

PETROBRAS - PETROLEO BRASILEIRO SA  
Form 6-K  
November 24, 2010

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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**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 November, 2010**

**Commission File Number 1-15106**

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**PETRÓLEO BRASILEIRO S.A. - PETROBRAS**  
(Exact name of registrant as specified in its charter)

**Brazilian Petroleum Corporation - PETROBRAS**  
(Translation of Registrant's name into English)

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

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

Form 20-F  Form 40-F

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

Yes  No

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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).

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**Petróleo Brasileiro S.A. Petrobras and Subsidiaries**

Consolidated Financial Statements

September 30, 2010 and 2009

with Review Report of Independent

Registered Public Accounting Firm

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

Consolidated FINANCIAL STATEMENTS

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Review report of independent registered public accounting firm

To the Board of Directors and Shareholders of

Petróleo Brasileiro S.A. - Petrobras

Rio de Janeiro - Brazil

We have reviewed the accompanying condensed consolidated balance sheet of Petróleo Brasileiro S.A. - Petrobras and subsidiaries as of September 30, 2010, and the related condensed consolidated statements of operations, cash flows and changes in shareholders' equity for the nine-month periods ended September 30, 2010 and 2009. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil

November 23, 2010

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

## CONSOLIDATED BALANCE SHEETS

September 30, 2010 and December 31, 2009

Expressed in Millions of United States Dollars

| <b>Assets</b>  | <b>September 30, 2010<br/>(unaudited)</b> | <b>December 31, 2009</b> |
|--|---|--------------------------|
| <b>Current assets</b>  |   |                          |
| Cash and cash equivalents (Note 5)   | 27,451                                    | 16,169                   |
| Marketable securities (Note 6)   | 6,795                                     | 72                       |
| Accounts receivable, net   | 11,283                                    | 8,115                    |
| Inventories (Note 7)   | 12,538                                    | 11,227                   |
| Deferred income taxes (Note 4)   | 451                                       | 660                      |
| Recoverable taxes (Note 8)   | 4,765                                     | 3,940                    |
| Advances to suppliers  | 913                                       | 1,026                    |
| Other current assets   | 1,776                                     | 1,435                    |
|  | <b>65,972</b>                             | <b>42,644</b>            |
| <b>Property, plant and equipment, net (Note 19)</b>                            | <b>206,278</b>                            | <b>136,167</b>           |
| <b>Investments in non-consolidated companies and other investments</b>         | <b>5,951</b>                              | <b>4,350</b>             |
| <b>Non-current assets</b>  |   |                          |
| Accounts receivable, net   | 2,577                                     | 1,946                    |
| Advances to suppliers  | 3,831                                     | 3,267                    |
| Petroleum and alcohol account - receivable<br>from Federal Government (Note 9) | 484                                       | 469                      |
| Marketable securities (Note 6)   | 2,892                                     | 2,659                    |
| Restricted deposits for legal proceedings and guarantees (Note 15 (a))         | 1,533                                     | 1,158                    |
| Recoverable taxes (Note 8)   | 6,315                                     | 5,462                    |
| Goodwill   | 141                                       | 139                      |
| Prepaid expenses   | 469                                       | 618                      |
| Other assets   | 1,693                                     | 1,391                    |
|  | <b>19,935</b>                             | <b>17,109</b>            |
| <b>Total assets</b>  | <b>298,136</b>                            | <b>200,270</b>           |



See the accompanying notes to the consolidated financial statements.

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

## CONSOLIDATED BALANCE SHEETS (Continued)

September 30, 2010 and December 31, 2009

Expressed in Millions of United States Dollars (except number of shares)

|  | September 30,<br>2010<br>(unaudited) | December 31,<br>2009 |
|--|--------------------------------------|----------------------|
| <b>Liabilities and shareholders equity</b>   |                                      |                      |
| <b>Current liabilities</b>   |                                      |                      |
| Trade accounts payable   | 11,782                               | 9,882                |
| Current debt (Note 10)   | 12,521                               | 8,553                |
| Current portion of capital lease obligations (Note 12)                             | 138                                  | 227                  |
| Income taxes payable   | 936                                  | 825                  |
| Taxes payable, other than income taxes   | 4,474                                | 5,149                |
| Payroll and related charges  | 2,314                                | 2,118                |
| Dividends and interest on capital payable (Note 14)                                | 1,078                                | 1,340                |
| Employees postretirement benefits obligation Pension and Health Care (Note 13 (a)) | 745                                  | 694                  |
| Contingencies (Note 15 (a))  | 32                                   | 31                   |
| Other payables and accruals  | 3,461                                | 2,146                |
|  | <b>37,481</b>                        | <b>30,965</b>        |
| <b>Long-term liabilities</b>   |                                      |                      |
| Long-term debt (Note 10)   | 54,131                               | 48,149               |
| Capital lease obligations (Note 12)  | 155                                  | 203                  |
| Employees postretirement benefits obligation Pension and Health Care (Note 13 (a)) | 11,861                               | 10,963               |
| Deferred income taxes (Note 4)   | 11,898                               | 9,844                |
| Provision for abandonment  | 2,929                                | 2,812                |
| Contingencies (Note 15 (a))  | 921                                  | 469                  |
| Other liabilities  | 1,946                                | 1,445                |
|  | <b>83,841</b>                        | <b>73,885</b>        |
| <b>Shareholders equity</b>   |                                      |                      |
| Shares authorized and issued (Note 14)   |                                      |                      |
| Preferred share 2010 5,489,244,532 shares and 2009 3,700,729,396 shares            | 44,514                               | 15,106               |

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|  |                               |               |               |        |
|--|-------------------------------|---------------|---------------|--------|
| Common share - 2010                    | 7,367,255,304 shares and 2009 | 5,073,347,344 | <b>62,141</b> |        |
| shares                                 |                               |               |               | 21,088 |
| Additional paid in capital             |                               |               | <b>(24)</b>   | 707    |
| Capital reserve - fiscal incentive     |                               |               | -             | 296    |
| Retained earnings                      |                               |               |               |        |
| Appropriated                           |                               |               | <b>46,457</b> | 36,691 |
| Unappropriated                         |                               |               | <b>12,322</b> | 15,062 |
| Accumulated other comprehensive income |                               |               |               |        |
| Cumulative translation adjustments     |                               |               | <b>10,822</b> | 6,743  |

|  |                    |            |
|--|--------------------|------------|
| Postretirement benefit reserves adjustments net of tax ((US\$866) and (US\$848) for September 30, 2010 and December 31, 2009, respectively) - Pension cost and Health Care (Note 13 (a)) | <b>(1,680)</b>     | (1,646)    |
| Unrealized gains on available-for-sale securities, net of tax  | <b>56</b>          | 24         |
| Unrecognized loss on cash flow hedge, net of tax   | <b>(28)</b>        | (13)       |
| <br>Petrobras Shareholders Equity  | <br><b>174,580</b> | <br>94,058 |
| <br>Noncontrolling interests   | <br><b>2,234</b>   | <br>1,362  |
| <b>Total shareholders equity</b>   | <b>176,814</b>     | 95,420     |
| <b>Total liabilities and shareholders equity</b>   | <b>298,136</b>     | 200,270    |

See the accompanying notes to the consolidated financial statements.

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

*(Unaudited)*

|   | <b>Nine-month periods ended</b> |             |
|---|---------------------------------|-------------|
|   | <b>September 30,</b>            |             |
|   | <b>2010</b>                     | <b>2009</b> |
| <b>Sales of products and services</b>                             | <b>110,407</b>                  | 82,388      |
| Less:   |                                 |             |
| Value-added and other taxes on sales and services                 | <b>(19,242)</b>                 | (14,702)    |
| Contribution of intervention in the economic domain charge - CIDE | <b>(3,101)</b>                  | (2,017)     |
| <b>Net operating revenues</b>                                     | <b>88,064</b>                   | 65,669      |
| Cost of sales   | <b>(51,185)</b>                 | (35,232)    |
| Depreciation, depletion and amortization                          | <b>(6,208)</b>                  | (4,904)     |
| Exploration, including exploratory dry holes                      | <b>(1,342)</b>                  | (1,194)     |
| Impairment  | <b>(94)</b>                     | -           |
| Selling, general and administrative expenses                      | <b>(6,502)</b>                  | (5,126)     |
| Research and development expenses                                 | <b>(736)</b>                    | (545)       |
| Employee benefit expenses for non-active participants             | <b>(640)</b>                    | (519)       |
| Other operating expenses  | <b>(3,147)</b>                  | (2,052)     |
| <b>Total costs and expenses</b>                                   | <b>(69,854)</b>                 | (49,572)    |
| <b>Operating income</b>   | <b>18,210</b>                   | 16,097      |
| Equity in results of non-consolidated companies                   | <b>220</b>                      | 372         |
| Financial income (Note 11)  | <b>1,479</b>                    | 1,321       |
| Financial expenses (Note 11)                                      | <b>(1,263)</b>                  | (1,011)     |
| Monetary and exchange variations (Note 11)                        | <b>311</b>                      | (276)       |
| Other taxes   | <b>(334)</b>                    | (209)       |

|                                   |               |        |
|-----------------------------------|---------------|--------|
| Other expenses, net (Note 18 (a)) | <b>40</b>     | (36)   |
|                                   | <b>453</b>    | 161    |
| <b>Income before income taxes</b> | <b>18,663</b> | 16,258 |

See the accompanying notes to the consolidated financial statements.

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

## CONSOLIDATED STATEMENTS OF INCOME (Continued)

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

*(Unaudited)*

|  | <b>Nine-month periods ended September</b> |                     |
|--|---|---------------------|
|  | <b>2010</b>                               | <b>30,<br/>2009</b> |
| <b>Income taxes expenses (Note 4)</b>                          |   |                     |
| Current  | <b>(3,158)</b>                            | (4,042)             |
| Deferred   | <b>(1,872)</b>                            | (322)               |
|  | <b>(5,030)</b>                            | (4,364)             |
| <b>Net income for the period</b>                               | <b>13,633</b>                             | 11,894              |
| Less: Net income attributable to the noncontrolling interests  | <b>(345)</b>                              | (1,533)             |
| <b>Net income attributable to Petrobras</b>                    | <b>13,288</b>                             | 10,361              |
| <b>Net income applicable to each Petrobras class of shares</b> |   |                     |
| Common   | <b>7,683</b>                              | 5,991               |
| Preferred  | <b>5,605</b>                              | 4,370               |
|  | <b>13,288</b>                             | 10,361              |
| <b>Basic and diluted earnings per: (Note 14)</b>               |   |                     |
| Common and Preferred share                                     | <b>1.51</b>                               | 1.18                |
| Common and Preferred ADS                                       | <b>3.02</b>                               | 2.36                |
| <b>Weighted average number of shares outstanding</b>           |   |                     |

|           |               |               |
|-----------|---------------|---------------|
| Common    | 5,090,152,531 | 5,073,347,344 |
| Preferred | 3,713,832,071 | 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**

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

*(Unaudited)*

|   | <b>Nine-month periods ended</b> |               |
|---|---------------------------------|---------------|
|   | <b>September 30,</b>            |               |
|   | <b>2010</b>                     | <b>2009</b>   |
| <b>Cash flows from operating activities</b>                                       |                                 |               |
| Net income for the period   | 13,633                          | 11,894        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |               |
| Depreciation, depletion and amortization  | 6,208                           | 4,904         |
| Dry hole costs  | 731                             | 495           |
| Impairment  | 94                              | -             |
| Equity in the results of non-consolidated companies                               | (220)                           | (372)         |
| Foreign exchange (gain)/loss  | (384)                           | (1,726)       |
| Deferred income taxes   | 1,872                           | 322           |
| Other   | 1,010                           | 345           |
| Working capital adjustments   |                                 |               |
| Increase in accounts receivable, net  | (2,999)                         | (81)          |
| Increase in inventories   | (1,188)                         | (210)         |
| Increase in advances to suppliers   | (439)                           | (362)         |
| Increase (decrease) in recoverable taxes  | (1,355)                         | 363           |
| Increase (decrease) in trade accounts payable                                     | 1,676                           | (756)         |
| (Decrease) increase in taxes payable  | (683)                           | 251           |
| Increase in employees post-retirement benefits - Pension and health care          | 545                             | 481           |
| Increase (decrease) in Contingencies  | 422                             | 1,020         |
| Increase (decrease) in payroll and related charges                                | 133                             | 487           |
| Increase (decrease) in other working capital adjustments                          | (423)                           | 950           |
| <b>Net cash provided by operating activities</b>                                  | <b>18,633</b>                   | <b>18,005</b> |
| <b>Cash flows from investing activities</b>                                       |                                 |               |
| Additions to property, plant and equipment  | (33,394)                        | (24,349)      |

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|  |                 |          |
|--|-----------------|----------|
| Investments in affiliated companies                                | <b>(1,995)</b>  | (424)    |
| Marketable securities and other investments activities             | <b>(6,796)</b>  | (749)    |
| <b>Net cash used in investing activities</b>                       | <b>(42,185)</b> | (25,522) |
| <b>Cash flows from financing activities</b>                        |                 |          |
| Short-term debt, net of issuances and repayments                   | <b>658</b>      | (738)    |
| Proceeds from issuance and draw-down of long-term debt             | <b>14,451</b>   | 22,304   |
| Issuance of common and preferred shares                            | <b>27,472</b>   | -        |
| Principal payments of long-term debt                               | <b>(5,401)</b>  | (3,783)  |
| Proceeds from project financing                                    | <b>593</b>      | 1,739    |
| Payments of project financing                                      | <b>(592)</b>    | (343)    |
| Payments of capital lease obligations                              | <b>(158)</b>    | (188)    |
| Dividends and interest on shareholders equity paid to shareholders | <b>(3,071)</b>  | (4,367)  |
| <b>Net cash provided by (used in) financing activities</b>         | <b>33,952</b>   | 14,624   |

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

*(Unaudited)*

|  | <b>Nine-month<br/>periods ended<br/>September<br/>30,<br/>2010 2009</b> |        |
|--|---|--------|
| Increase in cash and cash equivalents  | <b>10,400</b>   | 7,107  |
| Effect of exchange rate changes on cash and cash equivalents                                       | <b>882</b>  | 2,989  |
| Cash and cash equivalents at the beginning of the period   | <b>16,169</b>   | 6,499  |
| <b>Cash and cash equivalents at the end of the period</b>  | <b>27,451</b>   | 16,595 |
| <b>Supplemental cash flow information:</b>   |   |        |
| <b>Cash paid during the period for:</b>  |   |        |
| Interest, net of amount capitalized  | <b>599</b>  | 641    |
| Income taxes   | <b>2,300</b>  | 3,884  |
|  | <b>2,899</b>  | 4,525  |
| <b>Non-cash investing and financing transactions during the year</b>                               |   |        |
| Recognition of asset retirement obligation ASC Topic 410-20  | <b>46</b>   | -      |
| Capital increase with Financial Treasury Bill used for payment of part of the Assignment Agreement | <b>39,768</b>   | -      |
|  | <b>39,814</b>   | -      |

See the accompanying notes to the consolidated financial statements.



**PETRÓLEO BRASILEIRO S.A. - PETROBRAS****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

*(Unaudited)*

|   | <b>Nine-month periods<br/>ended September<br/>30,</b> |               |
|---|---|---------------|
|   | <b>2010</b>   | <b>2009</b>   |
| <b>Preferred shares</b>                               |   |               |
| Balance at January 1,                                 | 15,106  | 15,106        |
| Capital increase from capital reserve - tax incentive | 171   | -             |
| Capital increase from statutory reserve               | 300   | -             |
| Capital increase from undistributed earnings reserve  | 1,580   | -             |
| Capitalization  | 27,357  | -             |
| <b>Balance at September 30,</b>                       | <b>44,514</b>   | <b>15,106</b> |
| <b>Common shares</b>                                  |   |               |
| Balance at January 1,                                 | 21,088  | 21,088        |
| Capital increase from capital reserve - tax incentive | 125   | -             |
| Capital increase from statutory reserve               | 219   | -             |
| Capital increase from undistributed earnings reserve  | 1,152   | -             |
| Capitalization  | 39,557  | -             |
| <b>Balance at September 30,</b>                       | <b>62,141</b>   | <b>21,088</b> |
| <b>Additional paid in capital</b>                     |   |               |
| Balance at January 1,                                 | 707   | -             |
| Change in the period                                  | (489)   | (289)         |
| Shares issuance costs                                 | (242)   | -             |
| <b>Balance at September 30,</b>                       | <b>(24)</b>   | <b>(289)</b>  |
| <b>Capital reserve - fiscal incentive</b>             |   |               |

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|   |                |              |
|---|----------------|--------------|
| Balance at January 1,   | <b>296</b>     | 221          |
| Capital increase  | <b>(296)</b>   | -            |
| Transfer from (to) unappropriated retained earnings   | -              | 69           |
| <b>Balance at September 30,</b>   | <b>-</b>       | <b>290</b>   |
| <b>Cumulative translation adjustments</b>   |                |              |
| Balance at January 1,   | <b>6,743</b>   | (15,846)     |
| Change in the period  | <b>4,079</b>   | 20,347       |
| <b>Balance at September 30,</b>   | <b>10,822</b>  | <b>4,501</b> |
| <b>Postretirement benefit reserves adjustments, net of tax - Pension Cost and Health Care</b> |                |              |
| Balance at January 1,   | <b>(1,646)</b> | 37           |
| Change in the period  | <b>(52)</b>    | 22           |
| Tax effect on above   | <b>18</b>      | (7)          |
| <b>Balance at September 30,</b>   | <b>(1,680)</b> | <b>52</b>    |

See the accompanying notes to the consolidated financial statements.

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

**AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

*(Unaudited)*

|  | <b>Nine-month periods ended</b> |                      |
|--|---------------------------------|----------------------|
|  | <b>2010</b>                     | <b>September 30,</b> |
|  |                                 | <b>2009</b>          |
| <b>Unrecognized gains on available-for-sale securities, net of tax</b> |                                 |                      |
| Balance at January 1,  | 24                              | (144)                |
| Unrealized gains   | 49                              | 288                  |
| Tax effect on above  | (17)                            | (97)                 |
| <b>Balance at September 30,</b>  | <b>56</b>                       | <b>47</b>            |
| <b>Unrecognized loss on cash flow hedge, net of tax</b>                |                                 |                      |
| Balance at January 1,  | (13)                            | (39)                 |
| Change in the period   | (15)                            | 18                   |
| <b>Balance at September 30,</b>  | <b>(28)</b>                     | <b>(21)</b>          |
| <b>Appropriated retained earnings</b>                                  |                                 |                      |
| <b>Legal reserve</b>   |                                 |                      |
| Balance at January 1,  | 5,419                           | 3,257                |
| Transfer from unappropriated retained earnings                         | 1,015                           | 2,049                |
| <b>Balance at September 30,</b>  | <b>6,434</b>                    | <b>5,306</b>         |
| <b>Undistributed earnings reserve</b>                                  |                                 |                      |
| Balance at January 1,  | 30,755                          | 12,123               |
| Capital increase   | (2,732)                         | -                    |
| Transfer from unappropriated retained earnings                         | 11,766                          | 17,993               |
| <b>Balance at September 30,</b>  | <b>39,789</b>                   | <b>30,116</b>        |
| <b>Statutory reserve</b>   |                                 |                      |
| Balance at January 1,  | 517                             | 217                  |
| Capital increase   | (520)                           | -                    |
| Transfer from unappropriated retained earnings                         | 237                             | 290                  |
| <b>Balance at September 30,</b>  | <b>234</b>                      | <b>507</b>           |
| <b>Total appropriated retained earnings</b>                            | <b>46,457</b>                   | <b>35,929</b>        |

See the accompanying notes to the consolidated financial statements.



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

**AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

*(Unaudited)*

|  | <b>Nine-month periods<br/>ended September 30,</b> |                |
|--|---|----------------|
|  | <b>2010</b>                                       | <b>2009</b>    |
| <b>Unappropriated retained earnings</b>  |   |                |
| Balance at January 1,  | 15,062  | 25,889         |
| Net income attributable to Petrobras   | 13,288  | 10,361         |
| Dividends and interest on shareholders' equity   | (3,010)   | (2,671)        |
| Appropriation from (to) tax incentive reserves   | -   | (69)           |
| Appropriation (to) reserves  | (13,018)  | (20,332)       |
| <br>   |   |                |
| <b>Balance at September 30,</b>  | <b>12,322</b>                                     | <b>13,178</b>  |
| <br>   |   |                |
| <b>Petrobras' shareholders' equity</b>   | <b>174,580</b>                                    | <b>89,881</b>  |
| <br>   |   |                |
| <b>Noncontrolling interests</b>  |   |                |
| Balance at January 1,  | 1,362   | 659            |
| Net income for the period  | 345   | 1,533          |
| Transfer to the controlling shareholder  | 372   | -              |
| Dividends and interest on shareholders' equity paid                                    | -   | (73)           |
| Other changes in the period  | 155   | 270            |
| <br>   |   |                |
| <b>Balance at September 30,</b>  | <b>2,234</b>                                      | <b>2,389</b>   |
| <br>   |   |                |
| <b>Total shareholders' equity</b>  | <b>176,814</b>                                    | <b>92,270</b>  |
| <br>   |   |                |
| <b>Comprehensive income is comprised as follows:</b>                                   |   |                |
| Net income for the period  | 13,633  | 11,894         |
| Cumulative translation adjustments   | 4,079   | 20,347         |
| Postretirement benefit reserves adjustments, net of tax - pension and health care cost | (34)  | 15             |
| Unrealized gain on available-for-sale securities                                       | 32  | 191            |
| Unrecognized gain (loss) on cash flow hedge  | (15)  | 18             |
| <br>   |   |                |
| <b>Comprehensive income</b>  | <b>17,695</b>                                     | <b>32,465</b>  |
| <b>Less: Net comprehensive income attributable to noncontrolling interests</b>         | <b>(500)</b>                                      | <b>(1,803)</b> |
| <b>Comprehensive income attributable to Petrobras</b>                                  | <b>17,195</b>                                     | <b>30,662</b>  |

See the accompanying notes to the consolidated financial statements.

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

## **1. Basis of Financial Statements Preparation**

The accompanying unaudited consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras and its subsidiaries (together referred as the Company ) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Accordingly they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These unaudited consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009 and the notes thereto.

The balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The consolidated financial statements as of September 30, 2010 and for the nine-month periods ended September 30, 2010 and 2009, included in this report, are unaudited. However, in management's opinion, such consolidated financial statements reflect all normal recurring adjustments that are necessary for a fair presentation. The results for the interim periods are not necessarily indicative of trends or of results expected for the full year ending December 31, 2010.

The preparation of these financial statements requires the use of estimates and assumptions to reflect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto. Management reviews its estimates periodically, including those related to oil and gas reserves, pension and health care

liabilities, depreciation, depletion and amortization, abandonment costs, contingencies and income taxes. While the Company uses its best estimates and judgements, actual results could differ from those estimates as further 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 September 30, 2010, were evaluated until the time of the Form 6-K filing with the Securities and Exchange Commission.

## **PETRÓLEO BRASILEIRO S.A. - PETROBRAS**

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#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

## **2. Accounting Policies**

### **2.1 Recently Adopted Accounting Standards**

#### **a) 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.

#### **b) 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.

## **2.2 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, Transporting and Marketing segment, based on reports prepared by independent appraisers. The changes were accounted for prospectively in accordance ASC 250 (Accounting changes and error corrections) and the Company's results of operations were increased in US\$246, net of taxes, in the nine-month period ended September 30, 2010.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

|  | Estimated average useful life |          |
|--|-------------------------------|----------|
|  | Previous                      | Current  |
| Refinery and other industrial facilities | 10 years                      | 20 years |
| Pipelines                                | 10 years                      | 31 years |
| Tanks                                    | 10 years                      | 26 years |
| Thermoelectric power plants              | 20 years                      | 23 years |

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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## **2. Accounting Policies (Continued)**

### **2.3 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 it is tax neutral in accordance with the current income tax legislation.

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. 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.





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

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Petrobras risk management is performed by means of its Board of Directors pursuant to a corporate policy risk management. In March 2010, regarding the new corporate governance model developed by the Company, the Financial Committee, in place of the Risk Management Committee, was organized by the Executive Board. Such a Committee is sponsored by the Financial Board and made up of all executive managers from the Financial area, and executive managers of Business can also be called to discuss about specific subjects. Among the Financial Committee liabilities, it shall evaluate risk exposures and establish guidelines to measure, supervise and manage the risk concerning the Company's operation. The Board of Directors shall be liable to decide about the issues.

The risk management policy of Petrobras 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.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. 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 derivative 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 undertaken 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 derivative contracts for speculative purposes.

The Company usually does not 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 achieve 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Outstanding derivative contracts aimed 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's current price risk management, derivatives are contracted for 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.

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**a) Commodity price risk management (Continued)**

The Company's exposure from these contracts is limited to the difference between the contract value and market value on the volumes contracted. Crude oil future contracts are marked-to-market and related gains and losses are recognized in current 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 September 2010 corresponded to approximately 68% of the traded volume of imports and exports to and from Brazil plus the total volume of the products traded abroad.

The main counterparties of operations for derivatives for oil and oil products are the New York Stock Exchange (NYMEX), the Intercontinental Exchange, BNP Paribas, Shell (STASCO) and Morgan Stanley.

The commodity derivative 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 September 30, 2010, the Company had the following outstanding commodity derivative contracts:

| <b>Commodity Contracts</b>    | <b>Notional amount in thousands of<br/>bbl*</b> |
|-------------------------------|---|
| <b>Maturity in 2010</b>       | <b>As of September 30, 2010</b>                 |
| Futures and Forward contracts | (10,673)  |
| Option contracts              | (9,834)   |

\* A negative notional value represents a sale position.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. 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 originating from changes in the levels or volatility of exchange rates. 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 variations 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 risk management is based on the Company's 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 of the Company's obligations.

BR Distribuidora (wholly owned subsidiary) entered into an over the counter contract, not qualified 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.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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The volume of hedge executed for the exports occurring between January and September 2010 represented 54.9% of the total exported by BR Distribuidora. The settlements of the operations that matured between January 1 and September 30, 2010 generated a positive result for the Company of US\$5.

The over the counter contract is presented 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.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**b) Foreign currency risk management (Continued)**

As of September 30, 2010, the Company had the following foreign currency derivative contracts, not qualified as hedging accounting:

| <b>Foreign Currency</b> | <b>Notional Amount<br/>US\$ million</b> |
|-------------------------|---|
| Sell USD / Pay BRL      | 149                                     |

**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 qualified its cross currency swap as a cash flow hedge. Both at the inception of a hedge and on an ongoing basis, a cash flow hedge is expected to be highly effective in achieving to offset cash flows attributable to the hedged risk during the term of the hedge. Derivative instruments qualified 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 presented 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 to offset the variation in the cash flows of the bonds issued in Yens.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**b) Foreign currency risk management (Continued)**

**Cash flow hedge (Continued)**

As of September 30, 2010, the Company had the following cross currency swaps:

| <b>Cross Currency Swaps<br/>Maturing in 2016</b> | <b>%</b> | <b>Notional Amount (Million)</b> |
|--|----------|----------------------------------|
| Fixed to fixed                                   |          |                                  |
| Average Pay Rate (USD)                           | 5.69     | US\$298                          |
| Average Receive Rate (JPY)                       | 2.15     | JPY\$35,000                      |

**c) Interest rate risk management**

The Company's interest rate risk is a function of the Company's long-term debt and to a lesser extent, its short-term debt. The Company's foreign currency floating rate debt is principally subject to fluctuations in LIBOR and the

Company's floating rate debt denominated in Reais is principally subject to fluctuations in the Brazilian long-term interest rate (TJLP) as fixed by the National Monetary Counsel. The Company currently does not use derivative financial instruments to manage its exposure to fluctuations in interest rates.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. Derivative Instruments, Hedging and Risk Management Activities (Continued)****d) Tabular presentation of the location and amounts of derivative fair values**

The effect of derivative instruments on the balance sheets for the nine-month period ended September 30, 2010, is presented as follows:

| In millions of dollars<br>As of September 30,  | Asset Derivatives<br>2010 |               | Liability Derivatives<br>2010 |               |
|--|---------------------------|---------------|-------------------------------|---------------|
|  | Balance Sheet<br>Location | Fair<br>Value | Balance Sheet Location        | Fair<br>Value |
| <b>Derivatives qualified as<br/>hedging instruments under<br/>Codification Topic 815</b>     |                           |               |                               |               |
| Foreign exchange contracts   | Other current assets      | 94            |                               | -             |
| <b>Total</b>   |                           | <b>94</b>     |                               | <b>-</b>      |
| <b>Derivatives not qualified as<br/>hedging instruments under<br/>Codification Topic 815</b> |                           |               |                               |               |
| Foreign exchange contracts   | Other current assets      | 1             | Other payables and accruals   | -             |
| Commodity contracts  | Other current assets      | 40            | Other payables and accruals   | (80)          |
| <b>Total</b>   |                           | <b>41</b>     |                               | <b>(80)</b>   |

**Total Derivatives**

**135**

**(80)**

25

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

The effect of derivative instruments on the balance sheets for the year ended December 31, 2009 is presented as follows:

|  | In millions of dollars<br>As of December 31, | Asset Derivatives<br>2009 |               | Balance   |
|--|--|---------------------------|---------------|-----------|
|  |  | Balance Sheet<br>Location | Fair<br>Value |           |
| <b>Derivatives qualified as hedging instruments under Codification Topic 815</b>     |  |                           |               |           |
| Foreign exchange contracts   |  | Other current assets      | 65            |           |
| <b>Total</b>   |  |                           | <b>65</b>     |           |
| <b>Derivatives not qualified as hedging instruments under Codification Topic 815</b> |  |                           |               |           |
| Foreign exchange contracts   |  | Other current assets      | 1             | Other pay |

|                          |                      |            |          |
|--------------------------|----------------------|------------|----------|
| Commodity contracts      | Other current assets | 35         | Other pa |
| <b>Total</b>             |                      | <b>36</b>  |          |
| <b>Total Derivatives</b> |                      | <b>101</b> |          |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. Derivative Instruments, Hedging and Risk Management Activities** (Continued)**d) Tabular presentation of the location and amounts of derivative fair values** (Continued)

The effect of derivative instruments on the statement of financial position for the nine-month period ended September 30, 2010, is reflected as follows:

|  | Amount of Gain or<br>(Loss) Recognized<br>in OCI on<br>Derivative<br>(Effective Portion)<br>September 30, 2010 | Location of Gain or<br>(Loss) reclassified<br>from Accumulated<br>OCI into Income<br>(Effective portion) | Amount of Gain or<br>(Loss) Reclassified<br>from Accumulated<br>OCI into Income<br>(Effective Portion)<br>September 30, 2010 | Amount of Gain or<br>(Loss) Recognized in<br>income on derivative<br>(Ineffective Portion<br>and Amount<br>Excluded from<br>Effectiveness<br>Testing)<br>September 30, 2010 |
|--|--|--|--|---|
| Derivatives in Codification<br>Topic 815 Cash Flow<br>Hedging Relationship |  |  |  |   |
| Foreign exchange contracts   | 20   | Financial Expenses   | (35)   | -   |
|  | <b>20</b>  |  | <b>(35)</b>  | -   |

The effect of derivative instruments on the statement of financial position for the nine-month period ended September 30, 2009, is reflected as follows:

| Derivatives in Codification<br>Topic 815 Cash Flow<br>Hedging Relationship | Amount of Gain or<br>(Loss) Recognized<br>in OCI on<br>Derivative<br>(Effective Portion)<br>September 30, 2009 | Location of Gain or<br>(Loss) reclassified<br>from Accumulated<br>OCI into Income<br>(Effective portion) | Amount of Gain or<br>(Loss) Reclassified<br>from Accumulated<br>OCI into Income<br>(Effective Portion)<br>September 30, 2009 | Amount of Gain or<br>(Loss) Recognized in<br>income on derivative<br>(Ineffective Portion<br>and Amount<br>Excluded from<br>Effectiveness<br>Testing)<br>September 30, 2009 |
|--|--|--|--|---|
| Foreign exchange contracts   | 15   | Financial Expenses   | 3  | -   |
|  | <b>15</b>  |  | <b>3</b>   | <b>-</b>  |
|  |  | 27   |  |   |

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

| Derivatives Not Qualified as Hedging Instruments under Codification Topic 815 | Location of Gain or (Loss) Recognized in                      |
|---|---|
| Foreign exchange contracts  | Financial income/(expenses)                                   |
| Commodity contracts   | Financial income/(expenses)                                   |
| <b>Total</b>  |   |
|   | Amount of Gain or (Loss) Recognized in Income on Derivative   |
| Derivatives Not Qualified as Hedging Instruments under Codification Topic 815 | Location of Gain or (Loss) Recognized in Income on Derivative |

|                            |                                 | September 30,<br>2009 |
|----------------------------|---------------------------------|-----------------------|
| Foreign exchange contracts | Financial income/(expenses) net | (33)                  |
| Commodity contracts        | Financial income/(expenses) net | (103)                 |
| <b>Total</b>               |                                 | <b>(136)</b>          |

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**4. 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 nine-month periods ended September 30, 2010 and 2009.

The Company's taxable income is substantially generated in Brazil and is 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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|   | <b>Nine-month periods ended September</b> |             |
|---|---|-------------|
|   | <b>2010</b>                               | <b>2009</b> |
|   |   | <b>30,</b>  |
|   |   |             |
| Income before income taxes and noncontrolling interests |   |             |
| Brazil  | <b>17,434</b>                             | 15,109      |
| International   | <b>1,229</b>                              | 1,149       |
|   | <b>18,663</b>                             | 16,258      |
| Tax expense at statutory rates - (34%)                  | <b>(6,345)</b>                            | (5,528)     |
| Adjustments to derive effective tax rate:               |   |             |
| Non-deductible post-retirement and health-benefits      | <b>(152)</b>                              | (126)       |
| Tax benefits on interests on shareholders' equity       | <b>1,023</b>                              | 802         |
| Foreign income subject to different tax rates           | <b>227</b>                                | 439         |
| Tax incentive (1)                                       | <b>95</b>                                 | 115         |
| Other   | <b>122</b>                                | (66)        |
| Income tax expense per consolidated statement of income | <b>(5,030)</b>                            | (4,364)     |

(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 of 2006 until 2015. During the nine-month period ended September 30, 2010, Petrobras recognized a tax benefit in the amount of US\$95 (US\$115 on September 30, 2009) 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.





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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**4. Income Taxes (Continued)**

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

|   | <b>Nine-month periods ended September</b> |                     |
|---|---|---------------------|
|   | <b>2010</b>                               | <b>30,<br/>2009</b> |
| Income taxes expenses per consolidated statement of income: |   |                     |
| Brazil  |   |                     |
| Current   | <b>(2,979)</b>                            | (3,676)             |
| Deferred  | <b>(1,865)</b>                            | (385)               |
|   | <b>(4,844)</b>                            | (4,061)             |
| International   |   |                     |
| Current   | <b>(179)</b>                              | (366)               |
| Deferred  | <b>(7)</b>                                | 63                  |
|   | <b>(186)</b>                              | (303)               |
|   | <b>(5,030)</b>                            | (4,364)             |

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**4. Income Taxes (Continued)**

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

|   | <b>September 30, 2010</b> |
|---|---------------------------|
| <b>Current assets</b>   | <b>474</b>                |
| Valuation allowance   | <b>(23)</b>               |
| <b>Current liabilities</b>  | <b>(11)</b>               |
| <b>Net current deferred tax assets</b>  | <b>440</b>                |
| <b>Non-current assets</b>   |                           |
| Employees postretirement benefits, net of Accumulated postretirement benefit reserves adjustments | <b>945</b>                |
| Tax losses carryforwards  | <b>2,366</b>              |
| Other temporary differences, not significant individually   | <b>1,320</b>              |
| Valuation allowance   | <b>(1,770)</b>            |
|   | <b>2,861</b>              |
| <b>Non-current liabilities</b>  |                           |
| Capitalized exploration and development costs   | <b>(10,623)</b>           |
| Property, plant and equipment   | <b>(1,722)</b>            |
| Exchange variation  | <b>(1,293)</b>            |
| Other temporary differences, not significant individually   | <b>(756)</b>              |
|   | <b>(14,394)</b>           |

|  |          |
|--|----------|
| Net non-current deferred tax liabilities | (11,533) |
| Non-current deferred tax assets          | 365      |
| Non-current deferred tax liabilities     | (11,898) |
| Net deferred tax liabilities             | (11,093) |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**4. Income Taxes (Continued)**

The Company and its subsidiaries file income tax returns in Brazil and in many foreign jurisdictions. These tax returns are open to examination by the respective tax authorities in accordance with each local legislation.

As of and for the nine-month period ended September 30, 2010, the Company did not have any material unrecognized tax benefits. Additionally, the Company does not expect that the amount of the unrecognized tax benefits will change significantly within the next twelve months.

**5. Cash and Cash Equivalents**

|                                 | <b>September 30, 2010</b> | <b>December 31, 2009</b> |
|---------------------------------|---------------------------|--------------------------|
| Cash                            | <b>1,536</b>              | 1,478                    |
| Investments Brazilian Reais (1) | <b>14,882</b>             | 10,780                   |
| Investments U.S. dollars (2)    | <b>11,033</b>             | 3,911                    |
|                                 | <b>27,451</b>             | 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**6. Marketable Securities**

|  | <b>September 30, 2010</b> | <b>December 31, 2009</b> |
|--|---------------------------|--------------------------|
| Marketable securities classification:          |                           |                          |
| Available-for-sale                             | <b>3,172</b>              | 2,551                    |
| Trading  | <b>6,359</b>              | -                        |
| Held-to-maturity                               | <b>156</b>                | 180                      |
|  | <b>9,687</b>              | 2,731                    |
| Less: Current portion of marketable securities | <b>(6,795)</b>            | (72)                     |
| Long-term portion of marketable securities     | <b>2,892</b>              | 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 September 30, 2010, Petrobras had a balance of US\$2,601 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 were used as a guarantee after the confirmation of the agreements into with Petros, Petrobras pension plan (see Note 13 (b)). The nominal value of the NTN-Bs is 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 September 30, 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 19) 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.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**7. Inventories**

|                                 | <b>September 30, 2010</b> | <b>December 31, 2009</b> |
|---------------------------------|---------------------------|--------------------------|
| Products                        |                           |                          |
| Oil products                    | <b>4,433</b>              | 3,379                    |
| Fuel alcohol                    | <b>321</b>                | 377                      |
|                                 | <b>4,754</b>              | 3,756                    |
| Raw materials, mainly crude oil | <b>5,765</b>              | 5,494                    |
| Materials and supplies          | <b>1,991</b>              | 1,917                    |
| Other                           | <b>72</b>                 | 75                       |
|                                 | <b>12,582</b>             | 11,242                   |
| Current inventories             | <b>12,538</b>             | 11,227                   |
| Long-term inventories           | <b>44</b>                 | 15                       |

Inventories are stated at the lower of cost or net realizable value. As a result of the decline in the market prices of oil products, the Company recognized a loss of US\$291 for the nine-month period ended September 30, 2010 (US\$252 for the nine-month period ended September 30, 2009), which was classified as other operating expenses in the consolidated income statement.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**8. Recoverable Taxes**

Recoverable taxes are as follows:

|                                     | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-------------------------------------|-------------------------------|------------------------------|
| Local:                              |                               |                              |
| Domestic value-added tax (ICMS) (1) | <b>3,172</b>                  | 2,816                        |
| PASEP/COFINS (2)                    | <b>6,319</b>                  | 4,858                        |
| Income tax and social contribution  | <b>1,064</b>                  | 1,315                        |
| Foreign value-added tax (IVA)       | <b>35</b>                     | 42                           |
| Other recoverable taxes             | <b>490</b>                    | 371                          |
|                                     | <b>11,080</b>                 | 9,402                        |
| Less: Long-term recoverable taxes   | <b>(6,315)</b>                | (5,462)                      |
| Current recoverable taxes           | <b>4,765</b>                  | 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 tax 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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## **9. Petroleum and Alcohol Account - Receivable from Federal Government**

The following summarizes the changes in the Petroleum and Alcohol account for the nine-month period ended September 30, 2010:

|                  | <b>Nine-month period ended<br/>September 30, 2010</b> |
|------------------|---|
| Opening balance  | <b>469</b>  |
| Financial income | <b>2</b>  |
| Translation loss | <b>13</b>   |
| Ending balance   | <b>484</b>  |

In order to conclude the settlement of accounts with the Federal Government, pursuant to Provisional Measure n° 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.

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## 10. 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 ).

### a) Short-term debt

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:

|                             | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-----------------------------|-------------------------------|------------------------------|
| Imports - oil and equipment | <b>65</b>                     | 189                          |
| Working capital             | <b>5,103</b>                  | 4,070                        |
|                             | <b>5,168</b>                  | 4,259                        |

The weighted average annual interest rates on outstanding short-term borrowings were 2.63% and 2.53% at September 30, 2010 and December 31, 2009, respectively.



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**10. Financing** (Continued)

**b) Long-term debt**

- Composition

|   | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|-------------------------------|------------------------------|
| Foreign currency  |                               |                              |
| Notes   | <b>12,122</b>                 | 11,593                       |
| Financial institutions  | <b>17,816</b>                 | 12,119                       |
| Sale of future receivables  | <b>283</b>                    | 334                          |
| Suppliers credits   | <b>49</b>                     | 6                            |
| Assets related to export program to be offset against sales of future receivables | <b>(150)</b>                  | (150)                        |
|   | <b>30,120</b>                 | 23,902                       |
| Local currency  |                               |                              |
| National Economic and Social Development  |                               |                              |
| Bank - BNDES (state-owned bank)   | <b>20,867</b>                 | 16,332                       |
| Debentures  | <b>869</b>                    | 3,762                        |
| Debentures:   |                               |                              |
| Other Banks   | <b>891</b>                    | 1,610                        |
| Export Credit Notes   | <b>6,307</b>                  | 3,663                        |
| Bank Credit Certificate   | <b>2,134</b>                  | 2,075                        |

|  |                |         |
|--|----------------|---------|
| Other  | <b>296</b>     | 1,099   |
|  | <b>31,364</b>  | 28,541  |
| Total  | <b>61,484</b>  | 52,443  |
| Current portion of long-term debt and interest | <b>(7,353)</b> | (4,294) |
|  | <b>54,131</b>  | 48,149  |

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**10. Financing** (Continued)

**b) Long-term debt** (Continued)

- Composition of foreign currency denominated debt by currency

|                       | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-----------------------|-------------------------------|------------------------------|
| Currency              |                               |                              |
| United States dollars | <b>29,318</b>                 | 23,007                       |
| Japanese Yen          | <b>666</b>                    | 654                          |
| Euro                  | <b>51</b>                     | 53                           |
| Other                 | <b>85</b>                     | 188                          |
|                       | <b>30,120</b>                 | 23,902                       |

- Maturities of the principal of long-term debt

The long-term portion at September 30, 2010, becomes due in the following years:

|                     |               |
|---------------------|---------------|
| 2011                | <b>1,211</b>  |
| 2012                | <b>3,418</b>  |
| 2013                | <b>2,211</b>  |
| 2014                | <b>2,733</b>  |
| 2015                | <b>4,850</b>  |
| 2016 and thereafter | <b>39,708</b> |
|                     | <b>54,131</b> |

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**10. Financing** (Continued)

**b) Long-term debt** (Continued)

The composition of annual interest rates on long-term debt are as follows:

|                  | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|------------------|-------------------------------|------------------------------|
| Foreign currency |                               |                              |
| 6% or less       | <b>21,232</b>                 | 15,105                       |
| Over 6% to 8%    | <b>6,906</b>                  | 6,913                        |
| Over 8% to 10%   | <b>1,736</b>                  | 1,743                        |
| Over 10% to 12%  | <b>132</b>                    | 33                           |
| Over 12% to 15%  | <b>114</b>                    | 108                          |
|                  | <b>30,120</b>                 | 23,902                       |
| Local currency   |                               |                              |
| 6% or less       | <b>2,637</b>                  | 1,614                        |
| Over 6% to 8%    | <b>10,992</b>                 | 15,151                       |
| Over 8% to 10%   | <b>2,786</b>                  | 6,001                        |
| Over 10% to 12%  | <b>14,949</b>                 | 5,775                        |
|                  | <b>31,364</b>                 | 28,541                       |



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**10. Financing** (Continued)

**b) Long-term debt** (Continued)

**Issuance of long-term debt**

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

**b.1) Foreign**

| Company   | Date       | Amount       |          | Description  |
|-----------|------------|--------------|----------|--|
|           |            | US\$ million | Maturity |  |
| Petrobras | Feb/2010   | 2,000        | 2019     | Financing obtained from the China Development Bank (CDB), with a cost of                   |
| Petrobras | March/2010 | 2,000        | 2019     | Libor plus spread of 2.8% p.a.   |
| PNBV      | Apr/2010   | 1,000        | 2015     | Financing obtained from the Credit Agricole, 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.                |
|      |          | <b>7,000</b> |      |   |



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**b.2) In Brazil**

| <b>Company</b> | <b>Date</b>          | <b>Amount<br/>(US\$ million)</b> | <b>Maturity</b> | <b>Description</b>   |
|----------------|----------------------|----------------------------------|-----------------|--|
| Refap          | Feb and<br>Mar//2010 | 354                              | Until 2015      | Export credit note with an interest rate between 109.4% and 109.5% of average rate of CDI.   |
| Petrobras      | Jun/2010             | 1,299                            | 2016            | Financing obtained from Banco do Brasil, through the issuance of an export credit note at a rate of 110.5% of average rate of CDI + flat fee of 0.85%. |
| Petrobras      | Jun/2010             | 1,180                            | 2017            | Financing obtained from Caixa Economica Federal, through the issuance of an export credit note at a rate of 112.9% of average rate of CDI.             |
|                |                      | <b>2,833</b>                     |                 |  |

**c) Outstanding lines of credit with official credit agencies**

**c.1) Foreign**

| <b>Company</b> | <b>Agency<br/>China</b> | <b>Contracted</b> | <b>Amount in US\$<br/>Used</b> | <b>Balance</b> | <b>Description</b>  |
|----------------|-------------------------|-------------------|--------------------------------|----------------|---------------------|
| Petrobras      | Development<br>Bank     | 10,000            | 7,000                          | 3,000          | Libor +2.8%<br>p.a. |

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**10. Financing** (Continued)**c) Outstanding lines of credit with official credit agencies** (Continued)**c.2) In Brazil**

| <b>Company</b>                 | <b>Agency</b> | <b>Contracted</b> | <b>Amount in US\$<br/>Used</b> | <b>Balance</b> | <b>Description</b>   |
|--------------------------------|---------------|-------------------|--------------------------------|----------------|--|
| Transpetro (*)                 | BNDES         | 5,426             | 258                            | 5,168          | Program for Modernization and Expansion of the FLEET (PROMEF) - TJLP+2.5% p.a. |
| Transportadora<br>Urucu Manaus | BNDES         | 1,879             | 1,842                          | 37             | Coari-Manaus gas pipeline - TJLP+1.76%/1.96% p.a.                              |
| TUM                            |               |                   |                                |                |  |
| Transportadora                 |               |                   |                                |                | Cacimbas-Catu gas pipeline (GASCAC)  |

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|                |                         |       |       |     |  |
|----------------|-------------------------|-------|-------|-----|--|
| GASENE         | BNDES                   | 1,307 | 1,307 | -   | TJLP+1.96% p.a.  |
| Transportadora |                         |       |       |     | Cacimbas-Catu gas pipeline (GASCAV)  |
| GASENE         | BNDES                   | 560   | 560   | -   | TJLP+1.96% p.a.  |
| Petrobras      | Banco do Brasil         | 295   | 203   | 92  | Cédula de Crédito Comercial (FINAME) 4.5% p.a.                             |
| Petrobras      | Caixa Economica Federal | 177   | -     | 177 | Cédula de Crédito Bancário (Crédito Rotativo) 110% of average rate of CDI. |

(\*) Agreements for conditioned purchase and sale of 46 ships were entered into with 6 Brazilian shipyards in the amount of US\$6,029, where 90% is financed by BNDES.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**11. Financial Income (Expenses), Net**

Financial expenses, financial income, monetary and exchange variations, allocated to income for the nine-month periods ended September 30, 2010 and 2009 are as follows:

|                                  | <b>Nine-month periods ended September</b> |                     |
|----------------------------------|---|---------------------|
|                                  | <b>2010</b>                               | <b>30,<br/>2009</b> |
| Financial expenses               |   |                     |
| Loans and financing              | <b>(2,648)</b>                            | (1,318)             |
| Project financing                | <b>(178)</b>                              | (236)               |
| Leasing                          | <b>(11)</b>                               | (25)                |
| Losses on derivative instruments | <b>(123)</b>                              | (379)               |
| Repurchased securities losses    | <b>(20)</b>                               | (23)                |
| Other                            | <b>(521)</b>                              | (358)               |
|                                  | <b>(3,501)</b>                            | (2,339)             |
| Capitalized interest             | <b>2,238</b>                              | 1,328               |
|                                  | <b>(1,263)</b>                            | (1,011)             |
| Financial income                 |   |                     |
| Investments                      | <b>616</b>                                | 498                 |
| Marketable securities            | <b>282</b>                                | 330                 |
| Gains on derivative instruments  | <b>152</b>                                | 243                 |
| Clients                          | <b>108</b>                                | 82                  |
| 10. Financing                    |   | <b>85</b>           |

|                                  |              |       |
|----------------------------------|--------------|-------|
| Other                            | <b>321</b>   | 168   |
|                                  | <b>1,479</b> | 1,321 |
| Monetary and exchange variations | <b>311</b>   | (276) |
|                                  | <b>527</b>   | 34    |

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## 12. Capital Lease Obligations

The Company leases certain offshore platforms and vessels, which are accounted for as capital leases. As of September 30, 2010, assets under capital leases had a net book value of US\$477 (US\$750 at December 31, 2009).

The following is a schedule by year of the future minimum lease payments as of September 30, 2010:

|   |             |
|---|-------------|
| 2010  | <b>88</b>   |
| 2011  | <b>107</b>  |
| 2012  | <b>42</b>   |
| 2013  | <b>18</b>   |
| 2014  | <b>18</b>   |
| 2015  | <b>18</b>   |
| 2016 and thereafter                                       | <b>46</b>   |
| Estimated future lease payments                           | <b>337</b>  |
| Less amount representing interest at 6.2% to 12.0% annual | <b>(44)</b> |
| Present value of minimum lease payments                   | <b>293</b>  |
| Less current portion of capital lease obligations         | <b>138</b>  |
| Long-term portion of capital lease obligations            | <b>155</b>  |





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**13. Employees Postretirement Benefits and Other Benefits****a) Employees postretirement benefits balances**

The Company sponsors a contributory defined benefit pension plan covering substantially all of its employees and provides certain health care benefits for a number of active and retired employees. During 2010, the Company made contributions of US\$560 to pension and health care plans (US\$586 in 2009).

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

|  | September 30, 2010  |                            | As of<br>December 31, 2009 |                     |                            |       |
|--|---------------------|----------------------------|----------------------------|---------------------|----------------------------|-------|
|  | Pension<br>Benefits | Health<br>Care<br>Benefits | Total                      | Pension<br>Benefits | Health<br>Care<br>Benefits | Total |
| <b>Current liabilities</b>                             |                     |                            |                            |                     |                            |       |
| Defined-benefit plan                                   | 383                 | 334                        | 717                        | 182                 | 325                        | 507   |
| Variable Contribution plan                             | 28                  | -                          | 28                         | 187                 | -                          | 187   |
| Employees postretirement projected benefits obligation | 411                 | 334                        | 745                        | 369                 | 325                        | 694   |

**Long-term liabilities**

|  |              |              |               |       |       |        |
|--|--------------|--------------|---------------|-------|-------|--------|
| Defined-benefit plan                                   | <b>4,572</b> | <b>7,170</b> | <b>11,742</b> | 4,419 | 6,544 | 10,963 |
| Variable Contribution plan                             | <b>119</b>   | -            | <b>119</b>    | -     | -     | -      |
| Employees postretirement projected benefits obligation | <b>4,691</b> | <b>7,170</b> | <b>11,861</b> | 4,419 | 6,544 | 10,963 |

**Shareholders equity - Accumulated other comprehensive income**

|   |              |             |              |       |      |       |
|---|--------------|-------------|--------------|-------|------|-------|
| Defined-benefit plan                        | <b>2,331</b> | <b>124</b>  | <b>2,455</b> | 2,282 | 121  | 2,403 |
| Variable Contribution plan                  | <b>91</b>    | -           | <b>91</b>    | 91    | -    | 91    |
| Tax effect                                  | <b>(823)</b> | <b>(43)</b> | <b>(866)</b> | (807) | (41) | (848) |
| Net balance recorded in shareholders equity | <b>1,599</b> | <b>81</b>   | <b>1,680</b> | 1,566 | 80   | 1,646 |

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**13. Employees Postretirement Benefits and Other Benefits (Continued)****b) Funded status of the plans**

Net periodic benefit cost includes the following components:

|  | As of September 30, |              |          |                  |              |
|--|---------------------|--------------|----------|------------------|--------------|
|  | 2010                |              | 2009     |                  |              |
|  | Pension Plans       |              | Health   | Pension Plans    |              |
|  | Variable            | Care         |          | Variable         |              |
|  | Defined-Benefits    | Contribution | Benefits | Defined-Benefits | Contribution |
| Service cost-benefits earned during the period | 188                 | 67           | 88       | 138              | 34           |
| Interest cost on projected benefit obligation  | 2,319               | 26           | 588      | 1,513            | 12           |
| Expected return on plan assets                 | (1,974)             | (13)         | -        | (1,276)          | (5)          |
| Amortization of net actuarial loss             | 47                  | 7            | 1        | -                | -            |
| Amortization of prior service cost             | -                   | -            | -        | 34               | 5            |
|  | 580                 | 87           | 677      | 409              | 46           |
| Employees contributions                        | (174)               | (20)         | -        | (156)            | (15)         |
| Net periodic benefit cost                      | 406                 | 67           | 677      | 253              | 31           |

**b.1) Defined benefits plan**

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 September 30, 2010, the balance of the obligation of Petrobras and subsidiaries referring to the Financial Commitment Agreement was US\$2,670, of which US\$65 matures in 2010.

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**13. Employees Postretirement Benefits and Other Benefits (Continued)**

**b) Funded status of the plans (Continued)**

**b.1) Defined benefits plan (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 September 30, 2010, Petrobras had long-term National Treasury Notes in the amount of US\$2,601 (US\$2,363 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.

**b.2) Variable contribution plan**

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 all new employees.

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 the nine-month period ended September 30, 2010, the contribution of Petrobras and subsidiaries to the defined contribution portion of this plan was US\$142.

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Petrobras and the other sponsors fully assumed the contributions corresponding to the period in which the participants had no plan. The plan will continue to admit new subscribers after this date but no longer including any payment for the period relating to past service.

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.

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## **14. Shareholders Equity**

### **a) Capital**

The Company's subscribed and fully paid-in capital at September 30, 2010 consisted of 7,367,255,304 common shares and 5,489,244,532 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 or vice-versa. Preferred shares have priority in the receipt of dividends and return of capital.

The relation between the ADS and shares of each class is of 2 (two) shares for one ADS.

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**

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\$67,467 (R\$115,052 million), US\$39,768 (R\$67,816 million) represented by Brazilian Treasury Shares and the remaining US\$27,699 (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 19).

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

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**AND SUBSIDIARIES**

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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.

The global offering direct costs in the amount of US\$234 (R\$416 million), net of taxes, was recorded in shareholders equity.

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, and 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).

The Special General Shareholders Meeting, held on June 22, 2010, approved some amendments to the bylaws of the Company, the main as follows:

**a.1)** Increase the limit of preferred shares to two billion four hundred million (2,400,000,000) shares of the Company without changing the corresponding current amount of US\$33,937 (R\$60,000 million), in accordance with article 40, I of the bylaws of the Company; and

**a.2)** Include a provision to set a limit for authorized capital for common shares of the Company in the amount of US\$50,905 (R\$90,000 million) by the issuance of a number of common shares not exceeding three billion two hundred thousand (3,200,000,000) shares, in accordance with article 40 of the bylaws of the Company.

For more information see Petrobras Press Release of June 22, 2010.

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**14. Shareholders Equity (Continued)**

**b) Dividends and interest on shareholders equity related to 2009 results**

The General Shareholders Meeting of April 22, 2010 approved dividends referring to 2009, in the amount of US\$4,560 (R\$8,335 million), to common and preferred share, without distinction, that compose the capital, the value of which should be monetarily restated in accordance with the variation of the SELIC rate as from December 31, 2009 until the date of the beginning of payment on April 30, 2010.

Interest on shareholders equity in the total at amount of US\$3,912 (R\$7,195 million), is included in these dividends, and was distributed as follows:

- On June 24, 2009, in the amount of US\$1,347 (R\$2,632 million), which was made available to shareholders on November 30, 2009, based on the share position of July 3, 2009.
- On September 21, 2009, in the amount of US\$964 (R\$1,755 million), which was made available to shareholders on December 21, 2009, based on the share position of September 30, 2009.

- On December 17, 2009, in the amount of US\$1,002 (R\$1,755 million), which was made available to shareholders on December 29, 2009, based on the share position of December 18, 2009.
  
- On February 26, 2010, the final portion of interest on shareholders' equity, which was made available to shareholders on April 30, 2010, based on the shareholding position as of April 22, 2010, in the amount of US\$599 (R\$1,053 million), together with the dividends of US\$648 (R\$1,140 million).

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**14. Shareholders' Equity** (Continued)

**c) Interest on shareholders' equity - fiscal year 2010**

The Company's Board of Directors approved distribution in advance of remuneration to shareholders in the form of interest on shareholders' equity, as established in article 9 of Law 9249/95 and Decrees 2673/98 and 3381/00, as follows:

- On May 14, 2010, in the amount of US\$977 (R\$1,755 million), which was made available to shareholders on May 31, 2010, based on the shareholding position at May 21, 2010.
- On July 16, 2010, in the amount of US\$986 (R\$1,755 million), which was made available to shareholders on August 31, 2010, based on the shareholding position at July 30, 2010.
- On October 22, 2010, in the amount of US\$1,074 (R\$1,826 million), to be made available not later than December 31, 2010, based on the shareholding position at November 1, 2010.

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.

The interest on shareholders' equity is subject to the levy of income tax at the rate of 15% (fifteen percent), except for shareholders that are declared immune or exempt.

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**14. Shareholders Equity (Continued)**

**d) Dividends and interest on shareholders equity related to 2010 results**

|  | <b>Nine-month periods</b>  |               |
|--|----------------------------|---------------|
|  | <b>ended September 30,</b> |               |
|  | <b>2010</b>                | <b>2009</b>   |
| Net income for the period attributable to Petrobras  | <b>13,288</b>              | 10,347        |
| Less priority preferred share dividends  | <b>(2,221)</b>             | (1,000)       |
| Less common shares dividends, up to the priority preferred shares dividends on a per-share basis | <b>(3,044)</b>             | (1,400)       |
| Remaining net income to be equally allocated to common and preferred shares                      | <b>8,023</b>               | 7,947         |
| Weighted average number of shares outstanding:   |                            |               |
| Common   | <b>5,090,152,531</b>       | 5,073,347,000 |
| Preferred  | <b>3,713,832,071</b>       | 3,700,729,000 |
| Basic and diluted earnings per:  |                            |               |
| Common and preferred share   | <b>1.51</b>                | 1.51          |
| Common and preferred ADS   | <b>3.02</b>                | 3.02          |





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## **15. Commitments and Contingencies**

Petrobras is subject to a number of commitments and contingencies arising from its normal course of 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, or environmental regulations. The likelihood of such occurrences and their overall effect upon the Company are not readily predictable.

### **a) Litigation**

The Company is a defendant in numerous legal actions involving civil, tax, labor, corporate and environment issues arising from its normal course of business. Based on the advice of its internal legal counsel and management's best judgment, the Company has recorded accruals to provide sufficiently for losses that are considered probable and reasonably estimable.

At September 30, 2010 and December 31, 2009, the respective amounts accrued by type of claims are as follows:

| <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-------------------------------|------------------------------|
|-------------------------------|------------------------------|

|  |             |      |
|--|-------------|------|
| Labor claims                               | <b>138</b>  | 71   |
| Tax claims                                 | <b>247</b>  | 94   |
| Civil claims                               | <b>503</b>  | 272  |
| Commercials claims and other contingencies | <b>65</b>   | 63   |
| Total                                      | <b>953</b>  | 500  |
| Current contingencies                      | <b>(32)</b> | (31) |
| Long-term contingencies                    | <b>921</b>  | 469  |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**15. Commitments and Contingencies (Continued)**

**a) Litigation (Continued)**

As of September 30, 2010 and December 31, 2009, in accordance with Brazilian law, the Company had US\$1,533 and US\$1,158, respectively, into federal deposit accounts to provide for certain claims until they are settled. These amounts are reflected in the balance sheet as restricted deposits for legal proceedings and guarantees.

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:

**a.1) 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, 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 5647, 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\$265.

In May 2010 Petrobras paid the amount of US\$185. The remaining balance of US\$80, has been provided and will be paid in court order debts. In addition, the State of Rio de Janeiro has analyzed tax benefits related to other projects and negotiations with the Company.

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**15. Commitments and Contingencies (Continued)**

**a) Litigation (Continued)**

**a.2) 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. Appeals will be filed against this decision in the higher courts in Brasilia.

Parallely to the filing of the aforementioned appeals, on September 28, 2010 Petrobras filed a rescissory action with the Superior Court of Rio de Janeiro.

Based on its legal counsels' advice, the Company has assessed risk of loss to be possible. The maximum estimated exposure as at September 30, 2010, is around US\$278, which has been provided.

**a.3) Notice of infraction – National Agency for Petroleum, National 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\$131, 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.

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.

At September 30, 2010, the maximum estimated exposure is around US\$49, which has been provided.

On October 28, 2010, Petrobras paid the first installment of a total of 30, with respect to this liability.

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**15. Commitments and Contingencies (Continued)**

**a) Litigation (Continued)**

**a.4) Processes for small amounts**

The Company is involved in a number of legal and administrative proceedings with expectations of possible losses, whose total as at September 30, 2010, is broken down as follows: US\$65 for civil actions, US\$548 for labor actions, US\$503 for tax actions and US\$112 for environmental actions.

**b) 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 its operations or cash flows.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**16. Fair value Measurements**

The Company's debt including project financing obligations, resulting from Codification Topic 810 consolidation amounted to US\$53,609 at September 30, 2010, and had an estimated fair value of US\$54,910.

The fair value hierarchy for the Company's financial assets and liabilities accounted for at fair value on a recurring basis, at September 30, 2010, was:

|                                       | <b>As of September 30, 2010</b> |                |                |              |
|---------------------------------------|---------------------------------|----------------|----------------|--------------|
|                                       | <b>Level 1</b>                  | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Assets</b>                         |                                 |                |                |              |
| Marketable securities                 | <b>9,531</b>                    | -              | -              | <b>9,531</b> |
| Foreign exchange derivatives (Note 3) | -                               | <b>95</b>      | -              | <b>95</b>    |
| Commodity derivatives (Note 3)        | <b>28</b>                       | <b>12</b>      | -              | <b>40</b>    |
| Total assets                          | <b>9,559</b>                    | <b>107</b>     | -              | <b>9,666</b> |
| <b>Liabilities</b>                    |                                 |                |                |              |
| Commodity derivatives (Note 3)        | <b>(70)</b>                     | <b>(10)</b>    | -              | <b>(80)</b>  |

|                   |      |      |   |      |
|-------------------|------|------|---|------|
| Total liabilities | (70) | (10) | - | (80) |
|-------------------|------|------|---|------|

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**16. Fair value Measurements (Continued)**

The fair value hierarchy for the Company's non financial assets and liabilities measured at fair value on a non-recurring basis at September 30, 2010, was:

|                                 | As of September 30, 2010 |         |         |       |
|---------------------------------|--------------------------|---------|---------|-------|
|                                 | Level 1                  | Level 2 | Level 3 | Total |
| <b>Assets</b>                   |                          |         |         |       |
| Long-lived assets held for sale | -                        | 34      | -       | 34    |
| Long-lived assets held and used | -                        | -       | 94      | 94    |

In accordance with ASC Topic 360, long-lived assets held for sale with a carrying amount of US\$84 were written down to their fair value of US\$34, resulting in an impairment charge before taxes of US\$50. The fair value was obtained from bids of prospective buyers.

In accordance with the provisions of ASC Topic 360, long-lived assets held and used with a carrying amount of US\$138 were written down to their fair value of US\$94, resulting in an impairment charge of US\$44, before taxes, which was included in earnings for the period.



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**17. Segment Information**

The following presents the Company's assets by segment:

|  | As of September 30, 2010         |  |                       |   |              |               |
|--|----------------------------------|--|-----------------------|---|--------------|---------------|
|  | Exploration<br>and<br>Production | Refining,<br>Transportation<br>& Marketing (1) | Gas<br>&<br>Power (1) | International<br>(see separate<br>disclosure) | Distribution | Corporate (2) |
| Current assets   | 4,816                            | 16,069   | 2,946                 | 3,045   | 3,999        | 39,428        |
| Cash and cash equivalents  | -                                | -  | -                     | -   | -            | 27,820        |
| Other current assets   | 4,816                            | 16,069   | 2,946                 | 3,045   | 3,999        | 11,608        |
| Investments in non-consolidated<br>companies and other investments | 317                              | 2,733  | 777                   | 1,250   | 223          | 651           |
| Property, plant and equipment, net                                 | 125,898                          | 42,000   | 23,395                | 9,310   | 2,495        | 3,227         |
| Non-current assets   | 3,833                            | 2,925  | 1,491                 | 2,518   | 344          | 9,063         |
| <b>Total assets</b>  | <b>134,864</b>                   | <b>63,727</b>                                  | <b>28,609</b>         | <b>16,123</b>                                 | <b>7,061</b> | <b>52,369</b> |

(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 related to biofuels are included in the Corporate segment.

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**17. Segment Information** (Continued)

|  | <b>As of September 30, 2010</b>           |   |                            |                     |                  |                     |              |
|--|---|---|----------------------------|---------------------|------------------|---------------------|--------------|
|  | <b>International</b>                      |   |                            |                     |                  |                     |              |
|  | <b>Exploration<br/>and<br/>Production</b> | <b>Refining,<br/>Transportation<br/>&amp; Marketing</b> | <b>Gas &amp;<br/>Power</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
| Current assets   | 1,020                                     | 1,696   | 265                        | 410                 | 67               | (413)               | 3,045        |
| Investments in non-consolidated<br>companies and other investments | 747                                       | 29  | 154                        | 38                  | 282              | -                   | 1,250        |
| Property, plant and equipment, net                                 | 8,047                                     | 1,019   | 257                        | 250                 | 122              | (385)               | 9,310        |
| Non-current assets   | 2,547                                     | 318   | 120                        | 67                  | 1,173            | (1,707)             | 2,518        |
| Total assets   | 12,361                                    | 3,062   | 796                        | 765                 | 1,644            | (2,505)             | 16,123       |



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**17. Segment Information** (Continued)

The following presents the Company's assets by segment:

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Refining,<br/>Transportation<br/>&amp; Marketing<br/>(1)</b> | <b>Gas &amp;<br/>Power (1)</b> | <b>As of December<br/>International<br/>(see separate<br/>disclosure)</b> |
|---|---|---|--------------------------------|---|
| Current assets  | 3,636                                     | 14,810  | 2,971                          | 2,737   |
| Cash and cash equivalents                                       | -   | -   | -                              | -   |
| Other current assets  | 3,636                                     | 14,810  | 2,971                          | 2,737   |
| Investments in non-consolidated companies and other investments | 285                                       | 1,635   | 761                            | 1,318   |
| Property, plant and equipment, net                              | 70,098                                    | 31,508  | 20,196                         | 9,375   |
| Non-current assets  | 3,577                                     | 2,016   | 1,433                          | 1,484   |
| Total assets  | 77,596                                    | 49,969  | 25,361                         | 14,914  |

(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 related to biofuels are included in the Corporate segment.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

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(unaudited)

**17. Segment Information** (Continued)

|   |   |  | <b>As of December 31, 2009</b> |                        |
|---|---|--|--------------------------------|------------------------|
|   |   |  | <b>International</b>           |                        |
|   | <b>Exploration<br/>and<br/>Production</b> | <b>Refining<br/>Transportation<br/>&amp; Marketing</b> | <b>Gas<br/>&amp; Power</b>     | <b>Distribution Co</b> |
| Current assets  | 1,004                                     | 1,400  | 231                            | 292                    |
| Investments in non-consolidated companies and other investments | 833                                       | 37   | 160                            | 38                     |
| Property, plant and equipment, net                              | 7,961                                     | 1,105  | 271                            | 249                    |
| Non-current assets  | 1,581                                     | 271  | 107                            | 71                     |
| Total assets  | 11,379                                    | 2,813  | 769                            | 650                    |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

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**17. Segment Information** (Continued)

Revenues and net income by segment are as follows:

|   | Nine-month period ended September 30, 2010 |   |                          |   |              |                  |              | Total    |
|---|--|---|--------------------------|---|--------------|------------------|--------------|----------|
|   | Exploration<br>and<br>Production           | Refining,<br>Transportation<br>& Marketing<br>(1) | Gas<br>&<br>Power<br>(1) | International<br>(see separate<br>disclosure) | Distribution | Corporate<br>(2) | Eliminations |          |
| Net operating revenues derived from third parties | 217  | 48,358  | 5,256                    | 7,725   | 26,508       | -                | -            | 88,064   |
| Inter-segment net operating revenues              | 39,293                                     | 23,815  | 639                      | 2,022   | 539          | -                | (66,308)     | -        |
| Net operating revenues                            | 39,510                                     | 72,173  | 5,895                    | 9,747   | 27,047       | -                | (66,308)     | 88,064   |
| Cost of sales                                     | (14,981)                                   | (66,623)  | (3,963)                  | (6,965)                                       | (24,708)     | -                | 66,055       | (51,185) |
| Depreciation, depletion and amortization          | (4,093)                                    | (758)   | (351)                    | (645)   | (158)        | (187)            | (16)         | (6,208)  |

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|  |          |          |         |         |          |         |        |          |
|--|----------|----------|---------|---------|----------|---------|--------|----------|
| Exploration, including exploratory dry holes                         | (1,026)  | -        | -       | (316)   | -        | -       | -      | (1,342)  |
| Impairment   | -        | -        | (44)    | (50)    | -        | -       | -      | (94)     |
| Selling, general and administrative expenses                         | (302)    | (2,152)  | (591)   | (630)   | (1,313)  | (1,591) | 77     | (6,502)  |
| Research and development expenses                                    | (357)    | (126)    | (82)    | (3)     | (3)      | (165)   | -      | (736)    |
| Employee benefit expenses  | -        | -        | -       | -       | -        | (640)   | -      | (640)    |
| Other operating expenses   | (829)    | (892)    | (176)   | (193)   | (46)     | (1,034) | 23     | (3,147)  |
| Costs and expenses   | (21,588) | (70,551) | (5,207) | (8,802) | (26,228) | (3,617) | 66,139 | (69,854) |
| Operating income (loss)  | 17,922   | 1,622    | 688     | 945     | 819      | (3,617) | (169)  | 18,210   |
| Equity in results of non-consolidated companies                      | 91       | 1        | 115     | 17      | -        | (4)     | -      | 220      |
| Financial income (expenses), net                                     | -        | -        | -       | -       | -        | 527     | -      | 527      |
| Other taxes  | (109)    | (37)     | (15)    | (65)    | (13)     | (94)    | (1)    | (334)    |
| Other expenses, net  | (12)     | 46       | 4       | (3)     | 5        | -       | -      | 40       |
| Income (loss) before income taxes                                    | 17,892   | 1,632    | 792     | 894     | 811      | (3,188) | (170)  | 18,663   |
| Income tax benefits (expense)  | (6,052)  | (555)    | (229)   | (142)   | (277)    | 2,168   | 57     | (5,030)  |
| Net income (loss) for the period                                     | 11,840   | 1,077    | 563     | 752     | 534      | (1,020) | (113)  | 13,633   |
| Less: Net income (loss) attributable to the noncontrolling interests | 103      | (37)     | 8       | (57)    | -        | (362)   | -      | (345)    |
|  | 11,943   | 1,040    | 571     | 695     | 534      | (1,382) | (113)  | 13,288   |

Net income (loss)  
attributable to  
Petrobras

(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 results with biofuels are included in the Corporate segment.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

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(unaudited)

**17. Segment Information** (Continued)

Nine-month period ended September 30, 2010

|   | Exploration<br>and<br>Production | Refining<br>Transportation<br>& Marketing | Gas<br>&<br>Power | International<br>Distribution | Corporate | Eliminations |
|---|----------------------------------|---|-------------------|-------------------------------|-----------|--------------|
| Net operating revenues derived from third parties | 510                              | 3,838                                     | 372               | 2,985                         | -         | 20           |
| Inter-segment net operating revenues              | 2,178                            | 1,580                                     | 30                | 26                            | -         | (1,792)      |
| Net operating revenues                            | 2,688                            | 5,418                                     | 402               | 3,011                         | -         | (1,772)      |
| Cost of sales                                     | (634)                            | (5,016)                                   | (307)             | (2,774)                       | -         | 1,766        |
| Depreciation, depletion and amortization          | (531)                            | (60)                                      | (14)              | (21)                          | (19)      | -            |
| Exploration, including exploratory dry holes      | (316)                            | -   | -                 | -                             | -         | -            |
| Impairment  | -                                | (50)                                      | -                 | -                             | -         | -            |
| Selling, general and administrative expenses      | (130)                            | (101)                                     | (6)               | (188)                         | (207)     | 2            |
| Research and development expenses                 | -                                | (2)                                       | -                 | -                             | (1)       | -            |
| Other operating expenses                          | (29)                             | (201)                                     | 7                 | 11                            | 20        | (1)          |
| Costs and expenses                                | (1,640)                          | (5,430)                                   | (320)             | (2,972)                       | (207)     | 1,767        |

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|  |       |      |     |     |       |     |
|--|-------|------|-----|-----|-------|-----|
| Operating income (loss)  | 1,048 | (12) | 82  | 39  | (207) | (5) |
| Equity in results of non-consolidated companies                      | 26    | 10   | -   | 4   | (23)  | -   |
| Other taxes  | (34)  | (2)  | (1) | (2) | (26)  | -   |
| Other expenses, net  | 10    | 1    | -   | (4) | (10)  | -   |
| Income (loss) before income taxes                                    | 1,050 | (3)  | 81  | 37  | (266) | (5) |
| Income tax benefits (expense)  | (181) | (3)  | (2) | (4) | 48    | -   |
| Net income (loss) for the period                                     | 869   | (6)  | 79  | 33  | (218) | (5) |
| Less: Net income (loss) attributable to the noncontrolling interests | -     | -    | (1) | -   | (56)  | -   |
| Net income (loss) attributable to Petrobras                          | 869   | (6)  | 78  | 33  | (274) | (5) |



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

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(unaudited)

**17. Segment Information** (Continued)

Nine-month period ended September 30, 2009

|   | Exploration<br>and<br>Production | Refining,<br>Transportation<br>& Marketing<br>(1) | Gas &<br>Power<br>(1) | International<br>(see separate<br>disclosure) | Distribution | Corpor<br>(2) |
|---|----------------------------------|---|-----------------------|---|--------------|---------------|
| Net operating revenues derived from third parties | 484                              | 35,267  | 3,728                 | 6,048   | 20,142       |               |
| Inter-segment net operating revenues              | 25,577                           | 17,624  | 682                   | 1,009   | 487          |               |
| Net operating revenues                            | 26,061                           | 52,891  | 4,410                 | 7,057   | 20,629       |               |
| Cost of sales                                     | (10,980)                         | (41,900)  | (3,163)               | (5,197)                                       | (18,810)     |               |
| Depreciation, depletion and amortization          | (3,089)                          | (740)   | (185)                 | (616)   | (128)        | (1)           |
| Exploration, including exploratory dry holes      | (1,015)                          | -   | -                     | (179)   | -            |               |
| Impairment  | -                                | -   | -                     | -   | -            |               |
| Selling, general and administrative expenses      | (255)                            | (1,624)   | (423)                 | (547)   | (1,015)      | (1,3)         |
| Research and development expenses                 | (215)                            | (113)   | (14)                  | (1)   | (4)          | (1)           |
| Employee benefit expenses                         | -                                | -   | -                     | -   | -            | (5)           |
| Other operating expenses                          | (1,041)                          | (355)   | (268)                 | (109)   | 51           | (3)           |
| Costs and expenses                                | (16,595)                         | (44,732)  | (4,053)               | (6,649)                                       | (19,906)     | (2,5)         |

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|   |         |         |       |       |       |      |
|---|---------|---------|-------|-------|-------|------|
| Operating income (loss)                                       | 9,466   | 8,159   | 357   | 408   | 723   | (2,5 |
| Equity in results of non-consolidated companies               | (1)     | 251     | 79    | 42    | -     |      |
| Financial income (expenses), net                              | -       | -       | -     | -     | -     |      |
| Other taxes   | (7)     | (36)    | (8)   | (51)  | (10)  | (    |
| Other expenses, net   | (18)    | 162     | (13)  | (155) | 1     | (    |
| Income (loss) before income taxes                             | 9,440   | 8,536   | 415   | 244   | 714   | (2,6 |
| Income tax benefits (expense)                                 | (3,210) | (2,817) | (113) | (303) | (242) | 2,   |
| Net income for the period                                     | 6,230   | 5,719   | 302   | (59)  | 472   | (4   |
| Less: Net income attributable to the noncontrolling interests | 67      | (33)    | (60)  | (62)  | -     | (1,4 |
| Net income (loss) attributable for Petrobras                  | 6,297   | 5,686   | 242   | (121) | 472   | (1,9 |

(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 results with biofuels are included in the Corporate segment.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**17. Segment Information** (Continued)**Nine-month period ended September 30, 2009****International**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Refining<br/>Transportation<br/>&amp; Marketing</b> | <b>Gas &amp;<br/>Power</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|--|----------------------------|---------------------|------------------|---------------------|--------------|
| Net operating revenues derived from third parties | 651                                       | 3,240  | 278                        | 1,877               | 2                | -                   | 6,048        |
| Inter-segment net operating revenues              | 1,294                                     | 1,054  | 39                         | 32                  | -                | (1,410)             | 1,009        |
| Net operating revenues                            | 1,945                                     | 4,294  | 317                        | 1,909               | 2                | (1,410)             | 7,057        |
| Cost of sales                                     | (566)                                     | (4,038)  | (246)                      | (1,764)             | (2)              | 1,419               | (5,197)      |
| Depreciation, depletion and amortization          | (503)                                     | (71)   | (10)                       | (16)                | (16)             | -                   | (616)        |
| Exploration, including exploratory dry holes      | (179)                                     | -  | -                          | -                   | -                | -                   | (179)        |
| Selling, general and                              | (109)                                     | (109)  | (9)                        | (130)               | (190)            | -                   | (547)        |

|   |         |         |       |         |       |       |         |       |
|---|---------|---------|-------|---------|-------|-------|---------|-------|
| administrative expenses                                       |         |         |       |         |       |       |         |       |
| Research and development expenses                             | -       | -       | -     | -       | (1)   | -     | (1)     |       |
| Other operating expenses                                      | -       | (8)     | (126) | 2       | 9     | 6     | 8       | (109) |
| Costs and expenses  | (1,365) | (4,344) | (263) | (1,901) | (203) | 1,427 | (6,649) |       |
| Operating income (loss)                                       | 580     | (50)    | 54    | 8       | (201) | 17    | 408     |       |
| Equity in results of non-consolidated companies               | 26      | 2       | 4     | 6       | 4     | -     | 42      |       |
| Other taxes   | (9)     | (3)     | (1)   | (1)     | (37)  | -     | (51)    |       |
| Other expenses, net   | (4)     | (155)   | -     | 1       | 3     | -     | (155)   |       |
| Income (loss) before income taxes                             | 593     | (206)   | 57    | 14      | (231) | 17    | 244     |       |
| Income tax benefits (expense)                                 | (165)   | 55      | (1)   | (4)     | (188) | -     | (303)   |       |
| Net income for the period                                     | 428     | (151)   | 56    | 10      | (419) | 17    | (59)    |       |
| Less: Net income attributable to the noncontrolling interests | (6)     | 10      | (1)   | -       | (65)  | -     | (62)    |       |
| Net income (loss) attributable for Petrobras                  | 422     | (141)   | 55    | 10      | (484) | 17    | (121)   |       |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**17. Segment Information** (Continued)

Capital expenditures incurred by segment for the nine-month periods ended September 30, 2010 and 2009 are as follows:

|                                      | <b>Nine-month periods ended September</b> |               |
|--------------------------------------|---|---------------|
|                                      | <b>2010</b>                               | <b>2009</b>   |
| Exploration and Production           | <b>17,610</b>                             | <b>11,522</b> |
| Refining, Transportation & Marketing | <b>10,183</b>                             | <b>6,607</b>  |
| Gas & Power                          | <b>3,084</b>                              | <b>3,653</b>  |
| International                        |   |               |
| Exploration and Production           | <b>1,473</b>                              | <b>1,346</b>  |
| Refining, Transportation & Marketing | <b>56</b>                                 | <b>86</b>     |
| Distribution                         | <b>26</b>                                 | <b>7</b>      |
| Gas & Power                          | <b>7</b>                                  | <b>45</b>     |
| Distribution                         | <b>256</b>                                | <b>243</b>    |
| Corporate                            | <b>699</b>                                | <b>840</b>    |
|                                      | <b>33,394</b>                             | <b>24,349</b> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**18. Acquisition/Sales of Assets and Interests**

**a) 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 on April 10, 2009, the consideration to acquire the remaining shareholding interest in the refinery and in the trading company in Pasadena was fixed at US\$466. There is still a pending consideration, regarding the acquisition of the shares, which will be made by Petrobras to Astra in September, 2010 in the amount of US\$85.

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.



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**18. Acquisition/Sales of Assets and Interests (Continued)**

**b) Investment agreement between Petrobras, Petroquisa, Braskem, Odebrecht and Unipar**

On January 22, 2010, Petrobras and Odebrecht entered into an agreement to consolidate all petrochemical interests of both companies into Braskem, which resulted in the following transactions up to the third quarter of 2010.

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 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.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**c) Acquisition and partnerships in the ethanol market**

• **Total Agroindústria Canavieira S/A**

In 2010, Petrobras acquired interest in an ethanol refinery by contributing US\$77 into the capital of Total Agroindústria Canavieira S/A, pursuant to the commitment established in the Special General Shareholders Meeting of December 22, 2009, to pay in the amount of US\$89 not later than March 2011, when it will then hold 40.4% of the capital.

• **São Martinho S/A**

On June 18, 2010, Petrobras entered into an investment agreement with Grupo São Martinho S.A., in order participate in certain ethanol refineries located in Goias. Petrobras will hold 49% of the investment after 12 months by a capital contribution US\$234.

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**18. Acquisition/Sales of Assets and Interests (Continued)**

**d) Investment in Açúcar Guarani S.A.**

On April 30, 2010, an investment agreement established the entry of Petrobras into the capital of Açúcar Guarani S.A., by a capital contribution of US\$894 until 2015, when it will then hold 45.7% of the capital shares. Açúcar Guarani S.A. is engaged in sugar cane processing focused on the ethanol and sugar market.

In May 14, 2010, Petrobras contributed US\$379 into the capital of Cruz Alta Participações S.A (a wholly owned subsidiary of Guarani). As a result of the contribution, Petrobras has 49% of interest in Cruz Alta Participações S.A .

On August 13, 2010 the corporate restructuring was concluded, where Tereos Internacional incorporated the shares of Guarani, which became a wholly owned subsidiary. After this restructuring there are corporate acts in progress which will promote the replacement of the shares of Cruz Alta by shares of Guarani.

**e) 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.

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**f) 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.

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.

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**18. Acquisition/Sales of Assets and Interests (Continued)**

**g) Acquisition of Gás Brasileiro 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 Brasileiro 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).

**h) 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.

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise y indicated)

(unaudited)

**i) Bioóleo Industrial e Comercial S.A**

On August 24, 2010, Petrobras paid the amount of US\$9 into the capital of Bioóleo Industrial e Comercial S.A., through the purchase and sale of shares and now holds 50% of the capital. Bioóleo is a company for extracting vegetal oils, located in the city of Feira de Santana, in the State of Bahia.

Additionally, transfers of US\$4 were made for operating and security, environment and health (SMS) improvements, paid out in August 2010 in equal parts by the partners.

**j) Variable interest entities**

During 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 equity attributable to Petrobras.



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**19. Petroleum Exploration Rights Onerous Assignment**

**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.

The Assignment Agreement was approved by our Board of Directors and our 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. It was paid to the Federal Government through funds obtained by the global offering of shares of the Company (see Note 14), 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 we acquired is higher than the initial purchase price, we may either pay the difference to the Brazilian federal government, in which case we expect we will recognize 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 our balance sheet. If the contract parties determine that the value of the rights we acquired is lower than the initial purchase price, the Brazilian federal government will pay us for the difference and we expect we would reduce the amount originally recorded as Property Plant & Equipment (long-term asset) by the amount received from the Brazilian federal government.

## 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: November 24, 2010

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 of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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.

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