, on this occasion state taxes were not due.

With the sinking of the platform, in March 2001, the State of Rio de Janeiro initiated actions for collection of the suspended ICMS through tax foreclosure proceedings as it understands that there will no longer be return of the platform.

In February 2010, with an unfavorable decision at the last level of appeals in the Superior Court of Rio de Janeiro, Petrobras began to evaluate the legal aspects of the suit and the economic aspects of the use of the benefits of tax amnesty established in State Law 5,647, of January 18, 2010, which permits elimination of fines and an expressive decrease in other charges, as well as the possibility of payment with court order debts.

Petrobras adhered to the payment conditions of the aforementioned State Law, fixing the total amount agreed upon with the State of Rio de Janeiro in the amount of US$269, where US$65 was in court order debts.

Triunfo Agro Industrial S.A and others

During the year 2000, Triunfo Agro Industrial and Others filed a suit against Petrobras, claiming losses and damages as a result of the annulling of a credit assignment transaction excise tax (IPI) premium. The hearing by the Superior Court of Rio de Janeiro, in the second instance, was unfavorable to Petrobras and approval was denied for the appeal lodged by the Company.

Parallely to the filing of the aforementioned appeals, on September 28, 2010 Petrobras filed a motion for annulling judgment before the Full Bench of the Superior Court of Rio de Janeiro, where it obtained, by 20 votes to one, an injunction that prohibits any withdrawal of values on the part of the plaintiffs.

18. Commitments and Contingencies (Continued)

b) Litigation (Continued)

b.1) Proceedings classified as probable losses (Continued)

Triunfo Agro Industrial S.A and others (Continued)

Based on its legal counsels' advice, the Company has assessed risk of loss to be probable. The maximum estimated exposure as at December 31, 2010, is around US$298, which has been provided**.** The Company has a balance of deposits in court for this process in the amount of US$205, resulting in a net amount of US$94.

Notice of infraction National Agency for Petroleum, Natural Gas and Biofuel-ANP

On July 1, 2010, the Company received a notice that a suit had been filed by ANP, in the amount of US$133, for the alleged miscalculations of the special participation tax basis in the Barracuda and Caratinga fields. On July 15, 2010, Petrobras filed its defense with ANP.

On September 30, ANP presented a new official letter, with a review of the amount for the official notification, as it understands that part of the leasing agreement would not consist of a financing transaction.

On October 28, 2010, Petrobras filed with ANP a request for payment in installments over 30 months in a total amount of US$52, based on the amount established in Official letter 646/2010/SPG, of October 15, 2010. Until December 31, 2010, the Company had paid three installments.

Plaintiff: The Fisherman's Federation of the State of Rio de Janeiro (FEPERJ)

On behalf of its members, FEPERJ is making a number of claims for indemnification as a result of an oil spill in Guanabara Bay which occurred on January 18, 2000. At the time, Petrobras paid out extrajudicial indemnification to all who proved they were fishermen when the accident happened. According to the records of the national fishermen's registry, only 3,339 people were eligible to claim indemnification.

18. Commitments and Contingencies (Continued)

b) Litigation (Continued)

b.1) Proceedings classified as probable losses (Continued)

Plaintiff: The Fisherman's Federation of the State of Rio de Janeiro (FEPERJ)

(Continued)

On February 2, 2007, the decision, partially accepting the expert report, was published and, on the pretext of quantifying the amount of the conviction, established that the parameters for the respective calculation based on the criteria would result in an amount of US$661. Petrobras appealed against this decision before the Court of Appeals of Rio de Janeiro, as the parameters stipulated in that the decision had already been specified by the Court of Appeals of Rio de Janeiro, itself. The appeal was accepted. On June 29, 2007, the decision of the First Civil Chamber of the Court of Appeals of the State of Rio de Janeiro was published, denying approval of the appeal filed by Petrobras and approving the appeal lodged by FEPERJ. Special appeals were lodged by Petrobras against this decision, which in a decision handed down on November 19, 2009 by the Superior Court of Justice, were considered fit annul the court decision of the First Civil Chamber of the Superior Court of Rio de Janeiro. Publication of the court decision is being awaited in order to evaluate whether new appeals will be lodged by FEPERJ, or whether they process will be returned to the Superior Court of Rio de Janeiro for a new hearing.

In accordance with the Company's expert assistant calculation, the recorded amount ofUS$30 represents the award that will be set by the court at the end of the process. Based on its legal counsels advice, the Company has assessed risk of loss to be probable.

Plaintiff: Federal Revenue Department of Rio de Janeiro - Income Tax Withheld at Source related to CLEP

On July 16, 2009, Companhia Locadora de Equipamentos Petrolíferos (CLEP) received an assessment notice questioning the rate of Income Tax Withheld at Source, applicable to the issuing of securities abroad. Possibility of applying the Brazil - Japan Treaty (Dec. 61.889/67). On August 14, 2009, CLEP filed a refutation of this tax assessment notice in the Regional Federal Revenue Office of Rio de Janeiro. On September 3, 2009 the process was remitted to the Control and Hearing Service - DRJ. The maximum updated exposure for Petrobras as at December 31, 2010 is US$250. These amounts refer to the consolidated companies and were offset against the balance of financing in current and non-current liabilities.

The petition for an injunction for renewal of the notification of the decision handed down in the Administrative Process and suspension of the demandability of the debit of income tax withheld at source was dismissed, which permitted the filing of a bill of review on November 19, 2010.

18. Commitments and Contingencies (Continued)

b) Litigation (Continued)

b.1) Proceedings classified as probable losses (Continued)

Plaintiff: Federal Revenue Department of Rio de Janeiro - Income Tax Withheld at Source related to CLEP (Continued)

On December 2, 2010, the petition for advance relief was partially granted, suspending the acts of collection of the debit until the new notification of the aforementioned decision is made at the administrative level.

b.2) Proceedings classified as possible losses

Plaintiff: Porto Seguro Imóveis Ltda.

On November 23, 1992, Porto Seguro Imóveis Ltda., a minority shareholder of Petroquisa, filed a suit against Petrobras in the State Court of Rio de Janeiro related to alleged losses resulting from the sale of a minority holding by Petroquisa in various petrochemical companies included in the National Privatization Program introduced by Law No. 8,031/90.

In this suit, the plaintiff claims that Petrobras, as the majority shareholder in Petroquisa, should be obliged to reinstate the "loss" caused to the net worth of Petroquisa, as a result of the acts that approved the minimum sale price of its holding in the capital of privatized companies. A decision was handed down on January 14, 1997, that considered Petrobras liable with respect to Petroquisa for losses and damages in an amount equivalent to US$3,406.

In addition to this amount, Petrobras was required to pay the plaintiff 5% of the value of the compensation as a premium (see art. 246, paragraph 2 of Law No. 6,404/76), in addition to attorneys fees of approximately 20% of the same amount.

In performance of the decision published on June 05, 2006, the Company is now awaiting assignment of the agenda to re-examine the matter relating to the blocking of Petrobras Special Appeal.

Petrobras filed a special, extraordinary appeal before the Superior Court of Justice (STJ) and the Federal Supreme Court (STF), which were rejected. Petrobras then filed an interlocutory appeal against the decision before the Superior Court of Justice and the Federal Supreme Court.

The Special Appeal offered by Porto Seguro, which sought to bar the processing of the Special Appeal by Petrobras was heard and dismissed in December 2009.

18. Commitments and Contingencies (Continued)

b) Litigation (Continued)

b.2) Proceedings classified as possible losses (Continued)

Plaintiff: Porto Seguro Imóveis Ltda. (Continued)

The publication of this decision and judgment of the aforementioned Special Appeal through which Petrobras seeks to totally reverse the sentence is being awaited.

If the award is not reversed, the indemnity estimated to Petroquisa, including monetary correction and interest, would be US$11,422. As Petrobras owns 100% of Petroquisa's share capital, a portion of the indemnity estimated at US$7,539, will not represent a disbursement from Petrobras Group. In case of loss, Petrobras would have to pay US$571 to Porto Seguro and US$2,284 to Lobo & Ibeas by means of attorney's fees. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

Plaintiff: Kalium Mineração S.A.

Kalium Mineração S.A. brought an action for losses and damages and loss of earnings due to the contractual rescission. Considered as with the ground, partially, at the first instance. The two parties lodged appeals which were dismissed. Petrobras is awaiting a hearing of the extraordinary appeal lodged with the Federal Supreme Court and a special appeal with the Superior Court of Justice on September 18, 2003, both of which were admitted. There is also a special appeal by Kalium which is awaiting a hearing. The maximum exposure including monetary restatement for Petrobras as of December 31, 2010 is US$117. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

Plaintiff: Destilaria J.B. Ltda. and Others

Collection of charges on invoices related to the purchase of alcohol paid late. There is a final and unappealable condemnatory decision in an amount to be calculated and still pending confirmation.

Indeterminate maximum exposure. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

18. Commitments and Contingencies (Continued)

b) Litigation (Continued)

b.2) Proceedings classified as possible losses (Continued)

Plaintiff: IBAMA (Brazilian Institute for the Environment and Renewable Resources)

Failure to comply with the Settlement and Commitment Agreement (TAC) clause relating to Campos Basin of August 11, 2004 by continuing drilling without prior consent. The lower administrative court sentenced Petrobras to pay for the non-compliance to the TAC. The Company filed a hierarchical appeal to the Ministry of the Environment which is awaiting judgment. The maximum exposure including monetary restatement for Petrobras as at December 31, 2010, is US$109. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

Plaintiff: National Agency for Petroleum, Natural Gas and Biofuel ANP

Fine for non-compliance with minimum exploration programs "Rodada Zero". The execution of the fines is suspended through an injunction, pursuant to records of the suit lodged by Petrobras. Through a civil suit, the Company is claiming recognition of its credit resulting from article 22, paragraph 2 of the Petroleum Law, requesting the offsetting of the eventual debt that Petrobras may have with ANP. Both the legal processes, which are being handled jointly, are in the evidentiary stage.

The maximum exposure including monetary restatement for Petrobras as of December 31, 2010 is US$219. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

c) Notification from the INSS - joint liability

The Company received various tax assessments related to social security amounts payable as a result of irregularities in presentation of documentation required by the INSS, to eliminate its joint liability in contracting civil construction and other services, stipulated in paragraphs 5 and 6 of article 219 and paragraphs 2 and 3 of article 220 of Decree No. 3,048/99.

In order to guarantee the appeals filing and/or the obtainment from INSS of Debt Clearance Certificate, US$69 from the amounts disbursed by the Company is recorded as restricted deposits for legal proceedings and guarantees and may be recovered under the respective proceedings in progress, which are related to 332 assessments amounting to US$218 at December 31, 2010. Petrobras' legal department expects a possible defeat regarding these assessments, as it considers the risk of future disbursement to be possible.

18. Commitments and Contingencies (Continued)

d) Tax assessments

Plaintiff: Internal Revenue Service of Rio de Janeiro - Withholding Income Tax related to charter of vessels

The Internal Revenue Service of Rio de Janeiro filed two Tax Assessments against the Company in connection with Withholding Income Tax on foreign remittances of payments related to charter of vessels of movable platform types for the years 1999 through 2002.

The Internal Revenue Service, based on Law No. 9,537/97, Article 2, considers that drilling and production platforms cannot be classified as sea-going vessels and therefore should not be chartered but leased. Based on this interpretation, overseas remittances for servicing chartering agreements would be subject to withholding tax at the rate of 15% or 25%.

Petrobras has defended itself against these tax assessments. Administrative appeals were lodged with High Court of Appeals for Fiscal Matters, last administrative level, which still await trial. The maximum exposure including monetary restatement for Petrobras as of December 31, 2010 is US$2,717. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

18. Commitments and Contingencies (Continued)

d) Tax assessments (Continued)

Plaintiff: Rio de Janeiro state finance authorities - II and IPI Tax related to Termorio equipments

Rio de Janeiro state finance authorities filed a Tax Assessment against the Company in connection with II (Import Tax) and IPI (Federal VAT) contesting the tax classification as Other Electricity Generation Groups for the import of the equipment belonging to the thermoelectric power station Termorio S.A.

On August 15, 2006, Termorio filed in the inspector's department of the Federal Revenue Department of Rio de Janeiro a refutation against this tax deficiency notice, considering that the tax classifications that were made were based on a technical report of a renowned institute. In a session on October 11, 2007, the First Panel of Judgment dismissed the tax assessment, prevailing over a judge who voted for partial granting. The inspector's department of the Federal Revenue Department lodged an appeal with the Taxpayers Council, which has not yet been heard. The maximum exposure including monetary restatement for Petrobras as of December 31, 2010, is US$468. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

Plaintiff: Federal Revenue Service - Contribution of Intervention in the Economic Domain - CIDE

The Federal Revenue service filed a Tax Assessment against the Company due to non-payment in the period of March 2002 to October 2003 of the Contribution of Intervention in the Economic Domain - CIDE, the per-transaction tax payable to the Brazilian government, required to be paid by producers, blenders and importers upon sales and purchases of specified oil and fuel products at a set amount for different products based on the unit of measurement typically used for such products, pursuant to court orders obtained by Distributors and Fuel Stations, protecting them from levying of this charge. The lower court ruled the charge was correct. Petrobras filed a Voluntary Appeal, which is awaiting a hearing. The maximum exposure for Petrobras, including monetary restatement, as at December 31, 2010 is US$714. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

18. Commitments and Contingencies (Continued)

d) Tax assessments (Continued)

Plaintiff: State Revenue Service of São Paulo

São Paulo state finance authorities filed a Tax Assessment against the Company in connection with the exclusion of the imports of natural gas from Bolívia from the ICMS taxation. The lower court ruled the charge was correct. Petrobras filed a Voluntary Appeal which was rejected. The maximum exposure for Petrobras, including monetary restatement, as December 31, 2010 is US$615. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

Plaintiff: Federal Revenue Service

The Federal Revenue Service filed a Tax Assessment against the Company related to -Withholding Income Tax on remittances to pay for oil imports. The lower court considered the assessment to be groundless. There was an appeal by the Federal Revenue Department to the taxpayers' Council that was approved. Petrobras filed a spontaneous appeal which is awating a hearing. The maximum exposure including monetary restatement for Petrobras as at December 31, 2010 is US$536. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

Plaintiff: Federal Revenue Service - Contribution of Intervention in the Economic Domain Charge- CIDE

The Federal Revenue service filed a Tax Assessment against the Company in connection with the failure by Petrobras to withhold CIDE (Contribution of Intervention in the Economic Domain Charge) on naphtha import operations resold to Braskem. The lower court considered the assessment to have grounds. Petrobras filed a spontaneous appeal which was transformed into inspections in the Company's establishments. Diligence attended. It is awaiting the hearing of the spontaneous appeal. The maximum exposure for Petrobras, including monetary restatement, as at December 31, 2010 is US$1,318. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

18. Commitments and Contingencies (Continued)

d) Tax assessments (Continued)

Plaintiff: State Revenue Service of Rio de Janeiro

Rio de Janeiro state finance authorities filed a Tax Assessment against the Company in connection with the exclusion of the LNG transfer operations in the ambit of the centralizing establishment from the ICMS taxation. Unfavorable decision for Petrobras. Spontaneous appeal filed in the Taxpayers Council, which denied approval for the appeal.The Company is evaluating the possibility of taking legal action. The maximum exposure for the Company, including monetary restatement, as December 31, 2010 is US$1,253. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

Plaintiff: Municipal governments of Anchieta, Aracruz, Guarapari, Itapemirim, Jaguaré, Marataízes, Serra, Vila Velha and Vitória

Some municipalities located in the State of Espírito Santo have filed notices of infraction against Petrobras for the supposed failure to withhold service tax of any nature (ISSQN) on offshore services. Petrobras withheld the ISSQN; however, it paid the tax to the municipalities where the respective service providers are established, in accordance with Complementary Law 116/03. The Company presented administrative defenses with the aim of canceling the assessments and the majority are in the process of being heard. Of the municipalities with respect to those that have already exhausted the discussion (at the administrative level), only the municipality of Itapemirim has filed tax collection proceedings. In this judicial case, the Company has offered a guarantee and is defending itself, considering it paid the service tax (ISS) correctly, in the terms of Complementary Law 116/2003. The maximum exposure for the Company, including monetary restatement, as December 31, 2010 is US$868. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

18. Commitments and Contingencies (Continued)

d) Tax assessments (Continued)

Plaintiff: State Revenue Service of Rio de Janeiro

Rio de Janeiro state finance authorities filed a Tax Assessment against the Company in connection with the incorrect use of ICMS credits from drilling bits and chemical products used in formulating drilling fluid. The State Finance Department of Rio de Janeiro drafted notices of tax assessment as it understands that they comprise material for use and consumption, for which use of the credit will only be permitted as from 2011. The Company presented administrative defenses with the aim of cancelling the assessments and the majority are still in the process of being heard. The maximum exposure for the Company, including monetary restatement, as December 31, 2010 is US$356. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

Plaintiff: State Revenue Service of São Paulo

São Paulo state finance authorities filed a Tax Assessment against the Company in connection with termination of collection of ICMS and a fine for importing and non-compliance with an accessory obligation. Temporary admission Drilling rig - Admission in Sao Paulo - Customs clearance in Rio de Janeiro (ICMS agreement 58/99). The lower court considered the assessment to have grounds. A spontaneous appeal was lodged on December 23, 2009, which is awaiting a hearing. The maximum exposure for the Company, including monetary restatement, as December 31, 2010 is US$1,041 Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

Plaintiff: Finance and Planning Department of the Federal District

Federal District finance authorities filed a Tax Assessment against the Company in connection with payment of ICMS due to omission on exit (Inventories). The lower court considered the assessment to have grounds. Petrobras filed a spontaneous appeal which is awaiting a hearing. The maximum exposure for the Company, including monetary restatement, as December 31, 2010 is US$86. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

Plaintiff: State Finance Department of Bahia

Incorrect allocation of credit, difference in the ICMS rate for material for use and consumption.

The lower court considered the assessment to have grounds. Petrobras filed a spontaneous appeal which is awaiting a hearing. The maximum exposure for the Company, including monetary restatement, as December 31, 2010 is US$140. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

18. Commitments and Contingencies (Continued)

e) Environmental matters

The Company is subject to various environmental laws and regulations. These laws regulate the discharge of oil, gas or other materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of such materials at various sites.

The Company's management considers that any expenses incurred to correct or mitigate possible environmental impacts should not have a significant effect on operations or cash flows.

PEGASO - (Programa de Excelência em Gestão Ambiental e Segurança Operacional)

During 2000 the Company implemented an environmental excellence and operational safety program - PEGASO - (Programa de Excelência em Gestão Ambiental e Segurança Operacional). The Company made expenditures of approximately US$5,628 from 2000 to December 31, 2010 under this program. During the years ended December 31, 2010 and 2009 the Company made expenditures of approximately US$325 and US$300, respectively. The Company believes that future payments related to environmental clean-up activities resulting from these incidents, if any, will not be material.

Presidente Getúlio Vargas refinery oil spill

On July 16, 2000, an oil spill occurred at the Presidente Getúlio Vargas refinery releasing crude oil in the surrounding area. The Federal and State of Paraná Prosecutors have filed a civil lawsuit against the Company seeking US$1,176 in damages, which have already been contested by the Company. Additionally, there are two other actions pending, one by the Instituto Ambiental do Paraná (Paraná Environmental Institute) and by another civil association called AMAR that have already been contested by the Company. Awaiting initiation of the expert investigation to quantify the amount. The court determined that the suits brought by AMAR and the Federal and State Prosecutors be tried as one. The maximum exposure including monetary restatement for Petrobras as of December 31, 2010 is US$91related to AMAR and US$3,471 to The Federal and State of Paraná Prosecutors.

Based on its legal counsels' advice, the Company's Administration has assessed risk of loss to be possible.

18. Commitments and Contingencies (Continued)

e) Environmental matters (Continued)

Araucária-Paranaguá pipeline rupture

On February 16, 2001, the Company's Araucária-Paranaguá pipeline ruptured and as a result fuel oil was spilled into the Sagrado, Meio, Neves and Nhundiaquara Rivers located in the state of Paraná. As a result of the accident, the Company was fined approximately US$80 by the Instituto Ambiental do Paraná (Paraná Environmental Institute), which was contested by the Company through administrative proceeding but the appeal was rejected. The court determined that the suits brought by AMAR and the Federal and State Prosecutors be tried as one. The maximum exposure including monetary restatement for Petrobras as of December 31, 2010 is US$94. Based on its legal counsels' advice, the Company's Administration has assessed risk of loss to be possible.

Oil spill related to the sinking of P-36 Platform

On March 15, 2001, a spill resulting from the accident involving the P-36 platform occurred, causing a release of diesel fuel and crude oil. According to that published on May 23, 2007, the claim was considered to have grounds, in part, to sentence Petrobras to pay the amount of US$56 (R$100 million) in damages for the damage caused to the environment, to be restated monthly and with 1% per month interest on arrears as counted from the date on which the event took place. Petrobras filed a motion for clarification, which is pending judgment. The maximum exposure including monetary restatement for Petrobras as of December 31, 2010 is US$178. Based on its legal counsels' advice, the Company has assessed risk of loss to be possible.

f) Proceedings for small amounts

The Company is involved in a number of legal and administrative proceedings with expectations of possible losses, whose total for legal nature reaches US$63 for civil actions, US$561 for labor actions, for US$674 for tax actions and US$103 for environmental actions.

19. Derivative Instruments, Hedging and Risk Management Activities

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

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

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

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

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

a) Commodity price risk management

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

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

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

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

As a result of the Company currently price risk management, the derivatives are contracted as short term operations, to mitigate the price risk of specific forecasted transactions. The operations are carried out on the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange (ICE), as well as on the international over-the-counter market.

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

a) Commodity price risk management (Continued)

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

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

The hedges settled during the period from January to December 2010 corresponded to approximately 98% of the traded volume of imports and exports to and from Brazil plus the total volume of the products traded abroad.

The main counterparts of operations for derivatives for oil and oil products are the New York Stock Exchange (NYMEX), Intercontinental Exchange (ICE), BP North America Chicago, Morgan Stanley and Shell (Stasco).

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

As of December 31, 2010, the Company had the following outstanding commodity derivative contracts that were entered into:

Commodity Contracts Maturity 2010	**Notional amount in thousands of bbl* As of December 31, 2010**
Futures and Forwards contracts	(8,216)
Options contracts	(1,679)

* A negative notional value represents a sale position.

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

b) Foreign currency risk management

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

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

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

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

The volume of hedge executed for the exports occurring between January and December 2010 represented 52.7% of the total exported by Petrobras Distribuidora. The settlements of the operations that matured between January 1 and December 31, 2010 generated a positive result for the Company of US$6.

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

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

b) Foreign currency risk management (Continued)

As of December 31, 2010, the Company had the following foreign currency derivative contracts, not designated as hedging accounting, that were entered into:

Foreign Currency	**Notional Amount**
Maturing in 2009	**US$ million**
Sell USD / Pay BRL	(8)

Cash flow hedge

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

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

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

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

b) Foreign currency risk management (Continued)

Cash flow hedge *(Continued)*

As of December 31, 2010, the Company had the following cross currency swap, which was entered into:

Cross Currency Swaps **Maturing in 2016**	**%**	**Notional Amount (Million)**
Fixed to fixed		
Average Pay Rate (USD)	5.69	US$298
Average Receive Rate (JPY)	2.15	JPY$35,000

c) Embedded derivatives

Derivatives embedded within other financial instruments or other host contracts are treated as separate derivatives when they have a price based on an underlying that is not clearly and closely related to the asset being sold or purchased. The assessment is made only at the inception of the contracts. Such derivatives are separately from the host contract and recognized at fair value with changes in fair value recognized in earnings.

Sale of ethanol

Petrobras through its subsidiary, Petrobras International Finance (PifCo), entered into a sales contract of 143,000 m³ per year of ethanol for ten years subject to renegotiation of prices and termination after the first five years. The sales price formula is based on both quotations: ethanol and naphtha.

Naphtha is an extraneous underlying to the cost and fair value of the asset being sold. The embedded derivative was bifurcated from the host contract and recognized at fair value through earnings.

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

c) Embedded derivatives (Continued)

Sale of ethanol (Continued)

The Company determined the fair value based on the difference between the spreads for naphtha and ethanol. The market quotations used in the measurement were obtained from the CBOT (Chicago Board of Trade) future market. In accordance with ASC 820, fair value was classified at level 3.

	Notional amount in thousand m^3	Fair Value	VAR	Maturity
Forward Contract				
Long position	715	U.S.$32	1	2016

d) Interest rate risk management

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

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

e) Tabular presentation of the location and amounts of derivative fair values

The effect of derivative instruments on the statement of financial position for the year ended December 31, 2010.

In millions of dollars	**Asset Derivatives**		**Liability Derivatives**	
As of December 31,	**2010**		**2010**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Codification Topic 815				
Foreign exchange contracts	Other current assets	115		-
Total		**115**		**-**
Derivatives not designated as hedging instruments under Codification Topic 815				
Foreign exchange contracts	Other current assets	2	Other payables and accruals	-
Commodity contracts	Other current assets	48	Other payables and accruals	(42)
Total		**50**		**(42)**
Total Derivatives		**165**		**(42)**

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

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

The effect of derivative instruments on the statement of financial position for the year ended December 31, 2009.

In millions of dollars	**Asset Derivatives**		**Liability Derivatives**	
As of December 31,	**2009**		**2009**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Codification Topic 815				
Foreign exchange contracts	Other current assets	65		-
Total		**65**		**-**
Derivatives not designated as hedging instruments under Codification Topic 815				
Foreign exchange contracts	Other current assets	1	Other payable and accruals	-
Commodity contracts	Other current assets	35	Other payables and accruals	(51)
Total		**36**		**(51)**
Total Derivatives		**101**		**(51)**

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

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

The effect of derivative instruments on the statement of financial position for the year ended 31, December 2010.

Derivatives in Codification Topic 815 Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) December 31, 2010	Location of Gain or (Loss) reclassified from Accumulated OCI into Income (Effective portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) December 31, 2010	Amount of Gain or (Loss) Recognized in income on derivative (Inefective Portion and Amount Excluded from Effectiveness Testing) December 31, 2009
Foreign exchange contracts	42	Financial Expenses	(44)	-
	42		**(44)**	**-**

The effect of derivative instruments on the statement of financial position for the year ended 31, December 2009.

Derivatives in Codification Topic 815 Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) December 31, 2009	Location of Gain or (Loss) reclassified from Accumulated OCI into Income (Effective portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) December 31, 2009	Amount of Gain or (Loss) Recognized in income on derivative (Inefective Portion and Amount Excluded from Effectiveness Testing) December 31, 2008
Foreign exchange contracts	9	Financial Expenses	18	-
	9		**18**	**-**

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

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

Derivatives Not Designated as Hedging Instruments under Codification Topic 815	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative December 31, 2010**
Foreign Exchange Contracts	Financial income/expenses net	**8**
Commodity contracts	Financial income/expenses net	**(7)**
Total		**1**

Derivatives Not Designated as Hedging Instruments under Codification Topic 815	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative December 31, 2009**
Foreign Exchange Contracts	Financial income/expenses net	**(32)**
Commodity contracts	Financial income/expenses net	**(150)**
Total		**(182)**

20. Financial Instruments

In the normal course of its business activities, the Company acquires various types of financial instruments.

a) Concentrations of credit risk

Substantial portions of the Company's assets including financial instruments are located in Brazil while substantially all of the Company's revenues and net income are generated in Brazil. The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, the Petroleum and Alcohol account, trade receivables and futures contracts.

The Company takes several measures to reduce its credit risk to acceptable levels. All cash and cash equivalents in Brazil are maintained with major banks. Time deposits in U.S. dollars are placed with creditworthy institutions in the United States. Additionally, all of the Company's available-for-sale securities and derivative contracts are either exchange traded or maintained with creditworthy financial institutions. The Company monitors its credit risk associated with trade receivables by routinely assessing the creditworthiness of its customers. At December 31, 2010 and December 31, 2009, the Company's trade receivables were primarily maintained with large distributors.

b) Fair value

Fair values are derived either from quoted market prices where available, or, in their absence, the present value of expected cash flows. Fair values reflect the cash that would have been either received or paid if the instruments were settled at year end in an arms length transaction between willing parties. Fair values of cash and cash equivalents, trade receivables, the Petroleum and Alcohol account, short-term debt and trade payables approximate their carrying values.

The fair values of other long-term receivables and payables do not differ materially from their carrying values.

The Company's debt including project financing obligations, resulting from Codification TOPIC 810 consolidation amounted to US$60,471, at December 31, 2010, and US$49,041 at December 31, 2009, and had estimated fair values of US$62,752 and US$48,804, respectively.

20. Financial Instruments (Continued)

b) Fair value (Continued)

The fair value hierarchy for the Company's financial assets and liabilities accounted for at fair value on a recurring basis at December 31, 2010, was:

	As of December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Marketable securities	18,557	-	-	18,557
Foreign exchange derivatives (Note 19)	-	117	-	117
Commodity derivatives (Note 19)	15	1	32	48
Total assets	18,572	118	32	18,722
Liabilities				
Commodity derivatives (Note 19)	(40)	(2)	-	(42)
Total liabilities	(40)	(2)	-	(42)

The fair value hierarchy for the Company's non financial assets and liabilities accounted for at fair value on a non-recurring basis at December 31, 2010, was:

	As of December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Long-lived assets held and used	-	-	122	122
Long-lived assets held for sale	-	32	-	32

In accordance with the provisions of ASC Topic 360, long-lived assets held and used with a carrying amount of US$465 were written down to their fair value of US$122, resulting in an impairment charge of US$352, before taxes, which was included in earnings for the period.

Long-lived assets held for sale with a carrying amount of US$82 were written down to their fair value of US$32, resulting in an impairment charge of US$50, before taxes, which was included in earnings for the period.

20. Financial Instruments (Continued)

b) Fair value (Continued)

Fair value of long lived assets is estimated based on the present value of future cash flows, resulting from the company's best estimates. Inputs used to estimate fair value were: prices based on the last strategic plan published, production curves associated with existing products in the Company's portfolio, market operating costs and investments needed for carrying out the projects.

21. Segment Information

The following segment information has been prepared in accordance with Codification Topic 280 - Disclosure about Segments of an Enterprise and Related Information ("ASC 280"). The Company operates under the following segments, which are described as follows:

a) Exploration and Production: This covers the activities of exploration, production development and production of oil, NGL and natural gas in Brazil, for the purpose of supplying, as a priority, refineries in Brazil and, also, selling on the domestic and foreign markets the surplus petroleum and byproducts produced in their natural gas processing plants.

b) Refining, Transportation & Marketing: This consists of the refining, logistics, transport and trading activities of oil and oil products, exporting of ethanol, extraction and processing of schist, as well as holding interests in companies of the petrochemical sector in Brazil.

c) Gas & Power: It covers the activities of transport and trading of natural gas produced in Brazil or imported, transport and trading of LNG, generation and trading of electric power, as well as the corporate interests in transporters and distributors of natural gas and in thermoelectric power stations in Brazil, in addition to being responsible for the fertilizer business (migration of the fertilizer business from the Supply department to Gas and Energy, pursuant to a decision of the Board of Directors on September 21, 2009).

d) Distribution: It is responsible for the distribution of oil products, ethanol and compressed natural gas in Brazil, represented by the operations of Petrobras Distribuidora.

e) International: It covers the activities for exploration and production of oil and gas, supply, gas and energy, and distribution, carried out abroad in a number of countries in the Americas, Africa, Europe and Asia.

21. Segment Information (Continued)

The items that cannot be attributed to the other departments, notably those linked to corporate financial management, the overheads related to central administration and other expenses, including actuarial expenses related to the pension and healthcare plans for retired employees and pensioners, are allocated in the corporate agencies group. The business dealings with biofuels, represented mainly by the operations of Petrobras Biocombustível are also included in this group.

The accounting information per business segment was prepared based on the assumption of controllability, for the purpose of attributing to the business departments only those items over which these departments have effective control.

In the computation of the results by business segment, transactions carried out with third parties and the transfers between the business departments are considered and they are valued by internal transfer prices defined between the departments using calculation methodologies based on market parameters.

(1) 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.

The main criteria used to record the results and assets by business segments are summarized as follows:

Net operating revenues: these were considered to be the revenues from sales to third parties, plus revenues between the business segments, based on the internal transfer prices established by the areas;

Costs and expenses includes the costs of products and services sold, calculated per business segment, based on the internal transfer price and the other operating costs of each segment, as well as operating expenses, based on the expenses actually incurred in each segment;

Financial results are allocated to the corporate group;

Assets: covers the assets relating to each segment.

21. Segment Information (Continued)

The following presents the Company's assets by segment:

	As of December 31, 2010							
	Exploration and Production	**Refining, Transportation & Marketing(1)**	**Gas & Power(1)**	**International (see separate disclosure)**	**Distribution**	**Corporate (2)**	**Eliminations**	**Total**
Current assets	3,473	16,305	2,904	3,279	4,196	39,016	(5,310)	63,863
Cash and cash equivalents	-	-	-	-	-	17,633	-	17,633
Other current assets	3,473	16,305	2,904	3,279	4,196	21,383	(5,310)	46,230
Investments in non-consolidated companies and other investments	296	3,056	813	1,078	257	812	-	6,312
Property, plant and equipment, net	129,913	46,844	24,725	9,519	2,730	4,836	-	218,567
Non-current assets	3,511	3,282	1,465	2,294	346	9,043	-	19,941
Total assets	137,193	69,487	29,907	16,170	7,529	53,707	(5,310)	308,683

(1) The segment information for 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to "Gas and Power".

(2) The assets with biofuels are included in the Corporate segment.

21. Segment Information (Continued)

	As of December 31, 2010						
	International						
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Distribution	Corporate	Eliminations	Total
Current assets	1,132	1,778	250	443	68	(392)	3,279
Investments in non-consolidated companies and other investments	713	31	152	41	141	-	1,078
Property, plant and equipment, net	8,067	1,036	256	425	136	(401)	9,519
Non-current assets	2,336	292	105	65	1,309	(1,813)	2,294
Total assets	12,248	3,137	763	974	1,654	(2,606)	16,170

21. Segment Information (Continued)

	As of December 31, 2009							
	Exploration and Production	**Refining, Transportation & Marketing (1)**	**Gas & Power (1)**	**International (see separate disclosure)**	**Distribution**	**Corporate (2)**	**Eliminations**	**Total**
Current assets	3,636	14,810	2,971	2,737	3,270	19,948	(4,728)	42,644
Cash and cash equivalents	-	-	-	-	-	16,169	-	16,169
Other current assets	3,636	14,810	2,971	2,737	3,270	3,779	(4,728)	26,475
Investments in non-consolidated companies and other investments	285	1,635	761	1,318	221	130	-	4,350
Property, plant and equipment, net	70,098	31,508	20,196	9,375	2,342	2,653	(5)	136,167
Non-current assets	3,577	2,016	1,433	1,484	294	8,467	(162)	17,109
Total assets	77,596	49,969	25,361	14,914	6,127	31,198	(4,895)	200,270

(1) The segment information for 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to "Gas and Power".

(2) The assets with biofuels are included in the Corporate segment.

21. Segment Information (Continued)

	As of December 31, 2009						
	International						
	Exploration and Production	Refining Transportation & Marketing	Gas and Power	Distribution	Corporate	Eliminations	Total
Current assets	1,004	1,400	231	292	198	(388)	2,737
Investments in non-consolidated companies and other investments	833	37	160	38	250	-	1,318
Property, plant and equipment, net	7,961	1,105	271	249	132	(343)	9,375
Non-current assets	1,581	271	107	71	1,278	(1,824)	1,484
Total assets	11,379	2,813	769	650	1,858	(2,555)	14,914

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21. Segment Information (Continued)

Revenues and net income by segment are as follows:

	Year ended December 31, 2010							
	Exploration and Production	Refining, Transportation & Marketing (1)	Gas & Power (1)	International (see separate disclosure)	Distribution	Corporate (2)	Eliminations	Total
Net operating revenues from third parties	242	64,991	7,482	10,724	36,613	-	-	120,052
Inter-segment net operating revenues	54,042	32,549	1,025	2,739	695	-	(91,050)	-
Net operating revenues	54,284	97,540	8,507	13,463	37,308	-	(91,050)	120,052
Cost of sales	(20,525)	(90,380)	(5,964)	(9,759)	(34,091)	-	90,025	(70,694)
Depreciation, depletion and amortization	(5,757)	(946)	(477)	(861)	(203)	(241)	(22)	(8,507)
Exploration, including exploratory dry holes	(1,277)	-	-	(704)	-	-	-	(1,981)
Impairment	(346)	-	-	(56)	-	-	-	(402)
Selling, general and administrative expenses	(436)	(2,981)	(854)	(807)	(1,861)	(2,235)	197	(8,977)
Research and development expenses	(437)	(212)	(73)	(1)	(5)	(265)	-	(993)
Employee benefit expense	-	-	-	-	-	(752)	-	(752)
Other operating expenses	(863)	(842)	(257)	(185)	(50)	(1,464)	73	(3,588)
Costs and expenses	(29,641)	(95,361)	(7,625)	(12,373)	(36,210)	(4,957)	90,273	(95,894)
Operating income (loss)	24,643	2,179	882	1,090	1,098	(4,957)	(777)	24,158
Equity in results of non-consolidated companies	106	155	159	(1)	-	(6)	-	413
Financial income (expenses), net	-	-	-	-	-	1,701	-	1,701
Other taxes	(134)	(70)	(31)	(119)	(17)	(151)	(1)	(523)
Other expenses, net	(59)	14	4	106	20	(3)	-	82
Income (loss) before income taxes	24,556	2,278	1,014	1,076	1,101	(3,416)	(778)	25,831

Income tax benefits (expense)	(8,313)	(722)	(291)	(238)	(374)	3,317	265	(6,356)
Net income (loss) for the year	16,243	1,556	723	838	727	(99)	(513)	19,475
Less: Net income (loss) attributable to the noncontrolling interest	108	(17)	11	(39)	-	(354)	-	(291)
Net income (loss) attributable to Petrobras	16,351	1,539	734	799	727	(453)	(513)	19,184

(1) The segment information for 2008, 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to "Gas and Power".

(2) The results with biofuels are included in the Corporate segment.

21. Segment Information (Continued)

	Year ended December 31, 2010						
	International						
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Distribution	Corporate	Eliminations	Total
Net operating revenues from third parties	720	5,401	484	4,095	-	24	10,724
Inter-segment net operating revenues	2,993	2,087	39	33	-	(2,413)	2,739
Net operating revenues	3,713	7,488	523	4,128	-	(2,389)	13,463
Cost of sales	(928)	(6,961)	(417)	(3,834)	-	2,381	(9,759)
Depreciation, depletion and amortization	(718)	(70)	(19)	(27)	(27)	-	(861)
Exploration, including exploratory dry holes	(704)	-	-	-	-	-	(704)
Impairment	(6)	(50)	-	-	-	-	(56)
Selling, general and administrative expenses	(155)	(140)	(9)	(263)	(243)	3	(807)
Research and development expenses	-	-	-	-	(1)	-	(1)
Employee benefit expense	-	-	-	-	-	-	-
Other operating expenses	(7)	(252)	7	10	60	(3)	(185)
Costs and expenses	(2,518)	(7,473)	(438)	(4,114)	(211)	2,381	(12,373)
Operating income (loss)	1,195	15	85	14	(211)	(8)	1,090
Equity in results of non-consolidated companies	(4)	3	(2)	9	(7)	-	(1)
Other taxes	(76)	(3)	(1)	(3)	(36)	-	(119)
Other expenses, net	53	34	-	(5)	19	5	106
Income (loss) before income taxes	1,168	49	82	15	(235)	(3)	1,076
Income tax benefits (expense)	(306)	(6)	2	(8)	80	-	(238)
Net income (loss) for the year	862	43	84	7	(155)	(3)	838

Less: Net income (loss) attributable to the noncontrolling interest	-	-	(1)	-	(38)	-	(39)
Net income (loss) attributable to Petrobras	862	43	83	7	(193)	(3)	799

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21. Segment Information (Continued)

	Year ended December 31, 2009							
	Exploration and Production	Refining, Transportation & Marketing (1)	Gas & Power (1)	International (see separate disclosure)	Distribution	Corporate (2)	Eliminations	Total
Net operating revenues from third parties	476	48,768	5,085	8,469	29,071	-	-	91,869
Inter-segment net operating revenues	38,301	25,539	881	1,728	601	-	(67,050)	-
Net operating revenues	38,777	74,307	5,966	10,197	29,672	-	(67,050)	91,869
Cost of sales	(16,329)	(60,374)	(4,238)	(7,437)	(27,030)	-	66,157	(49,251)
Depreciation, depletion and amortization	(4,344)	(1,213)	(398)	(870)	(176)	(187)	-	(7,188)
Exploration, including exploratory dry holes	(1,199)	-	-	(503)	-	-	-	(1,702)
Impairment	(319)	-	-	-	-	-	-	(319)
Selling, general and administrative expenses	(322)	(2,364)	(421)	(731)	(1,490)	(1,894)	202	(7,020)
Research and development expenses	(254)	(164)	(31)	(2)	(5)	(225)	-	(681)
Employee benefit expense	-	-	-	-	-	(719)	-	(719)
Other operating expenses	(1,293)	(424)	(482)	(146)	-	(792)	17	(3,120)
Costs and expenses	(24,060)	(64,539)	(5,570)	(9,689)	(28,701)	(3,817)	66,376	(70,000)
Operating income (loss)	14,717	9,768	396	508	971	(3,817)	(674)	21,869
Equity in results of non-consolidated companies	(4)	53	122	(16)	-	2	-	157
Financial income (expenses), net	-	-	-	-	-	429	-	429
Other taxes	(57)	(46)	(13)	(77)	(13)	(126)	(1)	(333)
Other expenses, net	(68)	205	(9)	(183)	2	(8)	-	(61)
Income (loss) before income taxes	14,588	9,980	496	232	960	(3,520)	(675)	22,061
Income tax benefits (expense)	(4,961)	(3,375)	(128)	(319)	(326)	3,642	229	(5,238)

Net income (loss) for the year	9,627	6,605	368	(87)	634	122	(446)	16,823
Less: Net income (loss) attributable to the noncontrolling interest	56	(42)	(28)	(67)	-	(1,238)	-	(1,319)
Net income (loss) attributable to Petrobras	9,683	6,563	340	(154)	634	(1,116)	(446)	15,504

(1) The segment information for 2008, 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to "Gas and Power".

(2) The results with biofuels are included in the Corporate segment.

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21. Segment Information (Continued)

	Year ended December 31, 2009						
	International						
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Distribution	Corporate	Eliminations	Total
Net operating revenues from third parties	824	4,484	390	2,740	11	20	8,469
Inter-segment net operating revenues	2,119	1,454	51	44	5	(1,945)	1,728
Net operating revenues	2,943	5,938	441	2,784	16	(1,925)	10,197
Cost of sales	(899)	(5,588)	(334)	(2,546)	(3)	1,933	(7,437)
Depreciation, depletion and amortization	(721)	(86)	(15)	(26)	(22)	-	(870)
Exploration, including exploratory dry holes	(508)	-	-	-	-	5	(503)
Impairment							
Selling, general and administrative expenses	(143)	(151)	(14)	(195)	(228)	-	(731)
Research and development expenses	-	-		-	(2)	-	(2)
Other operating expenses	(7)	(177)	6	14	10	8	(146)
Costs and expenses	(2,278)	(6,002)	(357)	(2,753)	(245)	1,946	(9,689)
Operating income (loss)	665	(64)	84	31	(229)	21	508
Equity in results of non-consolidated companies	(24)	11	3	9	(15)	-	(16)
Other taxes	(17)	(3)	(1)	(1)	(55)	-	(77)
Other expenses, net	(30)	(157)	-	2	2	-	(183)
Income (loss) before income taxes	594	(213)	86	41	(297)	21	232
Income tax benefits (expense)	(190)	80	(1)	(9)	(199)	-	(319)
Net income (loss) for the year	404	(133)	85	32	(496)	21	(87)
Less: Net income (loss) attributable to the noncontrolling interest	(7)	9	(1)	-	(68)	-	(67)
Net income (loss) attributable to Petrobras	397	(124)	84	32	(564)	21	(154)

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21. Segment Information (Continued)

Revenues and net income by segment are as follows:

	Year ended December 31, 2008							
	Exploration and Production	**Refining Transportation & Marketing (1)**	**Gas & Power (1)**	**International (see separate disclosure)**	**Distribution**	**Corporate(2)**	**Eliminations**	**Total**
Net operating revenues from third parties	973	68,787	8,158	10,024	30,315	-	-	118,257
Inter-segment net operating revenues	58,051	26,872	1,187	916	577	-	(87,603)	-
Net operating revenues	59,024	95,659	9,345	10,940	30,892	-	(87,603)	118,257
Cost of sales	(21,130)	(94,222)	(8,061)	(8,735)	(28,317)	-	87,600	(72,865)
Depreciation, depletion and amortization	(3,544)	(1,109)	(367)	(564)	(165)	(179)	-	(5,928)
Exploration, including exploratory dry holes	(1,303)	-	-	(472)	-	-	-	(1,775)
Impairment	(171)	-	-	(348)	-	-	-	(519)
Selling, general and administrative expenses	(419)	(2,462)	(507)	(788)	(1,425)	(1,972)	144	(7,429)
Research and development expenses	(494)	(151)	(40)	(3)	(8)	(245)	-	(941)
Employee benefit expense	-	-	-	-	-	(841)	-	(841)
Other operating expenses	(117)	(268)	(663)	(473)	(90)	(1,054)	-	(2,665)
Costs and expenses	(27,178)	(98,212)	(9,638)	(11,383)	(30,005)	(4,291)	87,744	(92,963)
Operating income (loss)	31,846	(2,553)	(293)	(443)	887	(4,291)	141	25,294
Equity in results of non-consolidated companies	-	(245)	103	71	49	1	-	(21)
Financial income (expenses), net	-	-	-	-	-	2,377	-	2,377
Other taxes	(37)	(64)	(53)	(126)	(11)	(142)	-	(433)
Other expenses, net	(152)	(155)	(200)	(107)	320	69	-	(225)
Income (loss) before income taxes and minority interest	31,657	(3,017)	(443)	(605)	1,245	(1,986)	141	26,992
	(10,764)	943	184	(213)	(406)	1,045	(48)	(9,259)

Income tax benefits (expense)								
Net income (loss) for the year	20,893	(2,074)	(259)	(818)	839	(941)	93	17,733
Less: Net income (loss) attributable to the noncontrolling interest	138	38	76	10	-	884	-	1,146
Net income (loss) attributable to Petrobras	21,031	(2,036)	(183)	(808)	839	(57)	93	18,879

(1) The segment information for 2008, 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to "Gas and Power",

(2) The results with biofuels are included in the Corporate segment.

21. Segment Information (Continued)

	Year ended December 31, 2008						
	International						
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Distribution	Corporate	Eliminations	Total
Net operating revenues from third parties	1,383	5,611	424	2,604	2	-	10,024
Inter-segment net operating revenues	1,458	1,702	49	72	-	(2,365)	916
Net operating revenues	2,841	7,313	473	2,676	2	(2,365)	10,940
Cost of sales	(901)	(7,341)	(350)	(2,512)	(4)	2,373	(8,735)
Depreciation, depletion and amortization	(419)	(83)	(15)	(22)	(25)	-	(564)
Exploration, including exploratory dry holes	(472)	-	-	-	-	-	(472)
Impairment	(123)	(223)	-	(2)	-	-	(348)
Selling, general and administrative expenses	(197)	(162)	(25)	(132)	(272)	-	(788)
Research and development expenses	-	-	-	-	(3)	-	(3)
Other operating expenses	(170)	(280)	24	5	(52)	-	(473)
Costs and expenses	(2,282)	(8,089)	(366)	(2,663)	(356)	2,373	(11,383)
Operating income (loss)	559	(776)	107	13	(354)	8	(443)
Equity in results of non-consolidated companies	41	(1)	9	-	22	-	71
Other taxes	(18)	(1)	(1)	(2)	(104)	-	(126)
Other expenses, net	(87)	(2)	1	-	(19)	-	(107)
Income (loss) before income taxes	495	(780)	116	11	(455)	8	(605)
Income tax benefits (expense)	(267)	(30)	(2)	(1)	87	-	(213)
Net income (loss) for the year	228	(810)	114	10	(368)	8	(818)
Less: Net income (loss) attributable to the noncontrolling interest	(132)	161	(32)	2	11	-	10
Net income (loss) attributable to Petrobras	96	(649)	82	12	(357)	8	(808)

21. Segment Information (Continued)

Capital expenditures incurred by segment for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Year ended December 31,		
	2010	**2009**	**2008**
Exploration and Production	**22,222**	16,488	14,293
Refining, Transportation & Marketing	**15,356**	10,466	7,234
Gas & Power	**4,099**	5,116	4,256
International			
Exploration and Production	**2,012**	1,912	2,734
Refining, Transportation & Marketing	**90**	110	102
Distribution	**52**	31	20
Gas & Power	**13**	58	52
Distribution	**482**	369	309
Corporate	**752**	584	874
	45,078	35,134	29,874

The Company's gross sales, classified by geographic destination, are as follows:

	Year ended December 31,		
	2010	**2009**	**2008**
Brazil	**111,192**	87,183	106,350
International	**39,660**	28,709	40,179
	150,852	115,892	146,529

The total amounts sold of products and services to the two major customers in 2010 were US$8,867 and US$4,018 (US$6,801 and US$2,815 in 2009; and US$8,176 and US$5,260 in 2008).

22. Related Party Transactions

The Company is controlled by the Federal Government and has numerous transactions with other state-owned companies in the ordinary course of its business.

Transactions with major related parties resulted in the following balances:

	As of December 31,			
	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Petros (pension fund)	**-**	**180**	-	428
Banco do Brasil S.A.	**3,037**	**5,650**	847	4,167
BNDES	**2**	**21,570**	1	20,016
Caixa Econômica Federal S.A.	**1**	**3,398**	-	2,270
Federal Government	**-**	**671**	-	323
ANP	**-**	**1,541**	-	759
Restricted deposits for legal proceedings	**1,480**	**-**	983	36
Marketable Securities	**18,665**	**-**	6,529	-
Petroleum and Alcohol account receivable from Federal Government (Note 11)	**493**	**-**	469	-
Electricity Sector	**1,887**	**-**	1,153	-
Affiliated Companies	**183**	**87**	546	95
Other	**120**	**239**	(538)	223
	25,868	**33,336**	9,990	28,317
Current	**20,678**	**5,004**	5,964	2,897
Non-Current	**5,190**	**28,332**	4,026	25,420

22. Related Party Transactions

Debt of the electricity sector

The Company has receivables from the electricity sector related to the supplying of fuel to thermoelectric power stations located in the north region of Brazil. Part of the cost of supplying fuel to the thermoelectric power stations is supported by the funds of the Fuel Consumption Account (CCC) - Isolated Systems, the management of which is legally under the jurisdiction of Eletrobrás.

The Company also supplies fuel to Independent Power Producers (PIE), companies created for the purpose of producing power exclusively for Amazônia Distribuidora's. A. (ADESA), a direct subsidiary of Eletrobrás, whose payments for supplying fuel depend directly on the forwarding of funds from ADESA to these Independent Power Producers.

The balance of the receivables at December 31, 2010 was U.S.$1,887 (U.S.$ 1,153 at December 31, 2009), presented in non-current assets and classified as receivables from related parties of which US$1,424 was overdue.

The Company has made systematic collections from the debtors and Eletrobrás, and partial payments have been made.

22. Related Party Transactions (Continued)

These balances are included in the following balance sheet classifications:

	As of December 31,			
	2010		2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Assets				
Current				
Cash and cash equivalents	**3,246**	**-**	4,800	-
Accounts receivable	**2,028**	**-**	863	-
Marketable securities	**15,320**	**-**	-	-
Other current assets	**84**	**-**	301	-
Non-Current				
Marketable securities	**3,107**	**-**	2,508	-
Petroleum and Alcohol account - receivable from Federal Government (Note 11)	**493**	**-**	469	-
Restricted deposits for legal proceedings	**1,481**	**-**	983	-
Other assets	**109**	**-**	66	-
Liabilities				
Current				
Current debt	**-**	**2,167**	-	1,093
Current liabilities	**-**	**1,879**	-	1,075
Dividends and interest on capital payable to Federal Government	**-**	**958**	-	729
Long-term				
Long-term debt	**-**	**28,258**	-	24,762
Other liabilities	**-**	**74**	-	658
	25,868	**33,336**	9,990	28,317

22. Related Party Transactions (Continued)

The principal amounts of business and financial operations carried out with related parties are as follows:

	Year ended December 31,					
	2010		**2009**		**2008**	
	Income	**Expense**	**Income**	**Expense**	**Income**	**Expense**
Sales of products and services						
Braskem S.A.	**2,848**		515	-	130	-
Quattor Química	**1,477**		264	-	-	-
Copesul S.A.	**-**		-	-	1,218	-
Petroquímica União S.A.	**-**		633	-	729	-
Other	**856**		1,507	-	378	-
Financial income with:						
Petroleum and Alcohol account receivable from Federal Government (Note 11)	**4**		4	-	8	-
Marketable securities	**(204)**		(184)	-	3	-
Other	**280**	**9**	111	49	(20)	-
Financial expenses	**-**	**382**	-	(2)	-	-
Other expenses, net	**1**	**-**	-	-	-	4
	5,262	**391**	2,850	47	2,446	4

23. Accounting for Suspended Exploratory Wells

The Company's accounting for exploratory drilling costs is governed by Codification Topic 932 Extractive Activities Oil and Gas. Costs the Company has incurred to drill exploratory wells that find commercial quantities of oil and gas are carried as assets on its balance sheet under the classification "Property, plant and equipment" as unproved oil and gas properties. Each year, the Company writes-off the costs of these wells that have not found sufficient proved reserves to justify completion as a producing well, unless: (1) the well is in an area requiring major capital expenditure before production can begin; and (2) additional exploratory drilling is under way or firmly planned to determine whether the capital expenditure is justified.

As of December 31, 2010, the total amount of unproved oil and gas properties was US$7,846, and of that amount US$4,838 (US$2,911 of which related to projects in Brazil) represented costs that had been capitalized for more than one year, which generally are a result of: (1) extended exploratory activities associated with offshore production; and (2) the transitory effects of deregulation in the Brazilian oil and gas industry, as described below.

In 1998, the Company's government-granted monopoly ended and the Company signed concession contracts with the Agência Nacional de Petróleo (National Petroleum Agency, or ANP) for all of the areas the Company had been exploring and developing prior to 1998, which consisted of 397 concession block. Since 1998, the ANP has conducted competitive bidding rounds for exploration rights, which has allowed the Company to acquire additional concession blocks. After a concession block is found to contain a successful exploratory well, the Company must submit an "Evaluation Plan" to the ANP for approval. This Evaluation Plan details the drilling plans for additional exploratory wells. An Evaluation Plan is only submitted for those concession areas where technical and economic feasibility analyses on existing exploration wells evidence justification for completion of such wells. Until the ANP approves the Evaluation Plan, the drilling of additional exploratory wells cannot commence. If companies do not find commercial quantities of oil and gas within a specific time period, generally 4-6 years depending on the characteristics of the exploration area, then the concession block must be relinquished and returned to the ANP. Because the Company was required to assess a large volume of concession blocks in a limited time frame even when an exploratory well has found sufficient reserves to justify completion and additional wells are firmly planned, finite resources and expiring time frames in other concession blocks have dictated the timing of the planned additional drilling.

23. Accounting for Suspended Exploratory Wells (Continued)

The following table shows the net changes in capitalized exploratory drilling costs during the years ended December 31, 2010 and 2009:

Unproved oil and gas properties (*)

	Year ended December, 31	
	2010	**2009**
Beginning balance at January 1	5,902	3,558
Additions to capitalized costs pending determination of proved reserves	4,560	3,383
Capitalized exploratory costs charged to expense	(1,201)	(1,251)
Transfers to property, plant and equipment based on the determination of the proved reserves	(1,659)	(613)
Cumulative translation adjustment	244	825
Ending balance at December 31,	7,846	5,902

(*) Amounts capitalized and subsequently expensed in the same period have been excluded from the above table.

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of the drilling:

Aging of capitalized exploratory well costs

	Year ended December 31,	
	2010	**2009**
Capitalized exploratory well costs that have been capitalized for a period of one year or less	**3,008**	2,092
Capitalized exploratory well costs that have been capitalized for a period greater than one year	**4,838**	3,810
Ending balance	**7,846**	5,902
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	**84**	95

23. Accounting for Suspended Exploratory Wells (Continued)

Of the US$4,838 for 84 projects that include wells suspended for more than one year since the completion of drilling, approximately US$1,243 are related to wells in areas for which drilling was under way or firmly planned for the near future and that the Company has submitted an "Evaluation Plan" to the ANP for approval and approximately US$2,416 incurred in costs for activities necessary to assess the reserves and their potential development.

The US$ 4,838 of suspended wells cost capitalized for a period greater than one year as of December 31, 2010, represents 150 exploratory wells and the table below contains the aging of these costs on a well basis:

Aging based on drilling completion date of individual wells:

	Million of dollars	**Number of wells**
2009	2,005	80
2008	1,428	38
2007	372	11
2006	840	6
2005 and therefore	193	15
	4,838	150

24. Subsequent Events

Raising of funds for PifCo

On January 27, 2011, the Petrobras International Finance Company (PifCo) concluded the issuing of US$6 billion in Global Notes on the international capital market, with maturity on January 27, 2016, 2021 and 2041, interest rates of 3.875%, 5.375% and 6.750% p.a., respectively, and half-yearly payment of interest as from July 27, 2011.The capital raised will be used for corporate purposes and the financing of the investments established in the 2010-2014 Business Plan , and an appropriate capital structure and the level of financial leverage will be maintained in line with the Company's goals.

This financing had issuing costs estimated at approximately US$18, a discount of US$21 and effective interest rates of 4.01%, 5.44% and 6.84% p.a., respectively, Global Notes constitute unsecured, unsubordinated obligations for PifCo and have the complete, unconditional guarantee of Petrobras.

Purchase option for Companhia Mexilhão do Brasil (CMB) - Project Mexilhão

On January 12, 2011, Petrobras exercised its purchase option for the shares of SPE Companhia Mexilhão do Brasil and now guarantees the financing taken out by the SPE from BNDES (National Bank of Economic and Social Development).

Merger of Comperj Petroquímicos Básicos S.A. (UPB) and Comperj PET S,A, (PET) into Petrobras

On January 31, 2011, the General Shareholders' Meeting of Petrobras approved the merger of Comperj Petroquímicos Básicos S.A. and Comperj PET S.A. into its equity, without a capital increase. With the merger of these companies, the corporate structure of Comperj will be simplified, minimizing costs and favoring reallocation of investments.

Special participation in the Albacora, Carapeba, Cherne, Espadarte, Marimbá, Marlim, Marlim Sul, Namorado, Pampo and Roncador Fields- Campos Basin

This special participation was established by Brazilian Petroleum Law 9478/97 and is paid as a form of compensation for oil production activities and is levied on high volume production fields. The method used by Petrobras to calculate the special participation due for the abovementioned fields is based on a legally legitimate interpretation of Ordinance 10 of January 14, 1999, approved by the National Petroleum Agency (ANP).

24. Subsequent Events (Continued)

Special participation in the Albacora, Carapeba, Cherne, Espadarte, Marimbá, Marlim, Marlim Sul, Namorado, Pampo and Roncador Fields- Campos Basin (Continued)

Petrobras received notice from ANP, which instituted an administrative process and established payment of new sums of money considered to be owed for the period between the first quarter of 2005 and the first quarter of 2010, referring to amounts that had been underpaid by the concessionaire, totaling R$ 365 (principal, without fine and interest).

On February 22, 2011, Petrobras filed for a hearing for dismissal of the aforementioned official notification. If ANP's administrative decision is maintained, Petrobras shall evaluate the possibility of a court suit to suspend and annul the collection of the differences of the special participation.

If the ANP's administrative decision is maintained, Petrobras would consider legal action to suspend and cancel the charge of the differences of the special participation.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION AND

PRODUCTION (UNAUDITED)

Expressed in Millions of United States Dollars

(except when specifically indicated)

In accordance with Codification Topic 932 - Extractive Activities Oil and Gas, this section provides supplemental information on oil and gas exploration and producing activities of the Company. The information included in items (i) through (iii) provides historical cost information pertaining to costs incurred in exploration, property acquisitions and development, capitalized costs and results of operations. The information included in items (iv) and (v) present information on Petrobras estimated net proved reserve quantities, standardized measure of estimated discounted future net cash flows related to proved reserves, and changes in estimated discounted future net cash flows.

Beginning in 1995, the Federal Government of Brazil undertook a comprehensive reform of the country's oil and gas regulatory system. On November 9, 1995, the Brazilian Constitution was amended to authorize the Federal Government to contract with any state or privately-owned company to carry out the activities related to the upstream and downstream segments of the Brazilian oil and gas sector. This amendment eliminated Petrobras effective monopoly. The amendment was implemented by the Oil Law, which liberated the fuel market in Brazil beginning January 1, 2002.

The Oil Law established a regulatory framework ending Petrobra's exclusive agency and enabling competition in all aspects of the oil and gas industry in Brazil. As provided in the Oil Law, Petrobras was granted the exclusive right for a period of 27 years to exploit the petroleum reserves in all fields where the Company had previously commenced production. However, the Oil Law established a procedural framework for Petrobras to claim exclusive exploratory (and, in case of success, development) rights for a period of up to three years with respect to areas where the Company could demonstrate that it had "established prospects". To perfect its claim to explore and develop these areas, the Company had to demonstrate that it had the requisite financial capacity to carry out these activities, alone or through financing or partnering arrangements.

The adoption of the SEC rules seeking to modernize the supplemental oil and gas disclosures and the FASB's issuance of the Accounting Standards Update nº 2010-03, "Oil and Gas Reserve Estimation and Disclosure", generated no material impact to the Company's consolidated financial statements other than additional disclosures as discussed in the Note 2(n).

The "International" geographic area includes activities in South America, which includes Argentina, Colombia, Ecuador, Peru, Uruguai and Venezuela; North America, which includes Mexico and the United States of America; Africa, which includes Angola, Lybia, Namibia, Nigeria, and Tanzania, and Others, which includes India, Iran, Portugal, Cuba, New Zealand, Australia and Turkey. The equity investments are composed of Venezuelan companies involved in exploration and production activities.

(i) Capitalized costs relating to oil and gas producing activities

The following table summarizes capitalized costs for oil and gas exploration and production activities with the related accumulated depreciation, depletion and amortization, and asset retirement obligation assets:

								Equity Method Investees
	Consolidated Entities							
December 31, 2010	**Brazil**	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
Unproved oil and gas properties (*)	49,282	333	1,525	571	2	2,431	51,713	-
Proved oil and gas properties	35,506	3,288	1,779	2,850	11	7,928	43,434	338
Support equipments	52,408	1,142	-	39	14	1,195	53,603	1
Gross capitalized costs	137,196	4,763	3,304	3,460	27	11,554	148,750	339
Depreciation and depletion	(40,774)	(2,556)	(408)	(751)	(2)	(3,717)	(44,491)	(113)
	96,422	2,207	2,896	2,709	25	7,837	104,259	-
Construction and installations in progress	33,491	5	-	-	-	5	33,496	226
Net capitalized costs	129,913	2,212	2,896	2,709	25	7,842	137,755	226
December 31, 2009								
Unproved oil and gas properties	3,976	75	1,224	621	7	1,927	5,903	-
Proved oil and gas properties	28,397	3,369	1,133	2,480	-	6,982	35,379	730
Support equipments	44,433	1,151	-	186	78	1,416	45,849	1
Gross capitalized costs	76,806	4,595	2,357	3,287	85	10,325	87,131	731
Depreciation and depletion	(34,372)	(2,996)	(294)	(425)	(1)	(3,716)	(38,088)	(137)
	42,434	1,599	2,063	2,862	84	6,609	49,043	594
Construction and installations in progress	27,664	9	-	-	596	605	28,269	-
Net capitalized costs	70,098	1,608	2,063	2,862	680	7,214	77,312	594

(*) Includes US$43,868 related to the Assigment Agreement.

(ii) Costs incurred in oil and gas property acquisition, exploration and development activities

Costs incurred are summarized below and include both amounts expensed and capitalized:

	Consolidated Entities							Equity Method Investees
	Brazil	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
At December 31, 2010								
Properties acquisitions:								
Proved	-	19	-	(67)	-	(48)	(48)	4
Unproved (*)	43,868	-	-	33	-	33	43,901	-
Exploration costs	4,180	187	53	91	833	1,164	5,344	1
Development costs	14,546	428	812	193	-	1,433	15,979	31
	62,594	634	865	250	833	2,582	65,176	36
At December 31, 2009								
Properties acquisitions:								
Proved	-	24	-	65	-	89	89	5
Unproved	9	-	-	2	-	2	11	-
Exploration costs	3,616	199	64	96	157	516	4,132	-
Development costs	13,524	319	571	307	-	1,197	14,721	83
	17,149	**542**	**635**	**470**	**157**	**1,804**	**18,953**	**88**
At December 31, 2008								
Properties acquisitions:								
Proved	-	226	-	23	-	249	249	-
Unproved	42	27	254	18	5	304	346	-
Exploration costs	3,568	145	217	1	2	365	3,933	-
Development costs	11,633	557	288	549	194	1,588	13,221	-
	15,243	955	759	591	201	2,506	17,749	71

(*) Includes US$43,868 related to the Assigment Agreement.

(iii) Results of operations for oil and gas producing activities

The Company's results of operations from oil and gas producing activities for the years ended December 31, 2010, 2009 and 2008 are shown in the following table. The Company transfers substantially all of its Brazilian crude oil and gas production to the Refining, Transportation & Marketing segment in Brazil. The prices calculated by the Company's model may not be indicative of the price the Company would have realized had this production been sold in an unregulated spot market. Additionally, the prices calculated by the Company's model may not be indicative of the future prices to be realized by the Company, Gas prices used are contracted prices to third parties.

Production costs are lifting costs incurred to operate and maintain productive wells and related equipment and facilities, including such costs as operating labor, materials, supplies, fuel consumed in operations and the costs of operating natural liquid gas plants. Production costs also include administrative expenses and depreciation and amortization of equipment associated with production activities.

(iii) Results of operations for oil and gas producing activities (Continued)

Exploration expenses include the costs of geological and geophysical activities and non-productive exploratory wells. Depreciation and amortization expenses relate to assets employed in exploration and development activities. In accordance with Codification Topic 932 -Extractive Activities- Oil and Gas, income taxes are based on statutory tax rates, reflecting allowable deductions. Interest income and expense are excluded from the results reported in this table.

	Consolidated Entities							Equity Method Investees
At December 31, 2010	**Brazil**	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
Net operation revenues:								
Sales to third parties	242	791	7	(4)	-	794	1,036	99
Intersegment (1)	54,042	1,283	56	1,633	-	2,972	57,014	21
	54,284	2,074	63	1,629	-	3,766	58,050	120
Production costs (2)	(20,525)	(844)	(33)	(89)	-	(966)	(21,491)	(38)
Exploration expenses	(1,277)	(82)	(59)	(294)	(189)	(623)	(1,900)	(1)
Depreciation, depletion and amortization	(5,757)	(366)	(31)	(320)	(1)	(718)	(6,475)	(84)
Impairment of oil and gas properties	(346)	(6)	-	-	-	(6)	(352)	-
Others operating expenses	(863)	51	7	2	(24)	36	(827)	-
Results before income tax expenses	25,516	828	(54)	928	(214)	1,489	27,005	(2)
Income tax expenses	(8,675)	(139)	-	(163)	-	(302)	(8,978)	(21)
Results of operations (excluding corporate overhead and interest cost)	16,841	689	(54)	765	(214)	1,186	18,027	(23)

(1) Does not consider US$998 (US$1,181 for 2009 and US$3,067 for 2008) related to field processing activities, for which Petrobras has no attributable quantity of reserve. The amount, which relates principally to dry gas volumes, is considered in Petrobras net operating revenues of US$54,284 (US$38,777 for 2009 and US$59,024 for 2008) for the segment of E&P Brazil (see Note 21).

(2) Does not consider US$1,081 (US$1,282 for 2009 and US$3,111 for 2008) related to field processing activities, for which Petrobras has no attributable quantity of reserve. The amount, which relates principally to dry gas volumes, is considered in Petrobras cost of sales of US$20,525 (US$16,329 for 2009 and US$21,130 for 2008) for the segment of E&P Brazil (see Note 21).

(iii) Results of operations for oil and gas producing activities (Continued)

	Consolidated Entities							Equity Method Investees
At December 31, 2009	**Brazil**	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
Net operation revenues:								
Sales to third parties	476	641	64	140	-	845	1,321	213
Intersegment (1)	37,120	1,146	-	957	-	2,103	39,223	18
	37,596	1,787	64	1,097	-	2,948	40,544	231
Production costs (2)	(15,047)	(689)	(36)	(185)	-	(910)	(15,957)	(126)
Exploration expenses	(1,199)	(198)	(49)	(189)	(71)	(507)	(1,706)	-
Depreciation, depletion and amortization	(4,344)	(383)	(37)	(299)	(1)	(720)	(5,064)	(120)
Impairment of oil and gas properties	(319)	-	-	-	-	-	(319)	-
Others operating expenses	(1,293)	(19)	-	9	2	(8)	(1,301)	-
Results before income tax expenses	15,394	498	(58)	433	(70)	803	16,197	(15)
Income tax expenses	(5,200)	(116)	(0)	(69)	-	(185)	(5,385)	(12)
Results of operations (excluding corporate overhead and interest cost)	10,194	382	(58)	364	(70)	618	10,812	(27)
At December 31, 2008								
Net operation revenues:								
Sales to third parties	973	1,152	139	91	-	1,382	2,355	-
Intersegment (1)	54,983	1,403	-	55	-	1,458	56,441	-
	55,956	2,555	139	146	-	2,840	58,796	-
Production costs (2)	(18,019)	(836)	(42)	(23)	-	(901)	(18,920)	-
Exploration expenses	(1,303)	(141)	(106)	(128)	(97)	(472)	(1,775)	-
Depreciation, depletion and amortization	(3,544)	(357)	(35)	(27)	-	(419)	(3,963)	-
Impairment of oil and gas properties	(171)	(5)	(115)	(3)	-	(123)	(294)	-
Others operating expenses	(117)	(181)	-	9	-	(172)	(289)	-
Results before income tax expenses	32,802	1,035	(159)	(26)	(97)	753	33,555	-
Income tax expenses	(11,153)	(265)	(13)	12	-	(266)	(11,419)	-

Results of operations (excluding corporate overhead and interest cost)	21,649	770	(172)	(14)	(97)	487	22,136	47

(1) Does not consider US$998 (US$1,181 for 2009 and US$3,067 for 2008) related to field processing activities, for which Petrobras has no attributable quantity of reserve. The amount, which relates principally to dry gas volumes, is considered in Petrobras net operating revenues of US$54,284 (US$38,777 for 2009 and US$59,024 for 2008) for the segment of E&P Brazil (see Note 21).

(2) Does not consider US$1,081 (US$1,282 for 2009 and US$3,111 for 2008) related to field processing activities, for which Petrobras has no attributable quantity of reserve. The amount, which relates principally to dry gas volumes, is considered in Petrobras cost of sales of US$20,525 (US$16,329 for 2009 and US$21,130 for 2008) for the segment of E&P Brazil (see Note 21).

iv) Reserve quantities information

The Company's estimated net proved oil and gas reserves and changes thereto for the years 2010, 2009 and 2008 are shown in the following table. Proved reserves are estimated by the Company's reservoir engineers in accordance with the reserve definitions prescribed by the Securities and Exchange Commission.

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 prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

Developed oil and gas reserves are reserves of any category 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.

In some cases, substantial new investments in additional wells and related facilities will be required to recover these proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

Bolivian proved reserves were not classified as such in 2009 due to the new Bolivian Constitution, which restrict the disclosure of estimated reserves for properties under its authority. The initial balance of Bolivian proved reserves for 2009 is adjusted under the line item "Revisions of previous estimates".

(iv) Reserve quantities information (Continued)

A summary of the annual changes in the proved reserves of oil is as follows (in millions of barrels):

Proved developed and undeveloped reserves	**Brazil**	**South America**	**North America**	**Africa**	**International**	**Synthetic Oil**	**Total**	**Total**
Reserves at December 31, 2007	9,138.5	321.3	26.7	66.3	414.3	-	9,552.8	60.1
Revisions of previous estimates	119.3	0.1	(10.6)	21.4	10.9	-	130.2	-
Extensions and discoveries	74.7	1.5	-	-	1.5	-	76.2	-
Improved recovery	29.8	-	-	-	-	-	29.8	-
Sales of reserves	-	(10.7)	-	-	(10.7)	-	(10.7)	-
Purchases of reserves	-	12.3	-	-	12.3	-	12.3	-
Production for the year	(646.0)	(35.6)	(0.6)	(2.9)	(39.1)	-	(685.1)	-
Reserves at December 31, 2008	8,716.3	288.9	15.5	84.8	389.2	-	9,105.5	49.1
Revisions of previous estimates	1,779.0	(37.9)	(7.7)	1.7	(43.9)	-	1,735.1	(3.0)
Extensions and discoveries	100.0	4.8	-	30.4	35.2	8.0	143.2	-
Improved recovery	11.0	-	-	10.3	10.3	-	21.3	(2.8)
Sales of reserves	-	(99.4)	-	-	(99.4)	-	(99.4)	-
Purchases of reserves	-	99.4	-	-	99.4	-	99.4	-
Production for the year	(687.0)	(31.2)	(0.5)	(16.3)	(48.0)	(1.0)	(736.0)	(3.4)
Reserves at December 31, 2009	9,919.3	224.6	7.3	110.9	342.8	7.0	10,269.1	39.9
Revisions of previous estimates	**368.0**	**(9.3)**	**3.4**	**13.9**	**8.0**	**2.0**	**378.0**	**(3.7)**
Extensions and discoveries	**778.0**	**26.9**	**-**	**-**	**26.9**	**-**	**804.9**	**-**
Improved recovery	**9.0**	**0.1**	**-**	**20.7**	**20.8**	**-**	**29.8**	**-**
Sales of reserves	**-**	**(5.9)**	**(0.1)**	**-**	**(6.0)**	**-**	**(6.0)**	**-**
Purchases of reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Production for the year	**(695.0)**	**(26.6)**	**(0.5)**	**(20.6)**	**(47.7)**	**(1.0)**	**(743.7)**	**(2.7)**
Reserves at December 31, 2010 (*)	**10,379.3**	**209.8**	**10.1**	**124.9**	**344.8**	**8.0**	**10,732.1**	**33.5**

(*) Does not include the rights to produce 5 billion barrels of oil equivalent according to the Assigment Agreement.

(iv) Reserve quantities information (Continued)

A summary of the annual changes in the proved reserves of natural gas is as follows (in billions of cubic feet):

	Consolidated Entities							Equity Method Investees
Proved developed and undeveloped reserves	**Brazil**	**South America**	**North America**	**Africa**	**International**	**Synthetic Gas**	**Total**	**Total**
Reserves at December 31, 2007	10,078.3	2,259.8	141.7	-	2,401.5	-	12,479.8	66.9
Revisions of previous estimates	(248.3)	427.4	(10.7)	26.8	443.5	-	195.2	-
Extensions and discoveries	113.5	39.2	-	-	39.2	-	152.7	-
Improved recovery	7.5	-	-	-	-	-	7.5	-
Purchases of reserves	-	123.1	-	-	123.1	-	123.1	-
Production for the year	(605.0)	(209.0)	(4.9)	-	(213.9)	-	(818.9)	-
Reserves at December 31, 2008	9,346.0	2,640.5	126.1	26.8	2,793.4	-	12,139.4	75.7
Revisions of previous estimates	942.0	(1,398.3)	(70.7)	5.0	(1,464.0)	-	(522.0)	(14.4)
Extensions and discoveries	141.0	5.5	-	-	5.5	6.6	153.1	-
Improved recovery	1.0	-	-	-	-	-	1.0	3.9
Sales of reserves	-	(110.3)	-	-	(110.3)	-	(110.3)	-
Purchases of reserves	-	110.3	-	-	110.3	-	110.3	-
Production for the year	(571.0)	(207.8)	(3.9)	-	(211.7)	(1.0)	(783.7)	(2.0)
Reserves at December 31, 2009	**9,859.0**	**1,039.9**	**51.5**	**31.8**	**1,123.2**	**5.6**	**10,987.8**	**63.2**
Revisions of previous estimates	**339.0**	**(20.3)**	**3.6**	**8.6**	**(8.1)**	**8.0**	**338.9**	**(1.9)**
Extensions and discoveries	**961.0**	**324.0**	**-**	**-**	**324.0**	**-**	**1,285.0**	**-**
Improved recovery	**10.0**	**4.7**	**-**	**-**	**4.7**	**-**	**14.7**	**-**
Sales of reserves	**-**	**(1.0)**	**(0.1)**	**-**	**(1.1)**	**-**	**(1.1)**	**-**
Purchases of reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Production for the year	**(615.0)**	**(111.6)**	**(3.3)**	**-**	**(114.9)**	**(2.0)**	**(731.9)**	**(1.5)**
Reserves at December 31, 2010	**10,554.0**	**1,235.7**	**51.7**	**40.4**	**1,327.8**	**11.6**	**11,893.4**	**59.8**

(iv) Reserve quantities information (Continued)

	2010				2009					
Net proved developed reserves:	**Crude Oil**	**Synthetic Oil**	**Natural Gas**	**Synthetic Gas**	**Crude Oil**	**Synthetic Oil**	**Natural Gas**	**Synthetic Gas**	**Crude Oil**	**Syn**
	(millions of barrels)		**(billions of cubic feet)**		**(millions of barrels)**		**(billions of cubic feet)**		**(millions barrels)**	
Consolidated entities										
Brazil	6,932.0	8	6,975.0	11.6	6,121.4	7.0	5,382.8	5.6	5,346.5	
South America (1)	118.8	-	489.2	-	139.9	-	485.6	-	189.0	
North America	4.6	-	30.3	-	3.8	-	37.3	-	5.9	
Africa	59.5	-	40.4	-	58.5	-	31.7	-	16.0	
Others	-	-	-	-	-	-	-	-	-	
Total International	182.9		559.9		202.2	-	554.6	-	210.9	
	7,114.9	8	7,534.9	11.6	6,323.6	7.0	5,937.4	5.6	5,557.4	
Nonconsolidated entitites										
Brazil					-	-	-	-	-	
South America (1)	18.7	-	25.0	-	22.2	-	32.5	-	27.5	
North America	-	-	-	-	-	-	-	-	-	
Africa	-	-	-	-	-	-	-	-	-	
Others	-	-	-	-	-	-	-	-	-	
Total International	18.7		25.0		22.2	-	32.5	-	27.5	
	18.7	-	25.0	-	22.2	-	32.5	-	27.5	
Total consolidated and nonconsolidated entities	7,133.6	8	7,559.9	11.6	6,345.8	7.0	5,969.9	5.6	5,584.9	

Net proved undeveloped

reserves:

Consolidated entities									
Brazil	3,447.3	-	3,579.0	-	3,797.9	-	4,476.2	-	3,369.8
South America (1)	91.0	-	746.3	-	84.8	-	554.5	-	99.9
North America	5.6	-	21.6	-	3.5	-	14.2	-	9.6
Africa	65.3	-	-	-	524	-	-	-	68.8
Others	.	-	-	-	-	-	-	-	-
Total Internacional	161.9		767.9	-	140.7	-	568.7	-	178.3
	3,609.2	-	4,346.9	-	3,938.6	-	5,044.9	-	3,548.1
Nonconsolidated entitites									
Brazil	-	-	-	-	-	-	-	-	-
South America (1)	14.8	-	34.8	-	17.6	-	30.6	-	21.6
North America	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total International	14.8	-	34.8	-	17.6	-	30.6	-	21.6
	14.8	-	34.8	-	17.6	-	30.6	-	21.6
Total consolidated and nonconsolidated entities	3,624.0	-	4,381.7	-	3,956.2	-	5,075.5	-	-

(1) Includes reserves of 35.3 million barrels of oil and 276.3 billions of cubic feet of gas in 2010 (42.2 million barrels of oil an feet of gas in 2009; and 71.5 million barrels of oil and 415.9 billions of cubic feet of gas in 2008) attributable to 32,76% minor Argentina, which is consolidated by Petrobras.

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein

The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of Codification Topic 932 Extractive Activities Oil and Gas. Estimated future cash inflows from production in Brazil and International segments are computed by applying the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions based upon the Company's internal pricing methodology for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indicators, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and are applied to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditures will be incurred and when the reserves will be produced.

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein (Continued)

The arbitrary valuation prescribed under Codification Topic 932 Extractive Activities Oil and Gas requires assumptions as to the timing and amount of future development and production costs. The calculations are made as of December 31 each year and should not be relied upon as an indication of Petrobras future cash flows or the value of its oil and gas reserves.

	Consolidated Entities							Equity Method Investees
	Brazil	South America	North America	Africa	Others	International	Total	Total
At December 31, 2010								
Future cash inflows	755,189	22,246	1,029	11,403	-	34,678	789,867	1,992
Future production costs	(331,109)	(7,359)	(251)	(2,954)	-	(10,564)	(341,673)	(1,072)
Future development costs	(52,589)	(2,054)	(346)	(2,495)	-	(4,895)	(57,484)	(71)
Future income tax expenses	(128,856)	(6,898)	-	(1,475)	-	(8,373)	(137,229)	(333)
Undiscounted future net cash flows	242,635	5,935	432	4,479	-	10,846	253,481	516
10 percent midyear annual discount for timing of estimated cash flows	(118,361)	(2,222)	(202)	(1,417)	-	(3,841)	(122,202)	(192)
Standardized measure of discounted future net cash flows	124,274	3,713	230	3,062	-	7,005	131,279	324
At December 31, 2009								
Future cash inflows	528,703	19,815	640	7,319	-	27,774	556,477	2,737
Future production costs	(252,843)	(5,833)	(170)	(2,010)	-	(8,013)	(260,856)	(1,337)
Future development costs	(45,444)	(2,262)	(217)	(2,248)	-	(4,727)	(50,171)	(121)
Future income tax expenses	(80,342)	(6,354)	-	(290)	-	(6,644)	(86,986)	(501)
Undiscounted future net cash flows	150,074	5,366	253	2,771	-	8,390	158,464	778
10 percent midyear annual discount for timing of estimated cash flows	(73,740)	(2,165)	(96)	(742)	-	(3,003)	(76,743)	(310)
Standardized measure of discounted future net cash flows	76,334	3,201 (*)	157	2,029	-	5,387	81,721	467
At December 31, 2008								
Future cash inflows	298,408	21,793	1,468	3,088	-	26,349	324,757	-
Future production costs	(163,427)	(5,236)	(588)	(1,212)	-	(7,036)	(170,463)	-
Future development costs	(41,063)	(2,276)	(327)	(593)	-	(3,196)	(44,259)	-

Future income tax expenses	(33,679)	(9,021)		-	(2)	-	(9,023)	(42,702)	-
Undiscounted future net cash flows	60,239	5,260		553	1,281	-	7,094	67,333	-
10 percent midyear annual discount for timing of estimated cash flows	(22,772)	(2,087)		(266)	(187)	-	(2,540)	(25,312)	-
Standardized measure of discounted future net cash flows	37,467	3,174	(*)	286	1,095	-	4,555	42,022	240

(*) Includes US$405 in 2010 (US$411 in 2009 and US$579 in 2008) attributable to 32,76% minority interest in Petrobras Argentina, which is consolidated by Petrobras.

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein (Continued)

	Consolidated Entities							Equity Method Investees
	Brazil	South America	North America	Africa	Others	International	Total	Total
Balance at January 1, 2010	76,334	3,202	157	2,028	-	5,387	81,721	467
Sales and transfers of oil and gas, net of production cost	(31,864)	(1,139)	(34)	(1,532)	-	(2,705)	(34,569)	(58)
Development cost incurred	13,692	428	812	193	-	1,433	15,125	18
Net change due to purchases and sales of minerals in place	-	(58)	(1)	-	-	(59)	(59)	-
Net change due to extensions, discoveries and improved less related costs	16,972	218	-	1,061	-	1,279	18,251	-
Revisions of previous quantity estimates	7,594	251	88	686	-	1,025	8,619	(58)
Net change in prices, transfer prices and in production costs	72,628	646	(716)	1,353	-	1,283	73,911	(228)
Changes in estimated future development costs	(13,580)	(271)	-	(334)	-	(605)	(14,185)	30
Accretion of discount	7,633	497	23	193	-	713	8,346	77
Net change in income taxes	(25,135)	(205)	-	(1,040)	-	(1,245)	(26,380)	89
Timing	-	180	(110)	-	-	70	70	-
Other - unspecified	-	(36)	11	454	-	429	429	(13)
Balance at December 31, 2010	124,274	3,713	230	3,062	-	7,005	131,279	324

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein (Continued)

	Consolidated Entities							Equity Method Investees
	Brazil	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
Balance at janauary 1, 2009	37,466	3,172	287	1,095	-	4,554	42,020	240
						-	-	
Sales and transfers of oil and gas, net of production cost	(22,529)	(1,062)	(32)	(581)	-	(1,675)	(24,204)	(84)
Development cost incurred	13,513	319	571	307	-	1,197	14,710	74
Net change due to purchases and sales of minerals in place	-	-	-	-	-	-	-	-
Net change due to extensions, discoveries and improved recovery less related costs	1,643	110	-	1,242	-	1,352	2,995	(45)
Revisions of previous quantity estimates	23,490	(308)	(366)	32	-	(642)	22,848	(80)
Net change in prices, transfer prices and in production costs	44,892	(1,087)	(476)	1,717	-	154	45,046	513
Changes in estimated future development costs	(5,971)	(293)	65	(1,267)	-	(1,495)	(7,466)	(79)
Accretion of discount	3,747	407	16	114	-	537	4,284	40
Net change in income taxes	(19,917)	1,652	-	(238)	-	1,414	(18,503)	(144)
Timing	-	318	38	-	-	356	356	-
Other - unspecified	-	(25)	54	(393)	-	(364)	(364)	32
Balance at December 31, 2009	76,334	3,203	157	2,028	-	5,388	81,722	467

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(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein (Continued)

	Consolidated Entities							Equity Method Investees
	Brazil	South America	North America	Africa	Others	International	Total	Total
Balance at janauary 1, 2008	169,853	4,909	865	3,364	-	9,138	178,991	-
						-	-	
Sales and transfers of oil and gas, net of production cost	(36,982)	(1,630)	(97)	(59)	-	(1,786)	(38,768)	-
Development cost incurred	11,744	557	288	549	194	1,588	13,332	-
Net change due to purchases and sales of minerals in place	-	201	-	-	-	201	201	-
Net change due to extensions, discoveries and improved recovery less related costs	1,018	69	-	(19)	-	50	1,068	-
Revisions of previous quantity estimates	634	1,232	(155)	440	-	1,517	2,151	-
Net change in sales and transfer prices and in productions costs	(188,780)	(1,355)	(1,075)	(4,018)	(194)	(6,642)	(195,422)	-
Changes in estimated future development costs	(8,576)	(733)	(132)	(162)	-	(1,027)	(9,603)	-
Accretion of discount	16,985	668	122	340	-	1,130	18,115	-
Net change in income taxes	71,571	(449)	356	1,380	-	1,287	72,858	-
Timing	-	(208)	74	(410)	-	(544)	(544)	-
Other - unspecified	-	(87)	40	(310)	-	(357)	(357)	-
Balance at December 31, 2008	37,467	3,174	286	1,095	-	4,555	42,022	240

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SIGNATURE

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

Date: March 15, 2011

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By: /s/ Almir Guilherme Barbassa

Almir Guilherme Barbassa
Chief Financial Officer and
Investor Relations Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements 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. These forward-looking statements are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results o f operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

All forward-looking statements are expressly qualified in their entirety by this cautionary statement, and you should not place reliance on any forward-looking statement contained in this press release. 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.