PETROBRAS INTERNATIONAL FINANCE CO
Form 20-F
May 20, 2010

As filed with the Securities and Exchange Commission on May 19, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 2009

Commission File Number 001-15106
Petróleo Brasileiro S.A. Petrobras
(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation Petrobras
(Translation of registrant s name into English)

The Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Commission File Number: 001-33121
Petrobras International Finance Company
(Exact name of registrant as specified in its charter)

Cayman Islands
(Jurisdiction of incorporation or organization)

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

Almir Guilherme Barbassa
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Avenida República do Chile, 65 23rd Floor
20031-912 Rio de Janeiro RJ
Brazil

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

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Cayman Islands
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Brazil

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

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

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

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

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

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

Title of each class:

9.750% Senior Notes due 2011, issued by PifCo

9.125% Global Notes due 2013, issued by PifCo

7.75% Global Notes due 2014, issued by PifCo

8.375% Global Notes due 2018, issued by PifCo

The number of outstanding shares of each class of stock of Petrobras and PifCo as of December 31, 2009 was:

5,073,347,344 Petrobras Common Shares, without par value

3,700,729,396 Petrobras Preferred Shares, without par value

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

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

Yes þ **No** ¨

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

Yes ¨ **No** þ

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

Yes þ **No** ¨

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

Yes þ [Petrobras] No ¨

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

Large accelerated filer þ [Petrobras]	**Accelerated filer ¨**	**Non-accelerated filer þ [PifCo]**

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

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

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

Item 17 ¨ Item 18 ¨

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

Yes ¨ No þ

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FORWARD-LOOKING STATEMENTS

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

- regional marketing and expansion strategy;
- drilling and other exploration activities;
- import and export activities;
- projected and targeted capital expenditures and other costs, commitments and revenues;
- liquidity; and
- development of additional revenue sources.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things:

- our ability to obtain financing;
- general economic and business conditions, including crude oil and other commodity prices, refining margins and prevailing exchange rates;
- global economic conditions;
- our ability to find, acquire or gain access to additional reserves and to successfully develop our current ones;
- changes in, or failure to comply with, laws or regulations;
- receipt of governmental approvals and licenses;
- international and Brazilian political, economic and social developments;
- military operations, acts of terrorism or sabotage, wars or embargoes;
- the cost and availability of adequate insurance coverage; and
- other factors discussed below under Risk Factors.

These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially from those expressed or forecast in any forward-looking statements as a result of a variety of factors, including those in Risk Factors set forth below.

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 annual report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.

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

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

- uncertainties inherent in making estimates of our oil and gas reserves including recently discovered oil and gas reserves;
- competition;
- technical difficulties in the operation of our equipment and the provision of our services;

Unless the context otherwise requires, the terms Petrobras, we, us, and our refer to Petróleo Brasile S.A. Petrobras and its consolidated subsidiaries and special purpose companies, including Petrobras International Finance Company. The term PifCo refers to Petrobras International Finance Company and its subsidiaries.

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GLOSSARY OF PETROLEUM INDUSTRY TERMS

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

ANP	The *Agência Nacional de Petróleo, Gás Natural e Biocombustíveis* (National Petroleum, Natural Gas and Biofuels Agency), or ANP, is the federal agency that regulates the oil, natural gas and renewable fuels industry in Brazil.
Barrels	Barrels of crude oil.
BSW	Basic sediment and water, a measurement of the water and sediment content of flowing crude oil.
Catalytic cracking	A process by which hydrocarbon molecules are broken down (cracked) into lighter fractions by the action of a catalyst.
Coker	A vessel in which bitumen is cracked into its fractions.
Condensate	Light hydrocarbon substances produced with natural gas, which condense into liquid at normal temperature and pressure.
Deep water	Between 300 and 1,500 meters (984 and 4,921 feet) deep.
Distillation	A process by which liquids are separated or refined by vaporization followed by condensation.
EWT	Extended well test
FPSO	Floating Production, Storage and Offloading Unit.
Heavy crude oil	Crude oil with API density less than or equal to 22°.
Intermediate crude oil	Crude oil with API density higher than 22° and less than or equal to 31°.
Light crude oil	Crude oil with API density higher than 31°.
LNG	Liquefied natural gas.
LPG	Liquefied petroleum gas, which is a mixture of saturated and unsaturated hydrocarbons, with up to five carbon atoms, used as domestic fuel.

NGLs	Natural gas liquids, which are light hydrocarbon substances produced with natural gas, which condense into liquid at normal temperature and pressure.
Oil	Crude oil, including NGLs and condensates.
Pre-salt reservoir	A geological formation containing oil or natural gas deposits located beneath an evaporitic layer.
Proved reserves	Consistent with the definitions in the SEC s Amended Rule 4-10(a) of Regulation S- X, proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price is the average price during the 12-month period prior to December 31, 2009, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The project to extract the hydrocarbons must have commenced or we must be reasonably certain that we will commence the project within a reasonable time.

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	Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the proved classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.
Proved developed reserves	Proved developed reserves are reserves that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
Proved undeveloped reserves	Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
	Undrilled locations are classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Proved undeveloped reserves do not include reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.
SS	Semi-submersible unit.
Ultra-deep water	Over 1,500 meters (4,921 feet) deep.

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CONVERSION TABLE

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

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ABBREVIATIONS

bbl	Barrels
bn	Billion (thousand million)
bnbbl	Billion barrels
bncf	Billion cubic feet
bnm^3	Billion cubic meters
boe	Barrels of oil equivalent
bbl/d	Barrels per day
cf	Cubic feet
GOM	Gulf of Mexico
GW	Gigawatts
GWh	One gigawatt of power supplied or demanded for one hour
km	Kilometer
km^2	Square kilometers
m^3	Cubic meter
mbbl	Thousand barrels
mbbl/d	Thousand barrels per day
mboe	Thousand barrels of oil equivalent
mboe/d	Thousand barrels of oil equivalent per day
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
mm^3	Thousand cubic meters
mm^3 /d	Thousand cubic meters per day
mmbbl	Million barrels
mmbbl/d	Million barrels per day
mmboe	Million barrels of oil equivalent
mmboe/d	Million barrels of oil equivalent per day
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
mmm^3	Million cubic meters
mmm^3 /d	Million cubic meters per day
mmt/y	Million metric tons per year
MW	Megawatts
MWavg	Amount of energy (in MWh) divided by the time (in hours) in which such energy is produced or consumed
MWh	One megawatt of power supplied or demanded for one hour
P$	Argentine pesos
R$	Brazilian *reais*

t	Metric ton
tcf	Trillion cubic feet
U.S.$	United States dollars
/d	Per day
/y	Per year

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PRESENTATION OF FINANCIAL INFORMATION

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

Petrobras

The audited consolidated financial statements of Petrobras and our consolidated subsidiaries as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and the accompanying notes, contained in this annual report have been presented in U.S. dollars and prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. See Item 5. Operating and Financial Review and Prospects and Note 2(a) to our audited consolidated financial statements. We also publish financial statements in Brazil in *reais* in accordance with the accounting principles required by Law No. 6404/76, as amended, or Brazilian Corporate Law and the regulations promulgated by the *Comissão de Valores Mobiliários* (Brazilian Securities Commission, or the CVM), or Brazilian GAAP, which differs in significant respects from U.S. GAAP. Beginning in 2008, significant changes are being made to Brazilian Corporate Law to permit Brazilian GAAP to converge with International Financial Reporting Standards (IFRS). Pursuant to CVM regulations, we are required to report our financial statements in *reais* in IFRS beginning with the year ending December 31, 2010. Our consolidated financial statements as of March 31, 2010, in *reais*, were prepared in accordance with IFRS. We do not expect to discontinue U.S. GAAP reporting for the year ended December 31, 2010.

Our functional currency is the Brazilian *real*. As described more fully in Note 2(a) to our audited consolidated financial statements, the U.S. dollar amounts as of the dates and for the periods presented in our audited consolidated financial statements have been recalculated or translated from the *real* amounts in accordance with the criteria set forth in Accounting Standard Codification ASC Topic 830 Foreign

Unless the context otherwise indicates:

- historical data contained in this annual report that were not derived from the audited consolidated financial statements have been translated from *reais* on a similar basis;

- forward-looking amounts, including estimated future capital expenditures, have all been based on our Petrobras 2020 Strategic Plan, which covers the period from 2009 to 2020, and on our 2009-2013 Business Plan, and have been projected on a constant basis and have been translated from *reais* in 2010 at an estimated average exchange rate of R$2.00 to U.S.$1.00, and future calculations involving an assumed price of crude oil have been calculated using a Brent crude oil price of U.S.$61 per barrel for 2010, U.S.$72 for 2011, U.S.$74 for 2012, U.S.$68 per barrel for 2013 and U.S.$60 per barrel for 2014 adjusted for our quality and location differences, unless otherwise stated; and

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

PifCo

PifCo s functional currency is the U.S. dollar. Substantially all of PifCo s sales are made in U.S. dollars and all of its debt is denominated in U.S. dollars. Accordingly, PifCo s audited consolidated financial statements as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and the accompanying notes contained in this annual report have been presented in U.S. dollars and prepared in accordance with U.S. GAAP and include PifCo s wholly owned subsidiaries: Petrobras Europe Limited, Petrobras Finance Limited, Bear Insurance Company Limited (BEAR) and Petrobras Singapore Private Limited.

Currency Matters. U.S. dollar amounts presented in this annual report have been translated from *reais* at the period-end exchange rate for balance sheet items and the average exchange rate prevailing during the period for income statement and cash flow items.

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RECENT DEVELOPMENTS

Consolidation of Petrochemical Assets at Braskem

After a series of consolidations and restructurings, in early 2009 we held minority interests in Brazil s two largest petrochemical companies: Braskem S.A. (Braskem), 25.4% of total capital and 31% of voting stock, and Quattor Participações (Quattor), 40% of total capital and 40% of voting stock. In January 2010, we further consolidated our position in the Brazilian petrochemical industry by announcing the merger of Braskem and Quattor, creating Brazil s largest petrochemicals company and the largest producer of thermoplastic resin in the Americas. We and our partner, Odebrecht S.A. (Odebrecht), will create a new holding company for Braskem called BRK Investimentos Petroquímicos S.A. (BRK) and proceed to consolidate our direct and indirect interests in the Brazilian petrochemical industry at Braskem through a series of mergers and capital increases. Decision-making at Braskem will be governed by a Shareholders Agreement to be entered into with Odebrecht. See Item 4. Information on the Company Refining, Transportation and Marketing Petrochemicals and Fertilizers.

Proposed Changes to the Oil Law in Light of Discoveries in the Pre-Salt Areas

The Brazilian Congress is currently considering legislation that, if adopted, will significantly expand our operations in the pre-salt areas located off the coast of Brazil. The proposed legislation would, among other things, introduce production-sharing contracts for oil and gas exploration and production in pre-salt areas not under concession and in potentially strategic areas as defined by the National Energy Policy Council (CNPE), make us the exclusive operator in all pre-salt areas not yet under concession, and grant us either a 100% interest or a minimum interest to be established by the CNPE that would not be less than 30% in all pre-salt blocks not yet under concession with the option to increase our stake through a public bidding process.

A second legislative proposal currently under discussion in the Brazilian Congress involves a transfer of rights under which the Brazilian government would assign to us oil and gas exploration and production rights in pre-salt areas not under concession, up to a maximum prospective recovery of 5 billion barrels of oil equivalent. Along with this transfer of rights, the Brazilian government would be authorized to subscribe for additional shares of our capital stock, and the proceeds would be used for exploration and production of the areas transferred to us by the Brazilian government, general corporate purposes and to finance our planned capital expenditures.

For more information on these and other proposed changes to the Oil Law pending before the Brazilian Congress, see Item 4. Information on the Company Regulation of the Oil and Gas Industry in Brazil Proposed Changes to the Oil Law.

Investment in Brazilian Ethanol Industry

On April 30, 2010, we announced a strategic partnership with Tereos Participações Ltda. (Tereos International), a Brazilian subsidiary of the Tereos Group, under which we will invest a total of R$1.6 billion (U.S.$909 million) over five years to acquire a 45.7% stake in Açúcar Guarani S.A. (Guarani), the fourth-largest sugarcane processor in Brazil. Our investment in Guarani, which is subject to Brazilian antirust approval, will allow us to significantly increase our ethanol production, stimulate improvements in product quality, and further develop our ethanol distribution and marketing operations in accordance with our 2009-2013 Business Plan. See Item 4. Information on the Company Bio-Renewables.

PRESENTATION OF INFORMATION CONCERNING RESERVES

Petrobras adopted new SEC rules for estimating and disclosing oil and gas reserve quantities included in this annual report. In accordance with these new rules, the year-end 2009 reserve volumes have been estimated using average prices during the 12-month period and include non- traditional reserves, such as synthetic oil and gas. Year-end 2008 and 2007 reserve volumes were estimated using year-end prices. In addition, the amended rules also adopted a reliable technology definition that permits reserves to be added based on field-tested technologies. The adoption of the SEC s new rules for estimating and disclosing oil and gas reserves and the FASB s issuance of the Accounting Standards Update No. 2010-03 Oil and Gas Reserve Estimation and Disclosure in December 2009 generated no material impact on our reported reserves or on our consolidated financial position or results of operations other than additional disclosures as discussed in Note 2(n) to our audited consolidated financial statements. DeGolyer and MacNaughton (D&M) provided estimates of most of our net domestic reserves as of December 31, 2009. D&M also provided estimates of most of our net international reserves where we are the operator as of December 31, 2009. All reserve estimates involve some degree of uncertainty. See Item 3. Key Information Risk Factors Risks Relating to Our Operations for a description of the risks relating to our reserves and our reserve estimates.

On January 14, 2010, we filed reserve estimates for Brazil with the ANP, in accordance with Brazilian rules and regulations, totaling 12.06 billion barrels of crude oil and condensate and 12.67 trillion cubic feet of natural gas. The reserve estimates we filed with the ANP and those provided herein differ by approximately 22.5%. This difference is due to (i) the ANP requirement that we estimate proved reserves through the technical abandonment of production wells, as opposed to limiting reserve estimates to the life of our concession contracts as required by Rule 4-10 of Regulation S-X and (ii) different technical criteria for booking proved reserves, including the use of current oil prices as opposed to the SEC requirement that the 12-month average price be used to determine the economic producibility of reserves in Brazil.

We also file reserve estimates from our international operations with various governmental agencies under the guidelines of the Society of Petroleum Engineers, or SPE. The aggregate reserve estimates from our international operations, under SPE guidelines, amounted to 0.49 billion barrels of crude oil and NGLs and 1.22 trillion cubic feet of natural gas, which is approximately 20% higher than the reserve estimates calculated under Regulation S- X, as provided herein. This difference occurs because we have not yet included all volumes associated with fluid injection projects in Nigeria as proved reserves in accordance with the new SEC rules for estimating and disclosing oil and gas reserves. We will gradually add these volumes to our SEC proved reserves after performing additional engineering analysis of oil recovery techniques.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

Petrobras

The following tables set forth our selected consolidated financial data, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data for each of the five years in the period ended December 31, 2009 has been derived from our audited consolidated financial statements, which were audited by KPMG Auditores Independentes for the years ended December 31, 2009, 2008, 2007 and 2006 and by Ernst & Young Auditores Independentes S/S for the year ended December 31, 2005. The information below should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements and the accompanying notes and Item 5. Operating and Financial Review and Prospects. Certain prior year amounts for 2008, 2007, 2006 and 2005 have been reclassified to conform to current year presentation standards. These reclassifications had no impact on our net income or any material effect on our consolidated financial statements.

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BALANCE SHEET DATA PETROBRAS

	As of December 31,				
	2009	2008	2007	2006	2005
	(U.S.$ million)				
Assets:					
Total current assets	42,644	26,758	29,140	30,955	25,784
Property, plant and equipment, net	136,167	84,719	84,282	58,897	45,920
Investments in non-consolidated companies and other investments	4,350	3,198	5,112	3,262	1,810
Total non-current assets	17,109	11,020	11,181	5,566	5,124
Total assets	**200,270**	**125,695**	**129,715**	**98,680**	**78,638**
Liabilities and shareholders' equity:					
Total current liabilities	30,965	24,756	24,468	21,976	18,161
Total long-term liabilities(1)	25,736	17,731	21,534	16,829	12,747
Long-term debt(2)	48,149	20,640	16,202	13,610	13,739
Total liabilities	**104,850**	**63,127**	**62,204**	**52,415**	**44,647**
Shareholders' equity					
Shares authorized and issued:					
Preferred share	15,106	15,106	8,620	7,718	4,772
Common share	21,088	21,088	12,196	10,959	6,929
Capital reserve and other comprehensive income	57,864	25,715	44,363	25,622	21,216
Petrobras' shareholders' equity	94,058	61,909	65,179	44,299	32,917
Noncontrolling interest	1,362	659	2,332	1,966	1,074
Total equity	**95,420**	**62,568**	**67,511**	**46,265**	**33,991**
Total liabilities and shareholders' equity	**200,270**	**125,695**	**129,715**	**98,680**	**78,638**

(1) Excludes long-term debt.

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

INCOME STATEMENT DATA PETROBRAS

	For the Year Ended December 31,				
	2009	2008	2007	2006	2005
	(U.S.$ million, except for share and per share data)				
Net operating revenues	91,869	118,257	87,735	72,347	56,324
Operating income(1)	21,869	25,294	20,451	19,844	15,085
Net income for the year attributable to Petrobras(2)	15,504	18,879	13,138	12,826	10,344
Weighted average number of shares outstanding:(3)					
Common	5,073,347,344	5,073,347,344	5,073,347,344	5,073,347,344	5,073,347,344
Preferred	3,700,729,396	3,700,729,396	3,700,729,396	3,699,806,288	3,698,956,056
Operating income per:(1)(3)					
Common and Preferred Shares.	2.49	2.88	2.33	2.26	1.72

Common and Preferred ADS(4)	4.98	5.76	4.66	4.52	3.44
Basic and diluted earnings per:(2)(3)					
Common and Preferred Shares	1.77	2.15	1.50	1.46	1.18
Common and Preferred ADS(4)	3.54	4.30	3.00	2.92	2.36
Cash dividends per:(3)(5)					
Common and Preferred shares	0.59	0.47	0.35	0.42	0.34
Common and Preferred ADS(4)	1.18	0.94	0.70	0.84	0.68

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

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

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

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

(5) Represents dividends paid during the year.

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PifCo

The following tables set forth PifCo s selected consolidated financial data, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data for each of the five years in the period ended December 31, 2009 have been derived from PifCo s audited consolidated financial statements, which were audited by KPMG Auditores Independentes for the years ended December 31, 2009, 2008, 2007 and 2006, and by Ernst & Young Auditores Independentes S/S for the year ended December 31, 2005. The information below should be read in conjunction with, and is qualified in its entirety by reference to, PifCo s audited consolidated financial statements and the accompanying notes and Item 5. Operating and Financial Review and Prospects.

BALANCE SHEET DATA PifCo

	For the Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(U.S.$ million)				
Assets:					
Total current assets	22,986	30,383	28,002	19,241	13,242
Property and equipment, net	2	2	1	1	-
Total other assets	3,377	2,918	4,867	2,079	3,507
Total assets	**26,365**	**33,303**	**32,870**	**21,321**	**16,749**
Liabilities and stockholder's equity:					
Total current liabilities	13,175	28,012	27,686	9,264	7,098
Total long-term liabilities(1)	-	-	-	7,442	3,734
Long-term debt(2)	13,269	5,884	5,187	4,640	5,909
Total liabilities	**26,444**	**33,896**	**32,873**	**21,346**	**16,741**
Total stockholder's (deficit) equity	(79)	(593)	(3)	(25)	8
Total liabilities and stockholder's equity	**26,365**	**33,303**	**32,870**	**21,321**	**16,749**

(1) Excludes long-term debt.

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

INCOME STATEMENT DATA PifCo

	For the Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(U.S.$ million)				
Net operating revenue	28,850	42,443	26,732	22,070	17,136
Operating income (loss)	578	(927)	127	(38)	(13)
Net income (loss) for the year	487	(772)	29	(211)	(28)

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RISK FACTORS

Risks Relating to Our Operations

Substantial or extended declines and volatility in the international prices of crude oil, oil products and natural gas may have a material adverse effect on our income and future growth targets.

The majority of our revenue is derived primarily from sales of crude oil and oil products and, to a lesser extent, natural gas. We do not, and will not, have control over the factors affecting international prices for crude oil, oil products and natural gas. The average price of Brent crude, an international benchmark oil, was approximately U.S.$62.40 per barrel in 2009, U.S.$96.99 per barrel for 2008 and U.S.$72.52 per barrel for 2007, and the average price of Brent crude was U.S.$76.78 per barrel in the first quarter of 2010. Changes in crude oil prices typically result in changes in prices for oil products and natural gas.

Historically, international prices for crude oil, oil products and natural gas have fluctuated widely as a result of many factors. These factors include:

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

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

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

Our ability to achieve our long-term growth objectives for oil production, including those defined in our 2009-2013 Business Plan, is highly dependent upon our ability to obtain new concessions through new bidding rounds and discover additional reserves, as well as to successfully develop our existing reserves. We will need to make substantial investments to achieve the growth targets set forth in our 2009-2013 Business Plan and we cannot assure you we will be able to raise the required capital.

Further, our competitive advantage in bidding rounds for new concessions in Brazil has diminished over the years as a result of the increased competition in the oil and gas sector in Brazil. In addition, our exploration activities expose us to the inherent risks of drilling, including the risk that we will not discover commercially productive crude oil or natural gas reserves. The costs of drilling wells are often uncertain, and numerous factors beyond our control (such as unexpected drilling conditions, equipment failures or accidents, and shortages or delays in the availability of drilling rigs and the delivery of equipment) may cause drilling operations to be curtailed, delayed or cancelled. These risks are heightened when we drill in deep and ultra-deep water. Deep and ultra-deepwater drilling represented approximately 72.6% of the offshore exploratory wells we drilled in 2009.

Unless we conduct successful exploration and development activities or acquire properties containing proved reserves, or both, and are able to raise the necessary capital to fund these activities, our proved reserves will decline as reserves are extracted.

We do not own any of the crude oil and natural gas reserves in Brazil.

A guaranteed source of crude oil and natural gas reserves is essential to an oil and gas company s sustained production and generation of income. Under Brazilian law, the Brazilian government owns all crude oil and natural gas reserves in Brazil and the concessionaire owns the oil and gas it produces. We possess the exclusive right to develop our reserves pursuant to concession agreements awarded to us by the Brazilian government and we own the hydrocarbons we produce under the concession agreements, but if the Brazilian government were to restrict or prevent us from exploiting these crude oil and natural gas reserves, our ability to generate income would be adversely affected.

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

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

We may not have sufficient resources to support future exploration, production and development

These reservoirs are located in deep and ultra-deep waters at considerable distances from the shore and are of a size and magnitude that present operational challenges to our resources. In addition, the oil from these reservoirs presents a unique set of properties requiring the development of new exploration technology. We will be continually faced with these new challenges, and we may not be able to secure sufficient resources to develop the technology we will require to meet our exploration, production and development goals with respect to our pre-salt reservoirs.

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

Our activities are subject to a wide variety of federal, state and local laws, regulations and permit requirements relating to the protection of human health and the environment, both in Brazil and in other jurisdictions in which we operate. In Brazil, we could be exposed to administrative and criminal sanctions, including warnings, fines and closure orders for non-compliance with these environmental regulations, which, among other things, limit or prohibit emissions or spills of toxic substances produced in connection with our operations. We have experienced oil spills in the past that resulted in fines by various state and federal environmental agencies, and several civil and criminal proceedings and investigations. See Item 8. Financial Information Legal Proceedings. Waste disposal and emissions regulations may also require us to clean up or retrofit our facilities at substantial cost and could result in substantial liabilities. The *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* (Brazilian Institute of the Environment and Renewable Natural Resources, or IBAMA) routinely inspects our oil platforms in the Campos Basin, and may impose fines, restrictions on operations or other sanctions in connection with its inspections. In addition, we are subject to environmental laws that require us to incur significant costs to cover damage that a project may cause to the environment. These additional costs may have a negative impact on the profitability of the projects we intend to implement or may make such projects economically unfeasible.

activities in our newly discovered pre-salt reservoirs.

Exploiting our oil and gas discoveries in the pre-salt reservoirs will require substantial additional amounts of capital, human resources and a broad range of offshore oil services. A primary operational challenge will be the development of an innovative set of solutions to the new challenges posed by exploration and production in the newly discovered pre-salt reservoirs.

As environmental regulations become more stringent, and as new laws and regulations relating to climate change, including carbon controls, become applicable to us, it is probable that our capital expenditures for compliance with environmental regulations and to effect improvements in our health, safety and environmental practices will increase substantially in the future. Increased expenditures to comply with environmental regulations may result in reductions in other strategic investments. Any substantial increase in expenditures for compliance with environmental regulations or reduction in strategic investments may have a material adverse effect on our results of operations or financial condition.

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

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. For example, on the grounds that drilling and production platforms may not be classified as sea-going vessels, the Brazilian Revenue Service asserted that overseas remittances for charter payments should be reclassified as lease payment and subject to a withholding tax of 25%. The Revenue Service has filed a tax assessment against us that on December 31, 2009, amounted to R$4,391 million (approximately U.S.$2,522 million). See Item 8. Financial Information Legal Proceedings.

In the event that claims involving a material amount and for which we have no provisions were to be decided against us, or in the event that the losses estimated turn out to be significantly higher than the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on our financial condition and results of operations. In addition, our management may be required to direct its time and attention to defending these claims, which could preclude them from focusing on our core business. Depending on the outcome, certain litigation could result in restrictions on our operations and have a material adverse effect on certain of our businesses.

Our investment in the natural gas and domestic power markets may not generate the returns we expect.

Over the past few years, we have invested, alone or with other investors, in a number of gas- fired power plants in Brazil. These gas-fired power plants provide non-base-load capacity to the grid and tend to operate at low average utilization rates. This low utilization rate may limit our ability to provide a full return of capital on these investments.

We are also subject to fines and may lose our license to sell electricity if we are unable to fulfill our energy delivery commitments to the *Agência Nacional de Energia Elétrica ANEEL*, the Brazilian energy regulator, due to gas supply constraints. There are several factors that may affect our ability to deliver gas to our gas-fired power plants including our inability to secure supply of natural gas, problems affecting our natural gas infrastructure and increasing demand in the non-thermoelectric market. See Item 4. Information on the Company Gas and Power Power Electricity Sales for a more detailed description of these risks.

Natural gas demand is also influenced by general economic conditions and oil prices. Our natural gas prices do not immediately adjust to fluctuations in the international price of crude oil and oil products, which can make natural gas less competitive until it adjusts to lower international prices. If the Brazilian market does not develop as we expect, the resulting decrease in demand for our natural gas may have a material adverse effect on our results of operations and financial condition.

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As a result of the foregoing, our investment in the natural gas and domestic power markets has generated losses in the past and may not generate the returns we expect in the future.

Exchange rate fluctuations could have a material adverse effect on our financial condition and results of operations, because most of our revenues are in reais and a large portion of our liabilities are in foreign currencies.

The impacts of fluctuations in exchange rates, especially the *real*/U.S. dollar rate, on our operations are varied and may be material. The principal market for our products is Brazil, as over the last three fiscal years over 73% our revenues have been denominated in *reais*, while some of our operating expenses and capital expenditures and a substantial portion of our indebtedness are, and are expected to continue to be, denominated in or indexed to U.S. dollars and other foreign currencies. In addition, during 2009 we imported U.S.$12.3 billion of crude oil and oil products, the prices of which were all denominated and paid in U.S. dollars.

Our recent financial statements reflect the appreciation of the *real* by 8.7%, 17.2% and 25.4% against the U.S. dollar in 2006, 2007 and 2009, respectively, and the depreciation of the *real* by 31.9% against the U.S. dollar in 2008. The weakness of the U.S. dollar against other currencies in general has also affected our results. As of May 17, 2010, the exchange rate of the *real* to the U.S. dollar was R$1.8045 per U.S.$1.00, representing a depreciation of approximately 3.6% in 2010, year-to-date.

We are exposed to increases in prevailing market interest rates, which leaves us vulnerable to increased financing expenses.

As of December 31, 2009, approximately 51% U.S.$29,047 million of our total indebtedness consisted of floating rate debt. In light of cost considerations and market analysis, we decided not to enter into derivative contracts or make other arrangements to hedge against the risk of an increase in interest rates. Accordingly, if market interest rates (principally LIBOR) rise, our financing expenses will increase, which could have an adverse effect on our results of operations and financial

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

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

We are subject to substantial risks relating to our international operations, in particular in South America, West Africa and the Middle East.

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

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

condition.	Ecuador and Bolivia.

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If one or more of the risks described above were to materialize we may lose part or all of our reserves in the affected country and we may not achieve our strategic objectives in these countries or in our international operations as a whole, which may result in a material adverse effect on our results of operations and financial condition.

Of the countries outside of Brazil in which we operate, Argentina is the most significant, representing 43.6% of our total international crude oil and natural gas production and 44.3% of our international proved crude oil and natural gas reserves as of December 31, 2009. Since 2007, the Argentine government has increased export tax rates for crude oil, natural gas and oil products that have negatively affected our results of operations and financial condition. We also have operations in Bolivia and Venezuela that represented, respectively, 19.8% and 4.3% of our total international production in barrels of oil equivalent at December 31, 2009. At December 31, 2008, Bolivia accounted for 31.02% of our international proved crude oil and natural gas reserves. However, on January 25, 2009, Bolivia adopted a new constitution that prohibits private ownership of the country s oil and gas resources. As a result, we were not able to include any proved reserves in Bolivia as reported at December 31, 2008 in our proved reserves for year-end 2009. We continue to report production from our operations in Bolivia under our existing contracts in that country. For more information about our operations outside Brazil, see Item 4. Information on the Company International.

Risks Relating to PifCo

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

PifCo s financial position and results of operations are directly affected by our decisions. PifCo is a direct wholly owned subsidiary of Petrobras incorporated in the Cayman Islands as an exempted company with limited liability. Currently, PifCo purchases crude oil and oil products from third parties and sells them at a premium to us on a deferred payment basis. PifCo also purchases crude oil and oil products from us and sells them outside Brazil. Accordingly, intercompany activities and transactions, and therefore PifCo s financial position and results of operations, are affected by decisions made by us. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties, mainly outside Brazil. Commercial operations are carried out under market conditions and at market prices. PifCo s ability to service and repay its indebtedness is consequently dependent on our own operations.

Financing for PifCo s commercial operations is provided by us, as well as third-party credit providers in favor of whom we provide credit support. Our support of PifCo s debt obligations is made through unconditional and irrevocable guaranties of payment.

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

PifCo depends on its ability to pass on its financing costs to us.

PifCo is currently engaged in the purchase of crude oil and oil products for sale to us, as described above. PifCo regularly incurs indebtedness related to such purchases and/or in obtaining financing from us or third-party creditors. All such indebtedness has the benefit of a guaranty or other support from us, and PifCo has historically passed on its financing costs to us by selling crude oil and oil products to us at a premium to compensate for its financing costs. If for any reason we are not permitted to continue these practices, this would have a materially adverse effect on PifCo s business and on its ability to meet its debt obligations in the long term.

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Risks Relating to Our Relationship with the Brazilian Government

The Brazilian government, as our controlling shareholder, may cause us to pursue certain macroeconomic and social objectives that may have an adverse effect on our results of operations and financial condition.

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

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

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

The Brazilian government maintains control over our investment budget and establishes limits on our investments and long-term debt. As a state-controlled entity, we must submit our proposed annual budgets to the Ministry of Planning, Budget and Management, the Ministry of Mines and Energy (MME), and the Brazilian Congress for approval. If our approved budget reduces our proposed investments and incurrence of

In addition, we expect to raise a substantial amount of capital to finance our exploration and production activities in pre-salt reservoirs and other planned investments by means of a capitalization. As part of the proposed changes to the Oil Law, the Brazilian Congress may authorize an onerous transfer of exploration and production rights in pre-salt areas not under concession from the Brazilian government to us, and allow us to exploit those areas. The proposed changes to the Oil Law are subject to approval from the Brazilian Congress. See Item 4. Information on the Company Regulation of the Oil and Gas Industry in Brazil Proposed Changes to the Oil Law. Our operating results and financial condition may be adversely affected if a capitalization does not occur and we are unable to make our planned investments.

Risks Relating to Brazil

The Brazilian government has historically exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on our business and may have a material adverse effect on our results of operations and financial condition.

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

- devaluations and other exchange rate movements;
- inflation;
- exchange control policies;
- social instability;
- price instability;

new debt and we cannot obtain financing that does not require Brazilian government approval, we may not be able to make all the investments we envision, including those we have agreed to make to expand and develop our crude oil and natural gas fields. If we are unable to make these investments, our operating results and financial condition may be adversely affected.

- interest rates;
- liquidity of domestic capital and lending markets;
- tax policy;
- regulatory policy for the oil and gas industry, including pricing policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

We may specifically be affected by certain initiatives to increase taxation on our exploration and production activities. In June 2003, the State of Rio de Janeiro enacted a new tax law that imposed a Domestic State Tax (ICMS) on our exploration and production activities, including on import of oil and gas exploratory equipment. The State of Rio de Janeiro has never enforced this law, and its constitutionality is being challenged in the Brazilian Supreme Court (*Supremo Tribunal Federal*, or STF). In the event that the state government attempts to enforce this law and the courts uphold that enforcement, we estimate that the amount of ICMS that we would be required to pay to the State of Rio de Janeiro could increase approximately R$10.2 billion (U.S.$5.9 billion) per year.

In addition, the recent discovery of large petroleum and natural gas reserves in the pre-salt areas of the Campos and Santos basins has prompted a proposal to change the existing Oil Law. The Brazilian Congress is currently considering substantial changes in the regulation of exploration and production activities in the pre-salt areas not subject to existing concessions. We cannot estimate the impact that any change to the Oil Law would have on Petrobras, or when any new regulations may become effective. See Item 4. Information on the Company Regulation of the Oil and Gas Industry in Brazil Proposed Changes to the Oil Law.

Uncertainty over whether the Brazilian government will implement these or other changes in policy or regulations that may affect any of the factors mentioned above or other factors in the future may lead to Such changes in policies and regulations may have a material adverse effect on our results of operations and financial condition.

Inflation and government measures to curb inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and, consequently, may adversely affect the market value of our securities and financial condition.

Our principal market is Brazil, which has, in the past, periodically experienced extremely high rates of inflation. Inflation, along with governmental measures to combat inflation and public speculation about possible future measures, has had significant negative effects on the Brazilian economy. The annual rates of inflation have been historically high in Brazil prior to 1995 and Brazil experienced hyperinflation in the past. As measured by the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA), Brazil had annual rates of inflation of 4.46% in 2007, 5.90% in 2008 and 4.31% in 2009. Considering the historically high rates of inflation, Brazil may experience higher levels of inflation in the future. The lower levels of inflation experienced since 1995 may not continue. Future governmental actions, including actions to adjust the value of the *real*, could trigger increases in inflation, which may adversely affect our financial condition.

Developments and the perception of risk in other countries, especially in the United States and in emerging market countries, may adversely affect the market price of Brazilian securities, including our shares and ADSs, and limit our ability to finance our operations.

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including the United States and other Latin American and emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other countries or economic policies of other countries may diminish investor economic uncertainty in Brazil and increase the volatility of the Brazilian securities market and securities issued abroad by Brazilian companies.

interest in securities of Brazilian issuers, including ours. This could adversely affect the market price of our shares and ADSs, and could limit our ability to finance our operations.

Risks Relating to Our Equity and Debt Securities

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

Petrobras shares are some of the most liquid in the São Paulo Stock Exchange (Bovespa), but overall, the Brazilian securities markets are smaller, more volatile and less liquid than the major securities markets in the United States and other jurisdictions, and may be regulated differently from the way in which U.S. investors are accustomed. Factors that may specifically affect the Brazilian equity markets may limit the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs at the price and time they desire.

The market for PifCo s notes may not be liquid.

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

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

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

Restrictions on the movement of capital out of Brazil may impair the ability of holders of ADSs to receive dividends and distributions on, and the proceeds of any sale of, the common or preferred shares underlying the ADSs and may impact our ability to service certain debt obligations, including guaranties we have entered into in support of PifCo s notes.

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. Brazilian law permits the Brazilian government to impose these restrictions whenever there is a serious imbalance in Brazil s balance of payments or there are reasons to foresee a serious imbalance.

The Brazilian government imposed remittance restrictions for approximately six months in 1990. The Brazilian government could decide to take similar measures in the future. Similar restrictions, if imposed, could impair or prevent the conversion of dividends, distributions, or the proceeds from any sale of common or preferred shares from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. If such restrictions were imposed, the depositary for the ADSs would hold the *reais* it cannot convert for the account of the ADS holders who have not been paid. The depositary would not invest the *reais* and would not be liable for the interest.

Similar restrictions, if imposed, could also impair or prevent the conversion of payments under the guaranties supporting PifCo s notes from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. In the case that the PifCo noteholders receive payments in *reais* corresponding to the equivalent U.S. dollar amounts due under PifCo s notes, it may not be possible to convert these amounts into U.S. dollars. These restrictions, if imposed, could also prevent us from making funds available to PifCo in U.S. dollars abroad, in which case PifCo may not have sufficient U.S. dollar entitled to receive the proceeds of the sale.

funds available to make payment on its debt obligations.

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In addition, payments of dividends and other distributions to shareholders and payments under Petrobras' guaranties in connection with PifCo s notes do not currently require approval by or registration with the Central Bank of Brazil. The Central Bank of Brazil may nonetheless impose prior approval requirements on the remittance of U.S. dollars abroad, which could cause delays in such payments.

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

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

If such holders attempt to obtain their own certificate of registration, they may incur expenses or suffer delays in the application process, which could delay their ability to receive dividends or distributions relating to the common or preferred shares or the return of their capital in a timely manner.

The custodian s certificate of registration or any foreign capital registration obtained by such holders may be affected by future legislative or regulatory changes and we cannot assure such holders that additional restrictions applicable to them, the disposition of the underlying common or preferred shares, or the repatriation of the proceeds from the process will not be imposed in the future.

Holders of ADSs may face difficulties in protecting their interests.

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

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

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

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

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

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

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

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

PifCo s obligation to make payments on the PifCo notes is supported by our obligation under the corresponding guaranty. We have been advised by our external U.S. counsel that the guaranty is valid and enforceable in

- were or are insolvent or rendered insolvent by reason of our entry into such guaranty;

- were or are engaged in business or transactions for which the assets remaining with us constituted unreasonably small capital; or

- intended to incur or incurred, or believed or believe that we would incur, debts beyond our ability to pay such debts as they mature; and

- in each case, intended to receive or received less than reasonably equivalent value or fair consideration therefore,

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

Item 4. Information on the Company

History and Development

Petróleo Brasileiro S.A. Petrobras was incorporated in 1953 to conduct the Brazilian government s hydrocarbon activities. We began operations in 1954 and for approximately forty years carried out crude oil and natural gas production and refining activities in Brazil on behalf of the government.

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

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

Our common and preferred shares have been traded on the São Paulo Stock Exchange since 1968. Petrobras was incorporated as a state- controlled company under Law No. 2,004 (effective October 3, 1953), and a majority of our voting capital must be owned by the Brazilian federal government, a state or a municipality. As of December 31, 2009, the Brazilian government owned 32.1% of our outstanding capital stock and 55.6% of our voting shares. We operate through subsidiaries, joint ventures, and associated companies established in Brazil and many other countries. Our principal executive office is located at Avenida República do Chile 65, 20031-912 Rio de Janeiro, RJ, Brazil and our telephone number is (55-21) 3224-4477.

Overview of the Group

We are an integrated oil and gas company that is the largest corporation in Brazil and one of the largest companies in Latin America in terms of revenues. Because of our legacy as Brazil s former sole supplier of crude oil and oil products and our ongoing commitment to development and growth, we operate most of Brazil s producing oil and gas fields and hold a large base of proved reserves and a fully developed operational infrastructure.

In 2009, our average domestic daily hydrocarbons production was 2,101.3 mboe/d, an estimated 98.5% of Brazil s total. Over 84% of our domestic proved reserves are in large, contiguous and highly productive fields in the offshore Campos Basin, which allows us to concentrate our operational infrastructure and limit our costs of exploration, development and production. In 40 years of developing Brazil s offshore basins we have developed special expertise in deepwater exploration and production, which we exploit both in Brazil and in other offshore oil provinces.

We operate substantially all the refining capacity in Brazil. Most of our refineries are located in Southeastern Brazil, within the country s most populated and industrialized markets and adjacent to the Campos Basin that provides most of our crude oil. Our domestic refining capacity of 1,942 mbbl/d is well balanced with our domestic refining production of 1,823 mbbl/d and sales of oil products to domestic markets of 1,754 mbbl/d. We expect the growth of our production capacity to exceed sales in the domestic market and for that trend to strengthen over time. We are also involved in the production of petrochemicals and fertilizers. We distribute oil products through our own BR network of retailers and to wholesalers.

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

Outside of Brazil, we are active in 24 countries. In South America, our operations extend from exploration and production to refining, marketing, retail services and natural gas pipelines. In North America, we produce oil and gas and have refining operations in the United States. In Africa, we produce oil in Angola and Nigeria, and in Asia, we have refining operations in Japan. In other countries, we are engaged only in oil and gas exploration.

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Our activities comprise five business segments:

- **Exploration and Production**: oil and gas exploration, development and production in Brazil;
- **Refining, Transportation and Marketing**: downstream activities in Brazil, including refining, logistics, transportation, oil products and crude oil exports and imports, petrochemicals and fertilizers;
- **Distribution**: distribution of oil products to wholesalers and through our BR retail network in Brazil;
- **Gas and Power**: gas transportation and distribution, electric power generation using natural gas and renewable energy sources; and
- **International**: exploration and production, refining, transportation and marketing, distribution and gas and power operations outside of Brazil.

The following table sets forth key information for each business segment in 2009:

	2009						
	Exploration and Production	Refining, Transportation and Marketing	Distribution	Gas and Power	International	Corporate(1)	Eliminations
	(U.S.$ million)						
Net operating revenues	38,777	74,621	29,672	5,652	10,197		(67,050)
Income (loss) before income tax	14,588	9,819	960	657	232	(3,520)	(675)
Total assets at December 31	77,596	50,469	6,127	24,861	14,914	31,198	(4,895)
Capital expenditures	16,488	10,466	369	5,116	2,111	584	

(1) Our Corporate segment includes our financing activities not attributable to other segments, including corporate financial management, central administrative overhead and actuarial expenses related to our pension and health care plans for inactive participants. Beginning in 2009, our Corporate segment includes the results from our Bio-Renewables operations. In prior years, the results from our Bio-Renewables operations were included in our Gas and Power segment.

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The following tables set forth our production of crude oil, natural gas, synthetic oil and synthetic gas by geographic area in 2009, 2008 and 2007:

	2009						
	Oil (mbbl/d)	Synthetic Oil (mbbl/d)(4)	Nat. Gas (mmcf/d)(1)	Synthetic Gas (mmcf/d)(1)(4)	Total (mboe/d)	Oil (mbbl/d)	Synt O (mbbl
Brazil:							
Roncador field(2)	368.9	0.0	163.7	0.0	396.2	267.6	
Other	1,598.1	3.8	615.0	4.4	1,705.2	1,583.9	
Total Brazil.	1,967.0	3.8	778.7	4.4	2,101.4	1,851.5	
International:							
South America (outside of Brazil)	85.6	0.0	569.3	0.0	180.4	97.3	
North America	1.5	0.0	10.6	0.0	3.3	1.7	
Africa.	44.3	0.0	0.0	0.0	44.3	7.9	
Total International.	131.4	0.0	579.9	0.0	228.0	106.9	
Total consolidated production	2,098.4	3.8	1,358.6	4.4	2,329.4	1,958.4	
Equity and non-consolidated affiliates:(3)							
South America (outside of Brazil)	9.3	0.0	5.6	0.0	10.2	13.0	
Worldwide production	**2,107.7**	**3.8**	**1,364.2**	**4.4**	**2,339.6**	**1,971.4**	

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

(2) Roncador field contains more than 15% of our total proved reserves.

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

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

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Production of crude oil and natural gas in Brazil is divided into onshore and offshore production, comprising 11% and 89% of total production in Brazil, respectively. Campos Basin is one of Brazil s main and most prolific oil and gas offshore basins, with over 60 hydrocarbon reserves discovered, eight large oil fields and a total area of approximately 115,000 km^2 (28.4 million acres).

In 2009, Campos Basin produced an average 1,693.6 mbbl/d of oil and 12.0 mmm^3 /d (453.6 mmcf/d) of associated natural gas during 2009, comprising 84.2% of our total production from Brazil.

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

	Brazil	South America (outside of Brazil)	North America	Africa	Total	Equity and non-consolidated affiliates(1)
			(U.S.$)			
During 2009						
Average production prices						
Oil, per barrel	54.22	46.00	62.23	68.09	54.18	64.64
Natural gas, per thousand cubic feet(1)	3.76	2.06	3.87		2.87	
Synthetic oil, per barrel	50.88				50.88	
Synthetic gas, per thousand cubic feet	2.97				2.97	
Average production costs, per barrel total	9.91	7.06	22.64	9.15	9.69	17.12
During 2008						
Average production prices						
Oil, per barrel	81.55	61.96	108.05	67.65	80.54	87.96
Natural gas, per thousand cubic feet(1)	6.69	2.58	9.94		5.07	
Synthetic oil, per barrel						
Synthetic gas, per thousand cubic feet						
Average production costs, per barrel total	12.34	6.40	17.49	7.28	11.82	20.98
During 2007						
Average production prices						
Oil, per barrel	61.57	49.51	71.32	63.64	60.88	66.22
Natural gas, per thousand cubic feet(1)	5.86	2.23	7.69		4.26	
Synthetic oil, per barrel						
Synthetic gas, per thousand cubic feet						
Average production costs, per barrel total	10.32	5.55	10.51	27.40	9.90	12.47

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

(2) Operations in Venezuela.

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The following table sets forth our estimated net proved developed and undeveloped reserves of crude oil and natural gas by region as of December 31, 2009.

Reserves category	**Reserves**			
	Oil	**Natural gas**	**Synthetic oil**	**Synthetic gas**
	(mmbbl)	**(bncf)**	**(mmbbl)(1)**	**(bncf)(1)**
Proved developed:				
Brazil	6,121.4	5,382.8	6.84	5.62
International				
South America (outside of Brazil)	139.9	485.6	0.0	0.0
North America	3.8	37.2	0.0	0.0
Africa	58.5	31.8	0.0	0.0
Total International	202.2	554.6	0.0	0.0
Total consolidated proved reserves	6,323.6	5,937.4	6.84	5.62
Equity and non-consolidated affiliates				
South America (outside of Brazil)	22.2	32.5	0.0	0.0
Total proved developed reserves	6,345.8	5,969.9	6.84	5.62
Proved undeveloped:				
Brazil..	3,797.9	4,476.4	0.0	0.0
International				
South America (outside of Brazil)	84.7	554.2	0.0	0.0
North America	3.5	14.3	0.0	0.0
Africa	52.5	0.0	0.0	0.0
Total International	140.7	568.5	0.0	0.0
Total consolidated proved reserves	3,938.6	5,044.9	0.0	0.0
Equity and non-consolidated affiliates				
South America (outside of Brazil)	17.6	30.7	0.0	0.0
Total proved undeveloped reserves	3,956.2	5,075.6	0.0	0.0
Total proved reserves (developed and undeveloped)	**10,302.0**	**11,045.5**	**6.84**	**5.62**

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

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

Internal Controls over Proved Reserves

The reserves estimation process begins with an initial evaluation of our assets by geophysicists, geologists and engineers. Corporate Reserves Coordinators (*Coordenadores de Reservas Corporativo*, or CRCs) safeguard the integrity and objectivity of our reserves estimates by supervising and providing technical support to Regional Reserves Coordinators thus made using the most reliable data at the time of the estimate, in accordance with the best practices in the oil and gas industry.

The statements contained in this Item 4 regarding exploration and development projects and production estimates are forward-looking and subject to significant risks and uncertainties. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that our actual levels of activity, production or performance will meet these expectations. See Item 3. Key Information Risk Factors.

(*Coordenadores de Reservas Regionais*, or CRRs) who are responsible for preparing the reserves estimates. Our CRRs and CRCs have degrees in geophysics, geology, petroleum engineering and accounting and are trained internally and abroad in international reserves estimates seminars. CRCs are responsible for compliance with Securities and Exchange Commission rules and regulations, consolidating and auditing the reserves estimation process. The technical person primarily responsible for overseeing the preparation of our domestic reserves is a member of the SPE, with 20 years of experience in the field and has been with Petrobras for 26 years.

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The technical person primarily responsible for overseeing the preparation of our international reserves has 15 years of experience in the field and has been with Petrobras for 30 years. Our reserves estimates are presented to our senior management and submitted to the board of directors for final approval.

DeGolyer and MacNaughton reviewed and certified 96.5% of our domestic proved crude oil, condensate and natural gas reserve estimates as of December 31, 2009. Outside of Brazil, D&M also reviewed and certified 93.3% of our estimates of international proved oil, condensate and natural gas reserves in fields where we are the operator as of December 31, 2009. The estimates for the certification were performed in accordance with Rule 4-10 of Regulation S-X of the SEC. For further information on our proved reserves, see Supplementary Information on Oil and Gas Exploration and Production beginning on page F-134.

Changes in Proved Reserves

The changes that occurred in 2009 to Petrobras proved reserves are primarily attributable to discoveries, well extensions, improved recoveries, production for the year and revisions to previous estimates. Revisions to previous estimates reflect changes in prices, technical revisions and changes in the status of concessions held by us. The most significant changes in our proved reserves in 2009 occurred within Brazil, with a net addition of 1,935.7 mmboe to our domestic proved reserves due primarily to higher oil prices and technical revisions. Outside of Brazil, the principal change in our proved reserves in 2009 occurred in Bolivia due to the adoption of a new constitution that prohibits private ownership of that country s oil and gas resources. As a result, we were not able to include any of our 284.3 mmboe of proved reserves in Bolivia as reported at December 31, 2008 in our proved reserves for year-end 2009.

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The table below summarizes information about the changes in total proved reserves for 2009, 2008 and 2007:

	Total Proved Developed and Undeveloped Reserves (consolidated entities only)			
	Oil	**Synthetic oil**	**Gas**	**Synthetic gas**
	(mmbbl)	**(mmbbl)**	**(bncf)**	**(bncf)**
Reserves quantity information for the year ended December 31, 2009				
January 1, 2009	9,105.5	0.0	12,139.4	0.0
Revisions of previous estimates	1,734.8	0.0	(521.7)	0.0
Improved recovery	21.7	0.0	0.8	0.0
Purchases of minerals *in situ*	99.4	0.0	110.3	0.0
Extensions and discoveries	135.5	8.1	146.7	6.6
Production	(735.3)	(1.2)	(782.8)	(1.0)
Sales of minerals *in situ*	(99.4)	0.0	(110.3)	0.0
December 31, 2009	**10,262.2**	**6.9**	**10,982.4**	**5.6**
Reserves quantity information for the year ended December 31, 2008				
January 1, 2008	9,552.8	0.0	12,479.8	0.0
Revisions of previous estimates	130.2	0.0	195.2	0.0
Improved recovery	29.8	0.0	7.5	0.0
Purchases of minerals *in situ*	12.3	0.0	123.1	0.0
Extensions and discoveries	76.2	0.0	152.7	0.0
Production	(685.1)	0.0	(818.9)	0.0
Sales of minerals *in situ*	(10.7)	0.0	0.0	0.0
December 31, 2008	**9,105.5**	**0.0**	**12,139.4**	**0.0**
Reserves quantity information for the year ended December 31, 2007				
January 1, 2007	9,418.1	0.0	11,765.9	0.0
Revisions of previous estimates	666.8	0.0	586.1	0.0
Improved recovery	25.3	0.0	11.5	0.0
Purchases of minerals *in situ*	2.4	0.0	0.0	0.0
Extensions and discoveries	102.3	0.0	852.9	0.0
Production	(659.7)	0.0	(736.6)	0.0
Sales of minerals *in situ*	(2.4)	0.0	0.0	0.0
December 31, 2007	**9,552.8**	0.0	**12,479.8**	0.0

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

Proved Undeveloped Reserves

The most significant changes to and investments in our proved undeveloped reserves in 2009 occurred within Brazil. The net addition of proved undeveloped reserves in Brazil was 499.0 mmboe in 2009, 434.7 mmboe of which was due to higher oil prices and technical revisions. In 2009, we invested a total of U.S.$8.1 billion to convert proved undeveloped reserves into proved developed reserves, of which approximately 93% (U.S.$7.5 billion) was invested in Brazil. We converted a total of 714.3 mmboe of proved undeveloped reserves to proved developed reserves in 2009, approximately 90% (640 mmboe) of which were Brazilian reserves.

In recent years, we have developed projects and increased investments to convert our proved undeveloped reserves into proved developed reserves.

We had a total of 4.8 bnboe of proved undeveloped reserves at year-end 2009, approximately 9% (430 mmboe) of which have remained undeveloped for five years or more as a result of several factors affecting development and production, including the inherent complexity of ultra-deepwater developments projects, particularly in Brazil, and constraints in the capacity of our existing infrastructure.

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Properties

The following tables show the number of gross and net productive oil and natural gas wells and total gross and net developed and undeveloped oil and natural gas acreage in which Petrobras had interests as of December 31, 2009. A gross well or acre is one in which a whole or fractional working interest is owned, while the number of net wells or acres is the sum of the whole or fractional working interests in gross wells or acres.

	As of December 31, 2009							
	Oil		Natural gas		Synthetic oil		Synthetic gas	
Gross and net productive wells:	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Brazil	7,910	7,907	281	275	0	0	0	0
International								
South America (outside of Brazil)	5,615	4,303	534	383	0	0	0	0
North America	9	4	9	4	0	0	0	0
Africa	33	6	0	0	0	0	0	0
Total international	5,657	4,313	543	387	0	0	0	0
Total consolidated	13,567	12,220	824	662	0	0	0	0
Equity and non-consolidated affiliates:								
South America (outside of Brazil)	119	41	303	73	0	0	0	0
Total gross and net productive wells	13,686	12,261	1,127	735	0	0	0	0

	As of December 31, 2009							
	Oil		Natural gas (in acres)		Synthetic oil		Synthetic gas	
Gross and net developed acreage:	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Brazil	3,501,418	3,408,257	97,764	85,602	34,595	34,595	0	0
International								
South America (outside of Brazil)	1,446,170	964,839	2,068,363	1,498,066	0	0	0	0
North America	13,248	6,582	21,811	9,290	0	0	0	0
Africa	346,049	69,784	31,696	6,339	0	0	0	0
Total international	1,805,467	1,041,205	2,121,870	1,513,695	0	0	0	0
Total consolidated	5,306,885	4,449,462	2,219,634	1,599,297	34,595	34,595	0	0
Equity and non-consolidated affiliates:								
South America (outside of Brazil)	220,110	54,687	42,434	11,853	0	0	0	0
Total gross and net developed acreage	5,526,995	4,504,149	2,262,068	1,611,150	34,595	34,595	0	0

	As of December 31, 2009							
	Oil		Natural gas (in acres)		Synthetic oil		Synthetic gas	
Gross and net undeveloped acreage:	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Brazil	855,915	710,270	490,264	285,023	0	0	0	0
International								
South America (outside of Brazil)	510,079	320,201	1,149,938	774,009	0	0	0	0
North America	1,751	1,751	3,071	1,650	0	0	0	0
Africa	266,830	53,366	0	0	0	0	0	0
Total international	778,660	375,318	1,153,009	775,659	0	0	0	0
Total consolidated	1,634,575	1,085,588	1,643,273	1,060,682	0	0	0	0

Equity and non-consolidated affiliates:								
South America (outside of Brazil)	179,766	45,406	42,805	12,141	0	0	0	0
Total gross and net undeveloped acreage	1,814,341	1,130,994	1,686,078	1,072,823	0	0	0	0

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Drilling and Other Exploratory and Development Activities

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

	2009	2008	2007
Net productive exploratory wells drilled:			
Consolidated subsidiaries:			
Brazil	35.66	50.25	56.57
South America (outside of Brazil)	1.23	2.2	1.73
North America	0.20	0.75	1.00
Africa	0.45	0.10	0.16
Other	0.00	1.25	1.00
Total consolidated subsidiaries	37.54	54.55	60.46
Equity and non-consolidated affiliates:			
South America (outside of Brazil)	0.00	0.00	0.00
Total productive exploratory wells drilled	37.54	54.55	60.46
Net dry exploratory wells drilled:			
Consolidated subsidiaries:			
Brazil	55.68	71.24	34.65
South America (outside of Brazil)	1.99	6.63	3.56
North America	1.00	0.25	1.00
Africa	1.05	0.00	0.17
Other	0.00	0.00	0.10
Total consolidated subsidiaries	59.72	78.12	39.48
Equity and non-consolidated affiliates:			
Venezuela	0.00	0.00	0.00
Total dry exploratory wells drilled	59.72	78.12	39.48
Total number of net wells drilled.	97.26	132.67	99.94
Net productive development wells drilled:			
Consolidated subsidiaries:			
Brazil	546.15	369.00	325.35
South America (outside of Brazil)	57.00	163.23	212.98
North America	0.00	0.00	0.00
Africa	1.70	2.24	2.53
Other	0.00	0.00	0.00
Total consolidated subsidiaries	604.85	534.47	540.86
Equity and non-consolidated affiliates:			
Venezuela	6.00	6.00	5.00
Total productive development wells drilled	610.85	540.47	545.86
Net dry development wells drilled:			
Consolidated subsidiaries:			
Brazil	9.80	4.00	3.00
South America (outside of Brazil)	0.00	0.00	0.00
North America	0.00	0.00	0.00
Africa	0.00	0.00	0.00

Other	0.00	0.00	0.00
Total consolidated subsidiaries	9.80	4.00	3.00
Equity and non-consolidated affiliates:			
Venezuela	0.00	1.00	0.00
Total dry development wells drilled	9.8	5.00	3.00
Total number of net wells drilled	620.65	545.47	548.86

We also conduct limited oil shale mining operations in São Mateus do Sul, in the Paraná Basin of Brazil, and we use oil shale from these deposits to produce synthetic oil and gas.

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Present Activities

The following table summarizes the number of wells in the process of being drilled as of December 31, 2009. For more information about our on-going exploration and production activities in Brazil, see Exploration and Production. Our present exploration and production activities outside of Brazil are described in International.

	Year-end 2009 Gross	Net
Wells Drilling		
Consolidated Subsidiaries:		
Brazil	69	65.93
International		
South America (outside of Brazil)	105	60.22
North America	4	1.20
Africa	19	3.20
Others	0	0
Total International	128	64.62
Total consolidated production	197	130.55
Equity and non-consolidated affiliates:		
Venezuela	21	6
Total wells drilling	218	136.55

Delivery Commitments

We sell crude oil under a variety of contractual obligations, primarily through long-term and spot-market contracts in quantities based on production from specified properties. Some of our long-term contracts specify delivery of fixed and determinable quantities. We are contractually committed to deliver to third parties a total of approximately 360 mbbl/d in 2010, 266 mbbl/d in 2011 and 200 mbbl/d in 2012 of crude oil. We have met all contractual delivery commitments, and we believe our domestic proved reserves are sufficient to allow us to continue to deliver all contracted volumes.

We also sell natural gas under contracts that specify delivery of fixed and determinable quantities. For information on our natural gas delivery commitments and pricing, see Gas and Power Natural Gas.

Exploration and Production

in 2000 and 1,971 mbbl/d in 2009. In 1974 we made our first discovery in the Campos Basin offshore in Brazil, which now accounts for over 84% of our proved reserves. We aim to grow oil and gas reserves and production sustainably and be recognized for excellence in Exploration and Production operations. Our primary goals are to:

- explore and develop oil resources in increasingly deeper waters in the Campos Basin;
- explore and develop Brazil s two other most promising offshore basins: Espírito Santo (light oil, heavy oil and gas) and Santos (gas and light oil);
- develop gas resources in the Santos Basin and elsewhere to meet Brazil s growing demand for gas and increase the contribution of domestic gas production to meeting that demand;

Oil and gas exploration and production activities in Brazil are the largest component of our company portfolio. In 1970, we produced 164 mbbl/d of crude oil, condensate and natural gas liquids in Brazil. We increased production to 181 mbbl/d in 1980, 654 mbbl/d in 1990, 1,271 mbbl/d

- explore and develop the potentially substantial pre-salt reservoirs that lie below the Espírito Santo, Campos and Santos basins; and
- sustain and increase production from onshore fields through drilling and enhanced recovery operations.

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In new areas, our activities typically begin with geological research and seismic activities, followed by exploratory drilling. When this yields encouraging results, we proceed with extended well tests, development drilling and pilot production, which typically involve substantial investments. It usually takes several years for successful exploration activity to be reflected in increased reserves and production.

During 2009, our oil and gas production from Brazil averaged 2,101 mboe/d, of which 93.8% was oil and 6.2% was natural gas. On December 31, 2009, our estimated net proved crude oil and natural gas reserves in Brazil were 11.56 billion boe, of which 86% was crude oil and 14% was natural gas. Brazil provided 90% of our worldwide production in 2009 and accounted for 95% of our worldwide reserves at December 31, 2009 on a barrels of oil-equivalent basis. Historically, approximately 85% of our total Brazilian production has been oil; in the future, we plan to increase the share of natural gas to meet increasing domestic demand. In 2009, we drilled a total of 558 development wells, of which 41 were offshore and 517 were onshore.

Brazil s richest oil fields are located offshore, most of them in deep waters. Since 1971, when we started exploration in the Campos Basin, we have been active in these waters and we have become globally recognized as innovators in the technology required to explore and produce hydrocarbons in deep and ultra-deep water. We operate more production (on a boe basis) from fields in deep and ultra-deep water than any other company, according to PFC Energy, an energy consultancy.

In 2009, offshore production accounted for 75.9% of our production and deepwater production accounted for 86.3% of our production in Brazil. At December 31, 2009, we operated 203 wells in water deeper than 1,000 meters (3,281 feet). By December 31, 2009, we had drilled around 29 exploratory wells in water deeper than 1,000 meters (3,281 feet). We continue to upgrade our deepwater technologies. See Item 5. Operating and Financial Review and Prospects Research and Development.

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

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

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

Exploration and Production Key Statistics

	2009	2008	2007
		(U.S.$ million)	
Exploration and Production:			
Net operating revenues	38,777	59,024	41,991
Income before income tax	14,588	31,657	21,599
Total assets at December 31	77,596	51,326	53,175
Capital expenditures	16,488	14,293	9,448

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

Basin	**Fields**	**Petrobras %**	**Type**	**Fluid(1)**
Alagoas	Pilar/Rio Remedio	100%	Onshore	Light Oil/Natur
Camamu	Manati	35%	Shallow	Natural Ga
Campos	Albacora	100%	Shallow	Intermediate
			Deepwater	Intermediate
	Albacora Leste	90%	Deepwater	Intermediate
			Ultra-deepwater	
	Barracuda	100%	Deepwater	Intermediate
	Bicudo	100%	Shallow	Intermediate
	Bijupirá/Salema	22.4%(2)	Deepwater	Intermediate
	Bonito	100%	Shallow	Intermediate
	Carapeba	100%	Shallow	Intermediate
	Caratinga	100%	Deepwater	Intermediate
	Cherne	100%	Shallow	Intermediate
	Corvina	100%	Shallow	Intermediate
	Enchova	100%	Shallow	Heavy Oi
	Espadarte	100%	Deepwater	Intermediate
	Jubarte	100%	Deepwater	Heavy Oi
	Marimba	100%	Deepwater	Intermediate
	Marlim	100%	Deepwater	Heavy Oi
	Marlim Leste	100%	Deepwater	Intermediate
				Intermediate
	Marlim Sul	100%	Deepwater	Intermediate
			Ultra-deepwater	
	Namorado	100%	Shallow	Intermediate
	Pampo	100%	Shallow	Intermediate
	Pargo	100%	Shallow	Intermediate
	Roncador	100%	Ultra-deepwater	Intermediate
	Vermelho	100%	Shallow	Heavy Oi
	Voador	100%	Deepwater	Heavy Oi
Espírito Santo	Fazenda Alegre	100%	Onshore	Heavy Oi
	Peroá	100%	Shallow	Light Oil
	Golfinho	100%	Deepwater	Intermediate
			Ultra-deepwater	Intermediate
Potiguar	Canto do Amaro/Alto da Pedra/Cajazeira Estreito/Rio Panon	100%	Onshore	Intermediate Oil/N
		100%	Onshore	Heavy Oil/Natu
Recôncavo	Jandaia	100%	Onshore	Light Oil
	Miranga	100%	Onshore	Light Oil/Natur

Santos	Merluza	100%	Shallow	Natural Ga
Sergipe	Carmopolis	100%	Onshore	Intermediate
	Siririzinho	100%	Onshore	Intermediate
Solimões	Leste do Urucu	100%	Onshore	Light Oil/Natur
	Rio Urucu	100%	Onshore	Light Oil/Natur

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

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

We conduct exploration, development and production activities in Brazil through concession contracts, which we obtain through participation in bid rounds conducted by the ANP. Some of our existing concessions were granted by the ANP without an auction in 1998, as provided by the Oil Law. These are known as the Round Zero concession contracts. Since such time, we have participated in all of the auction rounds, most recently in December 2008.

Our domestic oil and gas exploration and production efforts are primarily focused on three major basins offshore in Southeastern Brazil: Campos, Espírito Santo and Santos.

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The following map shows our concession areas in Brazil as of December 2009.

Campos Basin

The Campos Basin, which covers approximately 115,000 km^2 (28.4 million acres), is the most prolific oil and gas basin in Brazil as measured by proved hydrocarbon reserves and annual production. Since we began exploring this area in 1971, over 60 hydrocarbon accumulations have been discovered, including eight large oil fields in deep water and ultra-deep water. The Campos Basin is our largest oil- and gas-producing region, producing an average 1,693.6 mbbl/d of oil and 12.0 mmm^3 /d (453.6 mmcf/d) of associated natural gas during 2009, 84.2% of our total production from Brazil.

At December 31, 2009, we were producing from 41 fields at an average rate of 1,693.6 mbbl/d of oil and held proved crude oil reserves representing 90% of our total proved crude oil reserves in Brazil. At December 31, 2009, we held proved natural gas reserves in the Campos Basin representing 53% of our total proved natural gas reserves in Brazil. We operated 38 floating production systems, 14 fixed platforms and 5,472 km (3,400.3 miles) of pipeline and flexible pipes in water depths from 80 to 1,886 meters (262 to 6,188 feet), delivering oil with an average API gravity of 22.9° and an average BSW of 1%. At December 31, 2009, we held exploration rights to 21 blocks in the Campos Basin, comprising 5,884 km^2 (1.4 million acres).

In 2009, we installed and began operations in Platform P-51 located in the Marlim Sul field and FPSO Cidade de Niterói located in the Marlim Leste fields of offshore Campos Basin, which added combined capacities of 280 mbbl/d of oil and 9.5 mmm^3 /d of natural gas. In addition to participating in the installation of these two platforms in 2009 as the operator, we also participated in the installation of two other FPSOs, located in Frade and in Parque das Conchas, operated by our partners, and in which we have interests of 30% and 35%, respectively.

Espírito Santo Basin

We have made several discoveries of light oil and natural gas in the Espírito Santo Basin, which covers approximately 75,000 km^2 (18.5 million acres) offshore and 14,000 km^2 (3.5 million acres) onshore. At December 31, 2009, we were producing from 46 fields at an average rate of 40.9 mbbl/d and held proved crude oil reserves, representing 1% of our total proved crude oil reserves in Brazil. At December 31, 2009, we were producing natural gas at an average rate of 1.5 mmm^3 /d (54.9 mmcf/d) and held proved natural gas reserves representing 7% of our total proved natural gas reserves in Brazil.

On December 31, 2009, we held exploration rights to 23 blocks, six onshore and 17 offshore, comprising 8,623 km^2 (2.1 million acres).

In 2009, we installed and began operations in FPSO Cidade de São Mateus in Camarupim of the Espírito Santo Basin with capacity to produce 25 mbbl/d of oil and 10 mmm^3 /d of natural gas. We are developing another deepwater project to increase natural gas production from the Espírito Santo Basin, the Canapu project served by the FPSO Cidade de Vitória with capacity to produce 2 mmm^3 /d, which is expected to come on stream in the second quarter of 2010.

In addition to developing new projects, we are also optimizing existing resources in the Golfinho field by moving the FPSO Capixaba to the Parque das Baleias field in the Campos Basin in anticipation of our pre-salt exploration efforts there. We reconnected two wells previously served by the FPSO Capixaba to the FPSO Cidade de Vitória in the Golfinho field.

We expect that future new-source production from Campos will be predominantly from deepwater oil fields. We are currently developing 12 major projects in the Campos Basin: Marlim Sul Modules 2 and 3, Marlim Leste Module 2, Roncador Modules 3 and 4, Jubarte Phase II, Cachalote Phase I, pre-salt reservoirs of Parque das Baleias, Papa-Terra, Frade, Ostra and Baleia Azul.

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Santos Basin

The Santos Basin, which covers approximately 348,900 km^2 (86 million acres) off the city of Santos, in the State of São Paulo, is one of the most promising exploration areas offshore Brazil and the focus of our plans to develop domestic natural gas. At December 31, 2009, we produced oil from two fields and one exploration area at an average rate of 14.4 mbbl/d and held proved crude oil reserves representing 1% of our total proved crude oil reserves in Brazil. At December 31, 2009, we produced natural gas at an average rate of 0.7 mmm^3 /d (26.3 mmcf/d) and held proved natural gas reserves in the Santos Basin representing 16% of our total proved natural gas reserves in Brazil.

In January 2006, we approved a plan to increase our gas production to meet increasing domestic gas demand. In order to continually develop and focus our goal, we subsequently approved a second plan, known as Plangas, to accelerate gas production and build supporting infrastructure in the Santos and Espírito Santo basins. We expect these investment plans to increase our average gas production capacity from the Santos Basin from 0.58 mmm^3 /d (20.5 mmcf/d) in 2009 to 15.4 mmm^3 /d (543.4 mmcf/d) by January 2011.

Gas development plans for the Santos Basin include:

- Mexilhão, located in shallow water in Santos Basin Block BS-400, is scheduled to come on stream in 2010 with initial production of approximately 1.9 mmm^3 /d (67.0 mmcf/d), potentially increasing to 9.3 mmm^3 /d (328.2 mmcf/d) in 2012;

- Urugua-Tambau is expected to produce at an initial rate of 1 mmm^3 /d (35.3 mmcf/d) in 2010, potentially increasing to 7.9 mmm^3 /d (278.8 mmcf/d) of gas and 30 mbbl/d of light oil in 2012; and

- Lagosta came on stream in 2009, with initial production of approximately 1.4 mmm^3 /d (49.4 mmcf/d), potentially increasing to 1.8 mmm^3 /d (63.6 mmcf/d).

On December 31, 2009, we held exploration rights to 49 blocks in the Santos Basin, comprising 28,384 km2 (7.0 million acres).

Pre-Salt Reservoirs

In recent years, we have focused our offshore exploration efforts on pre-salt reservoirs located in a region approximately 800 km (497 miles) long and 200 km (124 miles) wide stretching from the Campos to the Santos basins. Our existing concessions in this area cover approximately 24% (35,739 km^2 or 8.4 million acres) of the pre-salt areas. An additional 4% (6,000 km^2 or 1.5 million acres) is under concession to other oil companies for exploration. The remaining 72% (107,230 km^2 or 26 million acres) of the pre-salt region is not yet under concession, and the licensing of new pre-salt concessions is on hold pending the outcome of a regulatory review by the Brazilian government. See Regulation of the Oil and Gas Industry in Brazil Proposed Changes to the Oil Law.

Since 2005, we have drilled 41 wells as operator in this 149,000 km^2 (36.8 million acre) area, 85% of which have yielded discoveries of hydrocarbon resources. We hold interests ranging from 20% to 100% in the pre-salt exploration areas under concession to us. In the southern part of the region, where the salt layer is thick and the hydrocarbons have been more perfectly preserved, we have made particularly promising discoveries, including Blocks BM-S-11 (Tupi and Iara) and BM-S-9 (Carioca and Guará) in the Santos Basin since 2006. In the northern part of the region, we made significant discoveries in 2008 and early 2010 in the area known as Parque das Baleias and in the Barracuda field, both in the Campos Basin.

As a result, we are committing substantial resources to develop these pre-salt discoveries, which are located in deep and ultra-deep waters at target depths of between 5,000 and 7,000 meters (16,404 and 22,966 feet). According to the 2009-2013 Business Plan, we plan to invest U.S.$28.9 billion, approximately 31% of our total domestic capital expenditures for exploration and production in the period, in the development of the pre-salt reservoirs through 2013.

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Santos Basin Pre-Salt

In May 2009, we initiated production in the pre-salt region of the Santos Basin with an extended well test in Tupi that has produced, on average, 20 mbbl/d. In 2009, we also drilled five wells in the same region, and we expect to drill up to 11 new wells here in 2010. These efforts are part of our Phase 0 development plan for 2009 to 2013, during which we will gather information about the pre-salt reservoirs in the region and test drilling technologies to improve efficiency and minimize costs. In the last quarter of 2010, we plan to start- up two EWTs and also a pilot system FPSO with capacity of 100 mbbl/d.

From 2013 to 2017, we will adapt standard FPSO technology from the Campos Basin for use in the pre-salt region of the Santos Basin in order to accelerate production in the area and generate cash flow to finance additional investment in the region. During this Phase 1A, we expect two pilot system FPSOs with a capacity of 120 mbbl/d per unit to start up by 2013 to 2014, to be followed by eight additional systems with a capacity of 150 mbb/d per unit scheduled to start up between 2015 and 2016. Beginning in 2017, we will initiate Phase 1B of our development plan that will feature, among other developments, improved technologies and engineering specifically designed for the pre-salt region of the Santos Basin. As a result, we expect production levels in the region to accelerate significantly during this period.

Although we have made promising discoveries in the region, we are still in the early stages of our exploration efforts and do not expect to classify any pre-salt reserves in the Santos Basin as proven before year-end 2010.

Campos Basin Pre-Salt

In the pre-salt region of the Campos Basin, we have drilled a total of 23 wells and we made a significant discovery of intermediate oil (30° API) in the Parque das Baleias area in November 2008, followed by a promising discovery of 28° API oil at our ultra-deep exploratory well in the Barracuda area in February 2010. These recent discoveries are in addition to our ongoing EWT in the Jubarte field off the coast of the State of Espírito Santo, where a single well pilot system has been producing at an average rate of 10 to 12 mbbl/d since September 2008. We expect to accelerate pre-salt production in Parque das Baleias using existing infrastructure in the area. In December 2008, we began another EWT with a dynamic positioned vessel in the Cachalote field, which lasted until November 2009, and we expect to start producing from this field and from the Baleia Franca field using an existing FPSO by the second half of 2010. In 2012, we expect to start-up a pilot system exclusively dedicated to pre-salt exploration in the area of Baleia Azul using FPSO Espadarte.

To date, the pre-salt layer located off the coast of the State of Espírito Santo in the Campos Basin has contributed 182 mmboe to our domestic proved reserves.

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

Other Basins

We produce hydrocarbons and hold exploration acreage in eight other basins in Brazil. Of these, the most significant are the shallow offshore Camamu Basin and the onshore Potiguar, Recôncavo, Rio Grande do Norte, Sergipe, Alagoas and Solimões basins.

While our onshore production is primarily in mature fields, we plan to sustain and slightly increase production from these fields in the future by using enhanced recovery methods.

We had a total of 318 production agreements as of December 31, 2009, and were the 100% owner in 283 of them. We are operators under 12 of our 35 partnership agreements.

The following table describes our principal development projects in the various basins and their production capacity:

Field	Unit Type	Production Unit	Crude Oil Nominal Capacity (bbl/d)	Natural Gas Nominal Capacity (mcf/d)	Water Depth (meters)	Start Up (year)	Notes
Tiro e Sidon	SS	Atlantic Zephyr	20,000	0	150	2010	Chartered from PETROSERV
Canapu	n/a	n/a	0	70,628	1,440	2010	Production by FPSO Cidade de Vitória
Mexilhão	Fixed Platform	PMXL-1	0	529,710	172	2010	
Urugua-Tambau	FPSO	Cidade de Santos	35,000	353,140	1,300	2010	Chartered from Modec
Tupi pilot	FPSO	Cidade de Angra dos Reis	100,000	176,573	2,200	2010	Chartered from Modec
Cachalote and Baleia Franca	FPSO	Capixaba	100,000	123,599	n/a	2010	Existing FPSO chartered from SBM
Marlim Sul-Module 3	SS	P-56	100,000	211,884	n/a	2011	
Jubarte-Phase II	FPSO	P-57	180,000	70,628	1,300	2011	
Baleia Azul	FPSO	Espadarte	100,000	88,285	1,400	2012	Existing FPSO chartered from SBM
Roncador-Module 3	SS	P-55	180,000	211,884	1,790	2012	
Roncador-Module 4	FPSO	P-62	180,000	211,884	1,545	2013	
Papa-Terra-Module 1	TLWP	P-61	0	0	1,180	2013	Production by P-63
Papa-Terra-Module 2	FPSO	P-63	150,000	31,783	1,165	2013	

Guara Pilot	FPSO	n/a	120,000	176,573	2,141	2013
Baleia Azul	FPSO	P-58	180,000	211,884	1,400	2014
Tupi Nordeste Pilot	FPSO	n/a	120,000	176,573	2,130	2014

Exploration

As of December 31, 2009, we had 147 exploration agreements covering 225 blocks, and 33 evaluation plans. We are exclusively responsible for conducting the exploration activities in 66 of the 147 exploration agreements. As of December 31, 2009, we had partnerships in exploration with 23 foreign and domestic companies, for a total of 81 agreements.

We conduct exploration activities under 57 of our 81 partnership agreements.

We focus much of our exploration effort on deepwater drilling, where the discoveries are substantially larger and our technology and expertise create a competitive advantage. In 2009, we invested a total of U.S.$3.3 billion in exploration activities in Brazil. We drilled a total of 116 gross exploratory wells in 2009, of which 51 were offshore and 65 onshore, with a success ratio of 40%.

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Because offshore Brazil is geographically isolated from other offshore drilling areas, and because we often drill in unusually deep waters, we plan carefully for our future drilling rig needs. By using a combination of our own rigs and units that we contract for periods of three years or longer, we have historically ensured the availability of drilling units to meet our needs, and paid lower average day rates than if we had contracted the units on a spot basis. We continually evaluate our need for rigs, renew our drilling contracts, contract ahead for rigs as needed, and stimulate new rig construction by signing long-term operating leases with drilling contractors for rigs that are not yet built.

We have entered into three to ten-year contracts for 27 additional drilling rigs to engage in deep-water exploration of our offshore fields. These rigs will arrive in Brazil and begin operations during 2010 through 2012. Of these 27 rigs, one will have the capacity to operate in water depths of up to 1,500 meters (4,920 feet), three will be capable of operating in water depths of up to 2,000 meters (6,560 feet), 12 will be capable of operating in water depths of up to 2,400 meters (7,830 feet), and 11 will be capable of drilling in water depths of up to 3,000 meters (9,840 feet). All of these rigs will be chartered by us and have been built or are being built in shipyards outside Brazil

Drilling Units in Use by Exploration and Production	**On December 31**					
	2009		**2008**		**2007**	
	Leased	**Owned**	**Leased**	**Owned**	**Leased**	**Owned**
Onshore	31	13	25	11	14	13
Offshore, by water depth (WD)	36	9	31	8	27	8
Jack-up rigs	2	5	2	4	1	4
Floating rigs:						
500 to 1000 meter WD	9	2	9	2	6	2
1000 to 1500 meters WD	12	1	10	1	10	1
1500 to 2000 meters WD	8	1	7	1	7	1
2000 to 2500 meters WD	4	0	2	0	2	0
2500 to 3000 meters WD	1	0	1	0	1	0

In addition to these 27 new drilling rigs already contracted, we are currently bidding for the construction of seven drill ships and two additional drilling rigs, which can be drill ships, semi- submersible units or mono-column drill ships, as well as charters for up to 19 additional drilling units. All of these 28 rigs are to be built in Brazil, to develop a Brazilian rig building industry that can meet our long-term needs. We expect to fulfill our future drilling requirements with a combination of rigs built in Brazil, supplemented when needed by the international fleet of deepwater rigs.

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

We also intend to minimize costs by dividing engineering procurement and construction packages into smaller pieces and purchasing equipment from or contracting with a greater number of competitors, as well as by increasing oversight over suppliers.

Proved Reserves

On December 31, 2009, our estimated proved reserves of crude oil and natural gas in Brazil totaled 11.56 billion barrels of oil equivalent, including: 9.92 billion barrels of crude oil and natural gas liquids and 261.24 bnm3 (9.86 tcf) of natural gas. As of December 31, 2009, our domestic proved developed crude oil reserves represented 62% of our total domestic proved developed and undeveloped crude oil reserves. Our domestic proved developed natural gas reserves represented 55% of our total domestic proved developed and undeveloped natural gas reserves. Total

In 2009, higher oil prices contributed to cost inflation in the industry and reduced availability of oil and gas production equipment. We have taken measures to minimize cost and risk by simplifying and standardizing our equipment, wherever possible. We are increasing our use of industry- standard equipment instead of developing our own custom-made standards and equipment.

domestic proved crude oil reserves increased at an average annual rate of 1% in the last five years. Natural gas proved reserves increased at an average annual rate of 4% over the same period. Recent discoveries in our pre-salt reservoirs are still under evaluation and to a significant degree are not included in our proved reserves. In 2009, our domestic proved reserves increased by 13% due in part to increased recovery from existing fields, new discoveries in exploratory blocks and revisions in costs. See Overview of the Group Changes in Total Proved Reserves.

See Overview of the Group, and Supplementary Information on Oil and Gas Producing Activities in our audited consolidated financial statements for further details on our proved reserves.

Refining, Transportation and Marketing

We are an integrated company with a dominant market share in our home market. As of December 31, 2009, we operated 92% of Brazil s total refining capacity and we supplied almost all of the refined product needs of third-party wholesalers, exporters and petrochemical companies, in addition to the needs of our Distribution segment. We own and operate eleven refineries in Brazil, with a total net distillation capacity of 1,942 mbbl/d, and are one of the world s largest refiners.

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

We also import and export crude oil and oil products. We continue to import certain oil products, particularly diesel, for which Brazilian demand exceeds refining capacity, although in smaller volumes than in 2008 because we were able to increase our diesel production by increasing the efficiency of our refineries. We expect the need for imports to decline in the future as we build additional refining capacity and upgrade our refineries to facilitate the processing of domestically produced crudes. We export our surplus heavy crude oil, and expect exports to increase as our production increases more rapidly than Brazilian demand for oil.

Our Refining, Transportation and Marketing segment also includes petrochemical and fertilizer operations that add value to the hydrocarbons we produce and provide beneficial inputs to the growing Brazilian economy.

Refining, Transportation and Marketing Key Statistics

	2009	2008	2007
		(U.S.$ million)	
Refining, Transportation and Marketing:			
Net operating revenues	74,621	96,202	69,549
Income (loss) before income tax	9,819	(2,956)	4,171
Total assets at December 31	50,469	27,521	31,218
Capital expenditures	10,466	7,234	4,488

Refining

We are committed to developing as an integrated energy company and to increasing our refining capacity in Brazil both to accompany the refining needs of an anticipated increase in oil exploration and production in the near future and the increasing long-term demands of a growing Brazilian market for oil products.

Our refining capacity in Brazil as of December 31, 2009, was 1,942 mbbl/d and our average throughput during 2009 was 1,791 mbbl/d.

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The following table shows the installed capacity of our Brazilian refineries as of December 31, 2009, and the average daily throughputs of our refineries in Brazil and production volumes of principal oil products in 2009, 2008 and 2007.

Name (Alternative Name)(1)	Location	Crude Distillation Capacity at December 31, 2009 (mbbl/d)	Average Throughput 2009	2008 (mbbl/d)	2007
LUBNOR	Fortaleza (CE)	7	7	6	6
RECAP (Capuava)	Capuava (SP)	53	44	45	42
REDUC (Duque de Caxias)	Rio de Janeiro (RJ)	242	238	256	243
REFAP (Alberto Pasqualini)	Canoas (RS)	189	169	142	148
REGAP (Gabriel Passos)	Betim (MG)	151	140	143	132
REMAN (Isaac Sabbá)	Manaus (AM)	46	41	39	41
REPAR (Presidente Getúlio Vargas)	Araucária (PR)	189	185	183	169
REPLAN (Paulínia)	Paulinia (SP)	365	341	324	348
REVAP (Henrique Lage)	São Jose dos Campos (SP)	251	241	205	236
RLAM (Landulpho Alves)	Mataripe (BA)	279	220	254	261
RPBC (Presidente Bernardes)	Cubatão (SP)	170	165	168	153
Total		**1,942**	**1,791**	**1,765**	**1,779**

(1) We have a 100% interest in each of these refineries, with the exception of REFAP, in which we have a 70% share.

The crude oil we currently produce in Brazil is heavy or intermediate, while our refineries were originally designed to run on lighter imported crude. We import some light crude to balance the slate for our refineries and are investing in our refinery system to maximize our ability to process heavier domestic crude. These investments will give us the flexibility to adjust our mix between heavy and light crudes to take advantage of market prices and match our refinery outputs to product demand.

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

	Year-end 2009	Year-end 2008 (mbbl/d)(1)	Year-end 2007
Domestic Output of Oil Products(2):			
Refining and marketing operations			
Diesel	737	694	670
Gasoline	331	343	350
Fuel oil	243	255	263
Naphtha	143	136	154
LPG.	135	142	147
Jet fuel	74	65	69
Other	159	153	141
Total domestic output of oil products	1,823	1,787	1,795
Installed capacity	1,942	1,942	1,986
Utilization (%)	92	91	90
Domestic crude oil as % of total feedstock processed	**79**	**78**	**78**

(1) Unaudited.

(2) As registered by the National Petroleum, Natural Gas and Biofuels Agency (ANP).

	Year-end 2009	Year-end 2008 (mbbl/d)(1)	Year-end 2007
Domestic Sales Volumes:			
Diesel	740	760	705
Gasoline	338	344	300
Fuel oil	102	110	106
Naphtha	164	151	166
LPG	210	213	206
Jet fuel	79	75	70
Other	121	84	172
Total oil products	**1,754**	**1,737**	**1,725**
Ethanol and other products	112	88	62
Natural gas	240	321	248
Total domestic market	**2,106**	**2,146**	**2,035**
Exports	707	676	618
International sales and other operations	537	552	586
Total international market(2)	**1,244**	**1,228**	**1,204**
Total sales volumes	**3,350**	**3,374**	**3,239**

(1) Unaudited.

(2) Includes PifCo s third-party sales.

In general, we plan to invest in refinery projects designed to:

- enhance the value of Brazilian crude oil by increasing our capacity to refine greater quantities of the heavier crude oil that is produced domestically;
- increase refining capacity to produce oil products that the Brazilian market demands but that we currently import, such as diesel;
- improve gasoline and diesel quality to comply with stricter environmental regulations currently being implemented; and
- reduce emissions and pollutant streams.

We are currently building a new 230 mbbl/d refinery named Abreu e Lima (RNE) in Northeastern Brazil in a proposed partnership with PDVSA, the Venezuelan state oil company. This refinery is designed to process 16º API crude and will produce 162 mbbl/d of diesel as well as LPG, naphtha, bunker fuel and petroleum coke. Based on contracts executed for the construction, the total estimated cost is approximately U.S.$13.3 billion (R$26.7 billion). We expect operations to come on-stream in 2012.

We are also planning two new refineries located in Northeastern Brazil: Premium I and Premium II with capacity of 600 mbbl/d and 300 mbbl/d, respectively. These refineries are designed to process heavy crude oil (20º API) and to maximize production of low-sulfur diesel in addition to LPG, naphtha, low-sulfur kerosene, bunker fuel and petroleum coke.

Major Refinery Projects

The following table shows our most significant planned investments in our existing refineries for 2009 to 2013:

Planned Investments 2009-2013	**(U.S.$ million)**
Quality (diesel and gasoline)	13,196
Cokers	4,602
Expansion and metallurgic adaptation	590
Total	**18,388**

The planned investments described above are primarily for hydro-treating units to reduce sulfur and meet international standards and coking units capable of converting heavy oil into lighter products.

In recent years, we have been upgrading our refineries to reduce the sulfur content of the diesel we offer to our automotive customers in Brazil from 1,800 ppm to a maximum of 500 ppm by year- end 2013. In addition, we have upgraded three of our refineries to produce low-sulfur (50 ppm) diesel, and we plan to upgrade three additional refineries to produce 50 ppm sulfur diesel in 2010 and two additional refineries to produce 10 ppm ultra-low sulfur diesel by 2013. We are simultaneously upgrading our refineries to reduce the sulfur content of our gasoline from 1,000 ppm to a maximum of 50 ppm by year-end 2014.

In 2009, we invested a total of U.S.$4,052 million in our refineries, U.S.$3,197 million of which was invested to improve the quality of our diesel and gasoline, U.S.$751 million to convert heavy oil into lighter products, and U.S.$104 million to expansion projects. Our refinery upgrades in 2009, together with existing low-sulfur diesel imports, allowed us to offer a total of 26.2 mbbl/d of 50 ppm sulfur diesel to our customers in Brazil, including to low-emission bus fleets in large Brazilian cities such as São Paulo, Rio de Janeiro, Curitiba, Belo Horizonte and Salvador, as well in the greater metropolitan areas of Belem, Fortaleza and Recife. We plan to offer an additional 45.4 mbbl/d of 50 ppm sulfur diesel for sale in 2010. In 2012, we will further increase our supply of 50 ppm sulfur diesel by 72.4 mbbl/d to meet growing demand from low-emission heavy duty vehicles. Beginning in 2013, we plan to supply 82.7 mbbl/d of 10 ppm ultra-low sulfur diesel to Brazil s fleet of low-emission heavy duty

The major refinery projects that are scheduled to be completed in our 11 refineries during 2010 are the following:

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

From 2011 through 2013, we plan to complete the following major refinery projects:

- Diesel quality upgrades at REFAP, REGAP, RLAM, REPAR, REPLAN and RPBC;
- Gasoline quality upgrades at REPLAN, REVAP, REPAR, RLAM and REMAN;
- Delayed coking units at RNE and REPAR; and

vehicles.

- Completion of two delayed coking units at RNE to increase heavy oil processing.

The following major refinery projects are scheduled to be completed after 2013:

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

In November 2009, we began improvement and expansion projects at the Potiguar Clara Camarão refinery in Guamaré, Rio Grande do Norte, with the goal of processing 33,000 bbl/d of petroleum for the production of low-sulfur diesel, gasoline and naphtha by 2010.

Imports and Exports

We use exports and imports of crude oil and oil products to balance our domestic production and refinery capacity with market needs and optimize our refining margins, importing light crude for our refineries and exporting heavier crude that is surplus to our needs.

We import diesel due to insufficient production in our Brazilian refineries and export gasoline, largely because ethanol and vehicular natural gas provide a substantial share of Brazil s light vehicle transportation fuels. We also export fuel oil, of which 35,259 bbl was exported as bunker fuel.

The table below shows our exports and imports of crude oil and oil products in 2009, 2008 and 2007:

	2009	**2008**	**2007**
		(mbbl/d)	
Exports (1)			
Crude oil	478	439	353
Fuel oil (including bunker fuel)	150	152	160
Gasoline	38	40	59
Other	39	42	43
Total exports	705	**673**	**615**
Imports			
Crude oil	396	373	390
Diesel and other distillates	78	100	83
LPG	45	40	29
Naphtha	25	23	17
Other	3	34	19
Total imports	**547**	**570**	**538**

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

Logistics and Infrastructure

We own and operate an extensive network of crude oil and oil products pipelines in Brazil that connect our terminals, refineries and other primary distribution points. On December 31, 2009, our onshore and offshore, crude oil and oil products pipelines extended 13,996 km (8,698 miles). We operate 27 marine storage terminals and 20 other tank farms with nominal aggregate storage capacity of 65 million barrels. Our marine terminals handle an average 10,000 tankers annually.

We operate a fleet of owned and chartered vessels. These provide shuttle services between our producing basins offshore Brazil and the Brazilian mainland, domestic shipping and international shipping to other parts of South America, the Caribbean Sea and Gulf of Mexico, Europe, West Africa and the Middle East.

The fleet includes double-hulled vessels, which operate internationally where required by law, and single-hulled vessels, which operate in South America and Africa only. In order to accommodate growing production volumes, we are increasing our fleet of owned vessels both to replace an ageing fleet and to decrease our dependency on chartered vessels and fluctuations in prices tied to the U.S. dollar. The new ships are needed to upgrade our fleet and handle increased production volumes. Upgrades will include replacing single-hulled tankers with double-hulled vessels and replacing vessels nearing the end of their 25-year useful life. While our near term strategy contemplates an increase to the number of owned vessels, our long-term strategy continues to focus on the flexibility afforded to us in operating a combination of owned and chartered vessels.

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In accordance with our 2009-2013 Business Plan, we intend to contract with Brazilian shipyards to construct 49 new vessels to be delivered by 2015. We have already signed contracts with four shipyards for 33 vessels for delivery between 2010 and 2014, including:

- ten Suezmax, five Aframax, four Suezmax DP and three Aframax DP ships to be constructed by the Atlantico Sul shipyard, in Suape, Pernambuco;
- four Panamax ships to be constructed by the EISA shipyard in Rio de Janeiro;
- four tankers to be constructed by the Mauá shipyard in Niterói; and
- three bunkers to be constructed by the Superpesa shipyard in Rio de Janeiro.

We expect to contract the remaining 16 vessels (eight LPG carriers and eight product tankers) in 2010. We will continue to charter additional vessels as needed in the future.

The table below shows our operating fleet and vessels under contract and in various stages of construction as of December 31, 2009.

	In Operation		**Under Contract/Construction**	
	Number	**Tons Deadweight Capacity**	**Number**	**Tons Deadweight Capacity**
Owned fleet:				
Tankers	41	2,590,485	33	3,570,350
LPG tankers	6	40,146	0	0
Anchor Handling Tug Supply (AHTS)	1	1,920	0	0
Floating, Storage and Offloading (FSO)	1	28,903	0	0
Layed-up vessel	3	56,697	0	0
Total	**52**	**2,718,151**	**33**	**3,570,350**
Chartered vessels:				
Tankers	102	11,547,564		
LPG tankers	18	593,190		
Total	**120**	**12,140,754**		

Prior to the 1997 Oil Law, we held a monopoly on Brazilian oil and natural gas pipelines and shipping oil products to and from Brazil. The Oil Law provided for open competition in the construction and operation of pipeline facilities and gave the ANP the power to authorize other entities to transport crude oil, natural gas and oil products. We subsequently transferred our transportation and storage network and fleet to a separate wholly owned subsidiary, Petrobras Transporte S.A. Transpetro. The transfer was required by the Oil Law and facilitates access to excess capacity by third parties on a non-discriminatory basis. We enjoy preferred access to the Transpetro network based on our historical usage levels. In practice, third parties make

- converting the existing oil products pipeline between Guararema and Guanabara Bay to transport 2.88 mmm^3 /y of ethanol by the second half of 2010, with a plan to expand to 4 mmm^3 /y by 2011; and
- building a new ethanol pipeline from Paulínia to São Sebastião to transport 12.9 mmm^3 /y of ethanol, primarily for export.

very limited use of this network.

We have distributed ethanol to the domestic market through our pipelines for 30 years. As the global demand for ethanol has increased, we are investing to expand our ethanol pipeline and logistics capacity, including:

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Petrochemicals and Fertilizers

Our petrochemicals operations provide a growing market for the crude oil and other hydrocarbons we produce, increase our value added and provide domestic sources for products that would otherwise be imported. We aim to expand our petrochemicals operations in Brazil and elsewhere in South America and to integrate these into our overall business.

Our strategies are to:

- increase domestic production of basic petrochemicals and engage in second generation and biopolymers activities through investments in companies in Brazil and abroad, capturing synergies within all our businesses; and

- increase production of fertilizers in order to supply the Brazilian market.

In September 2009, our board of directors approved the transfer of the fertilizer business to the Gas and Power segment effective in 2010, due to the synergies of the business of our natural gas operations.

In the past, the Brazilian petrochemicals industry was fragmented into a large number of small companies, many of which were not internationally competitive and were therefore poor customers for our petrochemical feedstocks. In 2009, we participated in the consolidation and restructuring of the Brazilian petrochemicals industry.

In June 2009, Quattor Participações (Quattor), which is 60% owned by União de Industrias Petroquímicas S.A. (Unipar) and 40% owned by Petrobras and Petroquisa, completed another step in its restructuring process in 2009 with the creation of Quattor Química S.A (Quattor Química) through a merger of Polietilenos União (PU) and Petroquimica União (PQU). Braskem S.A. (Braskem) also strengthened its position in 2009 through a merger with Petroquímica Triunfo S.A. (Triunfo), which completed the consolidation of certain of our petrochemical assets with Braskem, Odebrecht S.A. (Odebrecht), Petroquisa and Nordeste Química S.A. (Norquisa).

As a result of these restructurings, in early 2009 we held minority interests in Brazil s two largest petrochemical companies: Braskem S.A., 25.4% of total capital and 31% of voting stock, and Quattor, 40% of total capital and 40% of voting stock.

In January 2010, we further consolidated our position in the Brazilian petrochemical industry by announcing the merger of Braskem and Quattor, creating Brazil s largest petrochemicals company and the largest producer of thermoplastic resin in the Americas. We and our partner, Odebrecht, will create a new holding company for Braskem called BRK Investimentos Petroquímicos S.A. (BRK) and proceed to consolidate our direct and indirect interests in the Brazilian petrochemical industry at Braskem through a series of mergers and capital increases. Decision-making at Braskem will be governed by a Shareholders Agreement to be entered into with Odebrecht. Through our minority holding in Brazil s largest new major petrochemicals company, we can better participate in planning the industry s future needs.

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Quattor and Braskem together operate 27 petrochemical plants producing basic petrochemicals and plastics, and related distribution and waste processing operations. The table below shows the primary production capacities of each of Quattor and Braskem as of December 31, 2009.

Petrochemical Materials Nominal Capacity

	(mmt/y)
Quattor Participações	
Ethylene	1.22
Propylene	0.37
Cumene	0.32
Polyethylene	1.04
Polypropylene	0.88
Braskem	
Ethylene	2.53
Propylene	1.21
Polyethylene	2.00
Polypropylene	1.11
PVC	0.54

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

- Complexo Petroquímico do Rio de Janeiro Comperj will process process petroleum for the production of polypropylene, polyethylene, styrene and ethylene glycol, among other petrochemical products for use in the plastics industry. Comperj will also produce fuel such as LPG, diesel, kerosene, petroleum coke and sulfur in partnership with refineries and petrochemical plants. We broke ground in 2008 and began construction in 2010 with the goal of beginning production in 2013.

- Companhia Petroquímica de Pernambuco PetroquímicaSuape: a 700,000 t/y purified terephthalic acid plant to start up in 2011. PetroquímicaSuape was originally a joint venture between Companhia Integrada Têxtil do Nordeste Citene and Petroquisa. In August 2008, Citene declared its intention to withdraw from this partnership and Petroquisa subsequently acquired 100% of the project. Construction began in 2008 and is on-going.

- Companhia de Coque Calcinado de Petróleo Coquepar: two calcined petroleum coke plants, one in Rio de Janeiro and one in Paraná, with a combined capacity of 700,000 t/y. The first of the two plants is expected to start up in 2012. Coquepar is a joint venture between Petroquisa (40%), Unimetal (30%) and Energy Investments (30%).

Our fertilizer plants in Bahia and Sergipe produce ammonia and urea for the Brazilian market. In 2009, these plants sold a combined 207,000 t of ammonia and 707,000 t of urea. We are currently conducting feasibility studies for two additional fertilizer facilities:

- UFN III with the ability to produce 1.21 million t/y of urea and 761 t/y of ammonia from 2.2 mmm^3 /d of natural gas; and

- UFN IV with the ability to produce 763,000 t/y of urea and 1.1 million t/y of methanol from 4 mmm^3 /d of natural gas.

These facilities would reduce Brazil s deficit in these fertilizers, while increasing the demand for our natural gas produced offshore.

- Companhia Integrada Têxtil de Pernambuco Citepe: a 240,000 t/y of polyester yarn facility expected to start up in 2010.

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Distribution

Our Distribution segment sells oil products that are primarily produced by our Supply operations and works to expand the domestic market for these oil products and biofuels such as ethanol and biodiesel. Our primary goals are to: create value by meeting growing customer needs for fuels, including both traditional hydrocarbons and biofuels; and sustain and expand our market share by providing superior quality, service and leadership in the growing biofuels sector.

We supply and operate Petrobras Distribuidora S.A. BR, which accounts for 38.0% of the total Brazilian distribution market, according to the ANP. BR distributes oil products, ethanol and biodiesel, and vehicular natural gas to retail, commercial and industrial customers. In 2009, BR sold the equivalent of 767.4 mbbl/d of oil products and other fuels to wholesale and retail customers, of which the largest portion (40.7%) was diesel.

Distribution Key Statistics

	2009	2008	2007
		(U.S.$ million)	
Distribution:			
Net operating revenues	29,672	30,892	23,320
Income before income tax	960	1,245	676
Total assets at December 31	6,127	4,775	5,652
Capital expenditures	369	309	327

At December 31, 2009, our BR network included 7,221 service stations, or 19.2% of the stations in Brazil. This total includes 759 stations in Northern, Northeastern and Northwestern Brazil that we acquired from Ipiranga in 2007, and which were incorporated into the BR network in April 2009.

BR was Brazil s leading service station in 2009, with BR-owned and franchised stations making 30.0% of Brazil s retail diesel, gasoline, ethanol, vehicular natural gas and lubricant sales, according to the ANP. Most BR stations are owned by franchisees that use the BR brand name under license and purchase exclusively from us; we also provide technical support, training and advertising. We own 773 of the BR stations and are required by law to subcontract the operation of these owned stations to third parties.

The retail fuel market in Brazil is highly competitive and we expect that prices will be subject to continued pressure. We seek to enhance profitability and customer loyalty by building on our strong brand image and providing superior quality and service. We believe that

Service stations in our network also sell vehicular natural gas. The number of stations offering this product increased to 501 in December 2009, from 453 in December 2008, and total gas sales in 2009 were 482 mmm^3 (17,005 mmcf).

We also distribute oil products and biofuels under the BR brand to commercial and industrial customers, which accounts for 55.7% of the total Brazilian wholesale market, according to the ANP. Our customers include aviation, transportation and industrial companies, as well as utilities and government entities, all of which generate relatively stable demand.

We also sell oil products produced by our Supply operations to other retailers and to wholesalers.

Our LPG distribution business, Liquigas Distribuidora, held a 22.4% market share and ranked second in LPG sales in Brazil in 2009, according to the ANP.

We participate in the retail sector in other South American countries through our International business

our market share position is supported by a strong BR brand image and by the remodeling of service stations and the addition of lubrication centers and convenience stores.	segment. See International.

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Gas and Power

For many years, we have been simultaneously developing Brazil s natural gas reserves, infrastructure and markets. We have been developing gas sources in offshore Brazil and Bolivia, increasing our actual supply of natural gas from approximately 11.0 mmm^3 /d (388.5 mmcf/d) in 1999 to 46.1 mmm^3 /d (1,628.0 mmcf/d) in 2009. To monetize our growing production, we have constructed the Bolivia-Brazil gas pipeline completed in 1999, two LNG terminals, both completed in 2009, a domestic transportation system and gas-fired electric power generation capacity, both of which we have been developing for the past decade. As a result of our efforts, natural gas supplied 3.7% of Brazil s total energy needs in 1998 compared to 8.7% in 2009, and is projected to supply 14.2% of Brazil s energy needs by 2020, according to Empresa de Pesquisa Energética, a branch of the Ministry of Mines and Energy (MME).

The development plans of our Exploration and Production operations are expected to result in substantial increases in gas production from the Espírito Santo and Santos basins off the Brazilian coast, including from pre-salt reservoirs. We are investing in transportation infrastructure to deliver these new volumes to markets in Northeastern and Southeastern Brazil and to improve the flexibility of our distribution system. Natural gas imported from Bolivia will play a lesser though still important role in our operations as we increase domestic gas production. LNG imports will supplement gas demand in Brazil, particularly with respect to surges in demand related to thermoelectric power generation.

We are also improving our commercial operations through a suite of natural gas sales contracts that better allow us to match supply and demand for gas and electric power.

Our primary goals for our Gas and Power segment are to:

- add value by monetizing Petrobras natural gas reserves;
- assure flexibility and reliability in the commercialization of natural gas in thermoelectric and non-thermoelectric markets;
- expand our LNG business to meet demand and diversify our supply of natural gas; and
- optimize our thermoelectric power plant portfolio and invest in renewable energy sources for power generation.

Gas and Power Key Statistics

	2009	2008	2007
		(U.S.$ million)	
Gas and Power:			
Net operating revenues	5,652	8,802	4,912
Income (loss) before income tax	657	(504)	(947)
Total assets at December 31	24,861	14,993	15,536
Capital expenditures	5,116	4,256	3,223

Natural Gas

Our natural gas business comprises four activities: transportation (building and operating natural gas pipeline networks in Brazil); acquisition and regasification of LNG; equity participation in distribution companies that sell natural gas to end-users; and commercialization (purchase and resale).

Transportation

Over the last five years, we have invested approximately U.S.$13.32 billion (R$26.82 billion) to expand and improve our natural gas transportation system in Brazil.

Today, we have two main pipeline networks linked by the Southeast Northeast Interconnection Gas Pipeline (Gasene, completed in March 2010), that allow us to transport natural gas to areas of demand. The Malha Sudeste (Southeast Network) spans 5,030 km (3,125 miles) and connects our main offshore natural gas producing fields in the Campos and Espírito Santo basins to the growing markets of the Southeast Region, including Rio de Janeiro and São Paulo. The Malha Nordeste (Northeast Network) spans 1,968 km (1,223 miles) and carries gas from onshore and offshore natural gas fields in the Northeast to consumers in that region. The Southeast Network includes the 2,593 km (1,612 mile) Brazilian portion of the Bolivia-Brazil natural gas pipeline. In the Northern Region, the 661 km (411 mile) Urucu-Coari-Manaus pipeline connects the Solimões Basin to Manaus, where natural gas is used primarily to generate electric power, and also to meet industrial, commercial and retail demand.

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In 2009, we invested U.S.$4.3 billion (R$ 9.6 billion) and in 2010 we plan to invest another U.S$3.5 billion (R$6.5 billion). With the completion of our investments in 2010, the gas infrastructure in Brazil will be largely completed.

The major projects completed in 2009 and in the first half of 2010 were the following:

- Cabiúnas-Reduc (Gasduc III): a 183 km (114 mile) gas pipeline connecting the Campos and Espírito Santo basins to the Southeast Region, with the capacity to transport 40 mmm^3 /d (1,412 mmcf/d) of natural gas.
- Urucu-Coari-Manaus: a 661 km (411 mile) gas pipeline in the Northern Region with the capacity to transport up to 4.1 mmm^3 /d (144.8 mmcf/d) of natural gas, with a potential to reach up to 6.75 mmm^3 /d (238.4 mmcf/d) with the installation of two compression stations.
- The Gasene network to transport up to 20 mmm^3/d (706.3 mmcf/d) for 949 km (590 miles) from Cacimbas, in the State of Espírito Santo, to the city of Catu in the State of Bahia.
- The Japeri-Reduc (RJ) (45 km, 28 mile), Paulínia-Jacutinga (SP-MG) (93 km, 58 mile) and Cacimbas-Vitória (ES) (130 km, 81 mile) pipelines, and a 15 km (9 mile) pipeline to connect the Guanabara Bay regasification terminal.
- Gasbel II: a 296 km (167 mile) gas pipeline connecting Volta Redonda in Rio de Janeiro State to the Queluzito District in the State of Minas Gerais, with the capacity to transport up to 5 mmm^3/d of natural gas, increasing the existing capacity of the Gasbel I gas pipeline. The total capacity of the two pipelines is 7.9 mmm^3/d (279.0 mmcf/d).

Projects that are still under construction but which are scheduled to be completed during 2010 are the following:

- Caraguatatuba-Taubaté (Gastau): a 96 km (60 mile) gas pipeline in the State of São Paulo connecting the Caraguatatuba gas processing facilities to the compression station of Taubaté, with the capacity to transport 20 mmm^3/d (706.3 mmcf/d) of natural gas.
- Pilar-Ipojuca: a 189 km (117 mile) gas pipeline connecting Pilar in the State of Alagoas, to Ipojuca in the State of Pernambuco, with the capacity to transport 15 mmm^3/d (529.7 mmcf/d) of natural gas. This pipeline will allow us to increase the supply of natural gas to consumers in the Northeast Region.

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

Acquisition and Regasification of LNG

We have completed construction of two LNG terminals, one in Rio de Janeiro with a send-out capacity of 20 mmm^3 /d (706 mmcf/d) that was completed in January 2009, and the other in Pecém in Northeastern Brazil with a send-out capacity of 7 mmm^3 /d (247 mmcf/d) that was completed in December 2008.

The terminals are supported by two large LNG regasification ships with a capacity of 14 mmm^3 /d (494 mmcf/d) and 7 mmm^3 /d (247 mmcf/d), respectively. The new terminals and regasification ships give us the flexibility to import gas from other sources to supplement domestic natural gas supplies. We have negotiated and signed with several companies LNG supply contracts and Master Sales Agreements that will be used to acquire LNG cargoes as needed.

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Equity Participation in Distribution Companies

Under Brazilian law, each state holds a monopoly over local gas distribution. Most states have formed companies to act as local gas distributors and we hold interests that vary from 24% to 100% in 20 of these 27 distribution companies. Nonetheless, in all of the companies where we hold a minority stake, we appoint executive officers and members of the board of directors.

The State of Espírito Santo has assigned us exclusive rights to distribute natural gas through our BR subsidiary. In 2009, Brazil s distribution companies sold a combined 36.4 mmm^3 /d (1,285 mmcf/d) of natural gas, of which our share was 21%, according to our estimates.

The map below shows the name and location of each local gas distributor in which we have an equity interest and our share in those companies.

Our most significant distribution holdings are:

Name	State	Group Share %	Average Gas Sales in 2009 (mmm^3/d)	Customers
CEG RIO	Rio de Janeiro	37.41	3,759	23,031
BAHIAGAS	Bahia	41.50	3,100	3,328
SCGÁS	Santa Catarina	41.00	1,578	1,645
GASMIG	Minas Gerais	40.00	1,537	279

According to our estimates, our two most significant holdings, CEG Rio and Bahiagás, sold 10.3% and 8.5% of Brazil s national gas volumes in 2009, respectively. CEG Rio and Bahiagás are Brazil s third and fourth largest gas distributors. These companies, together with independent distributors Comgás (32.5% of Brazil s 2009 national gas volumes) and CEG (15.7% of the same), supply 67% of the Brazilian market.

Commercialization

In 2009, our Gas and Power segment supplied an average 46.1 mmm^3 /d (1,628.0 mmcf/d) of natural gas for consumption.

Of the 2009 total, 20.8% was used for internal consumption, 8.9% was used for thermoelectric power generation and the remaining 70.3% was consumed by industrial, commercial and retail natural gas users.

In 2009, our Exploration and Production segment supplied 49.9% of our total gas needs, we imported 48.6% from Bolivia, and the balance of 1.5% was supplied by LNG imports. We expect the proportion of domestic gas in our total supply mix to increase in future years as our Exploration and Production segment brings new gas fields on stream.

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The table below shows the sources of our natural gas supply, our sales and internal consumption of natural gas, and our revenues for each of the past three years:

Supply and Sales of Natural Gas	**2009**	**2008**	**2007**
		(mmm^3/d)	
Sources of natural gas supply			
Domestic production	23.0	30.3	22.4
Imported from Bolivia	22.4	30.4	26.9
Liquefied natural gas	0.7	0.0	0.0
Total natural gas supply	46.1	**60.7**	**49.3**
Sales of natural gas			
Sales to local gas distribution companies(1)	32.4	36.8	35.1
Sales to gas-fired power plants	4.1	12.8	4.1
Total sales of natural gas	36.5	**49.6**	**39.3**
Internal consumption (refineries, fertilizer and gas-fired power plants)(2)	9.6	11.1	10.0
Revenues (U.S.$ billion)(3)	3.5	5.1	2.8

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

(2) Includes gas used in the transport system.

(3) Excludes internal consumption.

The table below shows how the natural gas we supplied was utilized in our principal markets from 2007 to 2009:

Natural Gas Consumption	**2009**	**2008**	**2007**
		(mmm^3/d)	
Industrial, commercial and retail	32.4	36.8	35.1
Gas-fired power plants	5.3	14.7	5.8
Refineries and fertilizer plants	7.6	7.9	10.3

Consumption by industrial, commercial and retail natural gas customers decreased 11.9% in 2009 compared to 2008. The decrease in the non-thermoelectric market was due mainly to reduced industrial demand as a result of global economic conditions. Thermoelectric consumption decreased 63.9% from 2008 to 2009 due to abundant rainfall and lower industrial output.

Gas Sales Contracts and Pricing

In 2007, we adopted a suite of gas contracts that offer customers four different supply options to give us the flexibility to match our gas sales more closely to the

- Firm Flexible: we may interrupt supplies in accordance with negotiated conditions, in which case we agree to supply a substitute fuel and compensate the end user for additional costs. The price is equivalent to the gas sold under Firm Inflexible contracts. We have committed 4.20 mmm^3 /d (148.3 mmcf/d) of gas under this contract through 2012.

- Interruptible: we have the right to interrupt supplies in accordance with negotiated conditions and the distributor or end user is responsible for finding alternative fuels. The volumes we have available from our Exploration and Production segment, imports from Bolivia and LNG imports. The principal characteristics of these contracts are:

- Firm Inflexible: the distributor assures payment under take-or-pay contracts and we guarantee delivery of the contracted volume. We have committed 22.61 mmm^3 /d (798.5 mmcf/d) of gas under this contract through 2012.

distributor pays a lower price for gas under this type of contract. We have committed 3.25 mmm^3 /d (114.8 mmcf/d) of gas under this contract through 2012.

- Preferential: we are obligated to provide natural gas as demanded, but the consumer has the right to interrupt purchases at any time. We expect this type of contract to be used predominantly by thermoelectric customers using LNG. We have committed 5.12 mmm^3 /d of gas under this contract through 2012.

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The price of gas under the first three contracts includes a fixed component, which is revised annually based on the IGP-M inflation index, and a variable component, which is revised quarterly based on a fuel oil basket and exchange rate variation. Preferential contracts are priced based on a fixed component, which is revised annually based on the IPCA inflation index, and a variable component based on the price of imported LNG, which is revised monthly based on the Henry Hub rate and exchange rate variation.

Of our total sales to distribution companies in the non-thermoelectric market in 2009, approximately 47% was delivered under the new contracts. We will use the new contracts to deliver up to 63% of the volumes committed to the non- thermoelectric market through 2012.

The table below shows our future gas supply commitments from 2010 to 2014, including sales to both local gas distribution companies and gas-fired power plants.

Natural Gas Sales Contracts	**2010**	**2011**	**2012**	**2013**	**2014**
			(mmm^3/d)		
To local gas distribution companies:					
Related parties(1)	16.16	18.07	19.05	19.64	19.92
Third parties	18.09	17.81	17.48	17.10	16.88
To gas-fired power plants:					
Related parties(1)	7.68	3.69	3.60	3.60	3.63
Third parties	2.59	7.27	7.70	8.90	9.15
Total(2)	44.52	46.84	47.83	49.24	49.58
Estimated contract revenues (U.S.$ billion)(3)(4)	4.1	4.6	4.9	5.2	5.0

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

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

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

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

Short-Term Natural Gas Commitments

In order to develop and stimulate the Brazilian natural gas market in general, and the industrial market in particular, we created an auction system in early 2009 to sell natural gas to the non-thermoelectric market under short-term contracts at more competitive prices. These auctions allowed us to commercialize natural gas These auctions allowed us to offer a total of approximately 22.0 mmm^3 /d (776.9 mmcf/d) of natural gas for sale under six-month contracts at prices that were up to 41% lower than those specified under our standard long-term contracts with local gas distribution companies.

volumes reserved for but not utilized by local gas distributors, offering lower prices to the end user. Between April and September of 2009, we offered a total of approximately 12.0 mmm^3 /d (423.8 mmcf/d) of natural gas for sale through these auctions under one- and two-month contracts.

Beginning in September 2009, we expanded the short-term auctions to include natural gas volumes that had been reserved for gas-fired thermoelectric plants under long-term contracts, which we did not expect to deliver for at least six months because of low demand for power from gas- fired plants.

In total, the auctions allowed us to sell between 2.4 and 6.2 mmm^3 /d (84.8 to 218.9 mmcf/d) of natural gas between April and December 2009 under short-term contracts of between one and six months in duration, equivalent to approximately 8% of the total volume of natural gas consumed in the non-thermoelectric market in 2009 (1,036 mmm^3 or 36,586 mmcf).

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Long-Term Natural Gas Commitments

When we invested in the Bolivia-Brazil pipeline in 1996, we entered into a series of long- term contracts with three companies:

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

- Ship-or-Pay agreement with Gás Transboliviano (GTB), owner and operator of the Bolivian portion of the pipeline to transport certain minimum volumes of natural gas through 2019; and

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

Our volume obligations under the ship-or-pay arrangements were generally designed to match our gas purchase obligations under the GSA. The tables below show our contractual commitments under these agreements for the five-year period from 2010 through 2014.

Commitments to Purchase and Transport Natural Gas	**2010**	**2011**	**2012**	**2013**	**2014**
Purchase commitments to YPFB					
Volume obligation (mmm^3/d)(1)	24.06	24.06	24.06	24.06	24.06
Volume obligation (mmcf/d)(1)	850.00	850.00	850.00	850.00	850.00
Brent crude oil projection (U.S.$)(2)	61.00	72.00	74.00	68.00	60.00
Estimated payments (U.S.$ million)(3)	1,535.00	1,452.00	1,577.00	1,536.00	1,414,00
Ship-or-pay contract with GTB					
Volume commitment (mmm^3/d)	30.00	30.00	30.00	30.00	30.00
Volume commitment (mmcf/d)	1,059.00	1,059.00	1,059.00	1,059.00	1,059.00
Estimated payments (U.S.$ million)(4)	109.46	109.99	110.53	111.07	111.60
Ship-or-pay contract with TBG					
Volume commitment (mmm^3/d)	30.00	30.00	30.00	30.00	30.00
Volume commitment (mmcf/d)	1,059.00	1,059.00	1,059.00	1,059.00	1,059.00
Estimated payments (U.S.$ million)(4)	387.01	388.43	389.86	391.29	392.73

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

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

(3) Estimated payments are calculated using gas prices expected for each year based on our Brent price forecast. Gas prices may be adjusted in the future based on contract clauses and amounts of natural gas purchased by Petrobras may vary annually.

(4) Amounts calculated based on current prices defined in natural gas transport contracts.

Power

Brazil has a total of 107,185 MW of installed electric power capacity, of which around 81% is in low-cost hydroelectric stations that supply around 93% of the country s electric power needs. While hydroelectric power facilities have many advantages, and are particularly suited to meeting base electric power needs, they cannot be readily expanded, have limited ability to meet surges in demand and are vulnerable to periods of prolonged drought.

Brazil has accordingly been developing thermoelectric power generation capacity to supplement the base hydroelectric system. Thermoelectric generation is expected to play an increasing role in meeting Brazil s power needs as the country s economic growth fuels the demand for energy.

As part of this national strategy, we have been developing and operating gas-fired thermoelectric power generation plants. We currently own stakes in 26 thermoelectric power plants, and we control 16 of them. As a result of our investments in the power sector, we currently own 63% of the total gas-fired thermoelectric installed capacity in Brazil according to the *Operador Nacional do Sistema Elétrico ONS* (National Electricity System Operator) (ONS).

We generate electricity from our thermoelectric power plants to supplement Brazil s base-load hydroelectric generation. During 2009, abundant rainfall allowed the Brazilian hydroelectric system to generate 47,139 MWavg of electricity, or 93% of the country s needs. As a result, we were called upon to generate only 525 MWavg of electricity in 2009, compared to 2,025 in 2008. Of our 2009 generation, 59% was generated in the Southeast Region of the country, 30% in the South, and 11% in the Northeast.

We also export energy to neighboring countries. In 2009, we exported 80 MWavg to Argentina and Uruguay.

Electricity Capacity and Sales

Power Generation Capacity

We had a total of 5,965.9 MW of installed capacity at year-end 2009, 5,438.7 MW of which was installed in thermoelectric plants controlled by us (5,405.9 MW of gas-fired capacity, and 31 MW of oil- fired capacity).

Under Brazil s power pricing regime, we are allowed to sell only that portion of our power-generating capacity that is certified by the MME. At year-end 2009, the MME certified 2,661 MWavg of commercial capacity out of the total 5,438.7 MW of installed capacity controlled by us due to gas supply constraints.

Given the growing importance of thermoelectric generation and to increase our certified commercial capacity, in 2007 we entered into an agreement with the ANEEL under which we committed to increase our ability to supply power to the grid from our own plants. We will accomplish this by increasing natural gas supplies, including LNG, converting some existing power plants to dual- fuel operation and leasing backup oil-fired power plants. By 2011 we are committed to supply up to 6,065 MW and expect to have an average 3,696 MW certified commercial capacity available for sale, exclusive of our own power requirements.

The table below shows the installed capacity and commercial capacity of the thermoelectric power plants controlled by us for 2009 through 2012 under our agreement with the ANEEL:

Petrobras Installed Capacity and Utilization	**2009**	**2010**	**2011**	**2012**(2)
Gross installed capacity (MW)	5,966	6,065	6,065	6,100
Certified commercial capacity(1) (MWavg)	2,661	3,481	3,696	3,361

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

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

Electricity Sales

Non-base-load thermoelectric plants like ours are used to supplement hydroelectric generation when needed. Prior to 2004, Brazil s power pricing regime made it difficult for such plants, which operate at low average utilization rates, to cover their operating costs and provide a return on capital. To compensate owners of thermoelectric plants for the security they provide to the system, Brazil enacted the New Regulatory Model for the power sector. Under the Model, public utilities are required to secure their expected energy needs under long-term contracts through auctions coordinated by the MME.

Only that portion of our thermoelectric capacity defined as New Energy under the New Regulatory Model for the power sector is eligible to be sold through the auction system. Thermoelectric power generators of New Energy bid in these auctions to supply standby availability up to their certified commercial capacity, although they will not necessarily be called upon to generate this power.

Thermoelectric power that does not meet the definition of New Energy is largely sold under long-term bilateral contracts, primarily with power distribution companies. Such contracts are subject to the regulations that governed the power sector before the enactment of the New Regulatory Model. Under these agreements, we are compensated for our thermoelectric capacity based on a combination of factors, including whether or not we actually generate energy, the certified power generation capacity of each power plant, and conditions of supply and demand in Brazil s power market. Each of these factors are determined by the appropriate regulatory bodies in Brazil, including the MME, the ONS and the *Câmara de Comercialização de Energia Elétrica CCEE* (Electricity Trading Board).

Of the total 3,896 MWavg of power available for sale in 2011 (including the certified commercial capacity of our plants and power purchased from third parties), approximately 41% has already been sold as standby availability in the 2005 and 2006 auctions, and approximately 48% has been committed under bilateral contracts, leaving 448 MWavg of power generating capacity available for sale.

The following table summarizes our commitments under standby availability and bilateral contracts, power purchased from third parties, and the power we expect to be available for sale if the infrastructure to deliver gas to our thermoelectric power plants is completed.

	2008	2009	2010 (MWavg)	2011	2012
Total available for sale:					
Commercial capacity (MW) (1)	1,605	2,661	3,481	3,696	3,361
Purchased from third parties	888	329	212	200	200
Commitments:					
Standby availability auctions	352	821	1,391	1,596	1,596
Bilateral contracts	1,900	2,103	2,232	1,862	1,866
Remaining available for sale (1)(2)	241	**66**	**70**	**448**	**99**

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

(2) Represents the remaining commercial capacity available for sale beginning in 2010.

Standby Availability

In the 2005 and 2006 auctions, we sold standby availability of 1,391 and 205 MWavg, respectively, on 15-year contracts beginning in 2008 to 2011. This represented most of our capacity that is classified as New Energy. We have been compensated for the standby availability from the 2005 and 2006 auctions since 2008, with the capacity compensation stepping up through 2011, at which time it stabilizes.

Under the terms of these contracts, we will be compensated a fixed amount whether or not we generate any power, and we receive an additional amount for the energy we actually generate at a price that is set on the date of the auction and revised annually based on an inflation-adjusted fuel oil basket. These contracts generate losses when our actual costs of generating power increase and our prices as adjusted by the formula do not rise accordingly.

Bilateral Contracts

In 2010, 2,232 MWavg of our generating capacity will be subject to the terms of bilateral contracts, with 1,862 MWavg committed under bilateral contracts in 2011 and 1,866 committed in 2012. The agreements will run off gradually, with the last contract expiring in 2028. As existing bilateral contracts run-off, we will negotiate new long-term contracts on the same or better terms. We will sell our remaining certified power- generation capacity under short- and medium-term bilateral contracts and auctions conducted by us and by the MME.

In the past, limited supplies of natural gas affected our ability to generate electricity from our own thermoelectric plants under existing bilateral contracts, even when it would have been profitable for us to do so. Our limited natural gas infrastructure also exposed us to fines when we were unable to deliver contracted amounts of electricity. We paid fines in the total amount of R$46 million (U.S.$ 23 million) in 2009, compared to R$434 million (U.S.$ 236 million) paid in 2008. Even as we increase the available supply of natural gas, our earnings under these contracts are difficult to predict because the net margins are subject to adjustments coordinated by the CCEE. Additionally, the contracts do not permit us to directly pass on to our customers changes in the cost of acquiring natural gas.

Beginning in 2010 we can fully supply our gas-fired plants, giving us maximum flexibility to decide how best to utilize our gas resources based on prevailing economic conditions. Under the terms of the bilateral contracts, during periods of high international gas prices and low demand for power in Brazil, it may be more profitable for us to sell our gas directly to the market than to generate contracted amounts of energy from our own gas- fired plants. Under these circumstances, we may fulfill our contractual commitments by purchasing power from third parties, as we did in 2008, or elect to pay fines instead of generating electricity.

Renewable Energy and Reduction of Greenhouse Gases (GHG)

We have also invested in a number of renewable power generation sources in Brazil including wind, solar and small hydroelectric plants. Our small hydroelectric plants, built in partnership with other Brazilian companies, have 316.4 gross MW of installed capacity, of which 25.4 MW are expected to become operational in 2010.

In 2009, we sold 49 MWavg from wind- powered plants on 20-year contracts beginning in 2011 through an auction of reserve energy. The reserve energy system was created in 2008 to supplement Brazil s power grid by auctioning energy directly to the Brazilian government from eligible power plants to meet future demand. We participated in the 2009 reserve energy auction through our interests in four eligible wind-power plants with a total installed capacity of 104.0 MW. These wind-powered plants will be built in partnership with other Brazilian companies.

As part of our 2020 Strategic Plan, we adopted climate change guidelines to reduce GHG under the Clean Development Mechanism. We are developing several GHG reduction projects including wind energy, small hydropower plants (SHP), power generation using turbo expanders in refineries, nitrous oxide reduction, waste heat recovery and energy efficiency.

Our Internal Energy Conservation Program works to improve energy efficiency in all our units. In 2009, we avoided approximately 50 thousand tons of carbon dioxide emissions from all of our power plants as a result of this program.

Bio-Renewables

We aim to become a major producer of biodiesel in Brazil and actively participate in Brazil s growing ethanol industry, particularly in the production, transportation and exportation of ethanol. Brazil has highly favorable climate and soil conditions for growing sugarcane and vegetable oil crops and is an important player in the international biofuels market.

The primary fuel used in Brazil is diesel, which accounts for 758.5 mbbl/d (44.2%) of the total Brazilian fuels market. By law, all diesel sold in Brazil from July 2009, was required to be at least 4% biodiesel; this proportion increased to 5% in January 2010. We act as a catalyst for developing the new market by securing and blending biodiesel supplies and furnishing these to smaller distributors as well as our own service stations.

Brazil is a global leader in the use of ethanol as a substitute fuel for light vehicles. Today, 88.2% of new gasoline vehicles sold in Brazil have dualfuel capability, and service stations offer a choice of 100% ethanol as well as a blend of 25% ethanol and gasoline, as required by the regulator. We have supported the development of the ethanol market by distributing and wholesaling ethanol and by stimulating improvements in product quality. In 2009, we acquired 40.4% of Total Agroindustria Canavieira S.A (Total). Total owns a plant with ethanol production capacity of 1.7 mbbl/d. This investment will expand our ethanol production capacity to 3.5 mbbl/d and will add 38.5 MW to our installed power generation capacity. Our goal is to reach ethanol production levels of 63.6 mbbl/d by 2013.

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In 2009, Petrobras exported 362,000 m^3 of ethanol, including industrial ethanol to Asia and fuel ethanol to the United States and Europe, corresponding to 12% of Brazil s total ethanol exports.

On April 30, 2010, we announced a strategic partnership with Tereos International, a Brazilian subsidiary of the Tereos Group, under which we will invest a total of R$1.6 billion (U.S.$909 million) over five years to acquire a 45.7% stake in Açúcar Guarani S.A., the fourth-largest sugarcane processor in Brazil with an estimated crushing capacity of 17.4 mmt for 2010-2011. In the first phase of the partnership, Petrobras Biocombustível will invest R$682 million (U.S.$387 million) to acquire an initial 26.3% stake in Guarani, to be followed by subsequent investments of R$929 million (U.S.$528 million) over five years to acquire an additional 19.4% stake in the Brazilian sugarcane processor. The partnership with Tereos International is subject to approval from the Conselho Administrativo de Defesa Econômica, or CADE (Brazilian Antitrust Authority). Our investment in Guarani will allow us to significantly increase our ethanol production, stimulate improvements in product quality, and further develop our ethanol distribution and marketing operations in accordance with our 2009-2013 Business Plan.

We have signed contracts to secure the purchase of vegetable oils from small farmers and industrial producers in order to supply our three biodiesel plants, located in Northeastern Brazil at Candeias and Quixada and in Southeastern Brazil at Montes Claros. We increased the capacity of these plants from 2.9 mbbl/d to 5.6 mbbl/d through operational improvements in 2009. In 2010, after the expansion of the Candeias plant and the start-up of the Marialva plant, in which Petrobras Biocombustível acquired a 50% interest in November 2009, our biodiesel production capacity will reach 11.2 mbbl/d.

Beginning in 2009, we have accounted for the results from our Bio-Renewables operations in our Corporate segment. In prior years, the results from our Bio-Renewables operations were included in our Gas and Power segment.

International

We have operations in 24 countries outside Brazil that encompass all phases of the energy business. Our primary goals for our international operations are to:

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

The net operating revenues of our International segment represented 11.1% of our total net operating revenues in 2009, (9.3% in 2008 and 10.4% in 2007). The total assets of our International segment at December 31, 2009 represented 7.4% of our total assets (10.7% in 2008 and 9.0% in 2007).

International Upstream Activities

We aim to integrate our operations by capturing synergies in our upstream and downstream operations within South America, North America and Asia. We are focusing our international upstream activities in the Gulf of Mexico and West Africa, where there are opportunities to leverage the deepwater expertise we have developed in Brazil. We also have preliminary exploratory efforts underway in North Africa, Asia, Europe and the Middle East. Our discoveries of significant reserves in the pre-salt reservoirs in Brazil have led us to reduce our planned expenditures for international activities, prioritizing our domestic activities.

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	Operations as of December 31, 2009					
		E&P		Refining, Petrochemical and		
	Countries	Exploration	Production	Marketing	Distribution	Gas andPower
1	Argentina	√	√	√	√	√
2	Bolivia	√	√			√
3	Chile				√	
4	Colombia	√	√		√	
5	Ecuador	√	√			
6	Paraguay				√	
7	Peru	√	√			
8	Uruguay	√			√	√
9	Venezuela	√	√			
	South America	√	√	√	√	√
10	Mexico	√	√			
11	U.S.	√	√	√		
	North America	√	√	√		
12	Angola	√	√			
13	Libya	√				
14	Mozambique	√				
15	Namibia	√				
16	Nigeria	√	√			
17	Senegal	√				
18	Tanzania	√				
	Africa	√	√			
19	Portugal	√				
20	Turkey	√				
	Europe	√				
21	India	√				
22	Japan			√		
23	Pakistan	√				
	Asia	√		√		
24	Iran	√				
	Middle East	√				

International Key Statistics

	2009	2008	2007
		(U.S.$ million)	
International:			
Net operating revenues	10,197	10,940	9,101
Income (loss) before income tax	232	(605)	(237)
Total assets at December 31	14,914	13,439	11,717

Capital expenditures	2,111	2,908	2,864

During 2009, we conducted exploration and production activities in 21 countries outside Brazil (Angola, Argentina, Bolivia, Colombia, Ecuador, the United States, India, Iran, Libya, Mexico, Mozambique, Namibia, Nigeria, Pakistan, Peru, Portugal, Senegal, Tanzania, Turkey, Uruguay and Venezuela). See Overview of the Group for information about production and reserves in each region.

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

E&P Assets

Countries		Main projects in Development	Phase	Operated by	Petrobras interest (%)
South America					
1	Argentina(1)	Sierra Chata	Production	Petrobras	46
		Parva Negra	Exploration	Petrobras	100
		El Tordillo	Production	Partner	36
		La Tapera	Production	Partner	36
2	Bolivia	San Alberto	Production	Petrobras	35(2)
		San Antonio	Production	Petrobras	35(2)
		Ingre	Exploration	Petrobras	100
3	Colombia	Balay 1	Exploration	Petrobras	70
		Tayrona	Exploration	Petrobras	50
		Cebucan	Exploration	Petrobras	50
		Villarica Norte	Exploration	Petrobras	50
		Tibu	Development	Partner	55
4	Ecuador	Block 18	Production	Petrobras	30
5	Peru	Lote 10	Production	Petrobras	100
		Lote 57	Exploration	Partner	45.16
		Lote 58	Exploration	Petrobras	100
6	Uruguay	Block 3	Exploration	Partner	40
		Block 4	Exploration	Petrobras	40
7	Venezuela	Oritupano Leona	Production	Partner	40(3)
		Acema	Production	Partner	40(3)
		La Concepcion	Production	Partner	40(3)
		Mata	Production	Partner	40(3)
North America					
8	Mexico	Cuervito	Production	Petrobras	0(4)
		Fronterizo	Production	Petrobras	0(4)
9	U.S.	Cascade	Development	Petrobras	100
		Chinook	Development	Petrobras	66.67
		Coulumb (MC 613)	Production	Partner	33.33
		Cottonwood	Production	Petrobras	100
		St. Malo	Development	Partner	25
		Tiber	Development	Partner	20
		Stones	Development	Partner	25
		Ewing Bank 910	Production	Partner	60

	GB 200 201	Production	Partner	25
	EL 162	Production	Partner	40
	SMI 280	Production	Partner	50
	VM 379	Production	Partner	25
	Aransas	Exploration	Petrobras	100
	Big Bend	Exploration	Petrobras	50
	Bluewood	Exploration	Petrobras	100
	Bolt	Exploration	Partner	50
	Canaveral	Exploration	Petrobras	100
	Casnook	Exploration	Petrobras	67
	Flavian	Exploration	Petrobras	100
	Hadrian West	Exploration	Partner	50
	Impala	Exploration	Partner	50
	Julius	Exploration	Petrobras	100
	Latigo	Exploration	Partner	50
	Logan	Exploration	Partner	35
	Montebelo	Exploration	Petrobras	100

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Countries		Main projects in Development	E&P Assets Phase	Operated by	Petrobras interest (%)
Africa					
10	Angola	Block 2	Production	Partner	28
		Block 6	Exploration	Petrobras	40
		Block 15	Exploration	Partner	5
		Block 18	Exploration	Petrobras	30
		Block 26	Exploration	Petrobras	80
		Block 34	Exploration	Partner	30
11	Libya	Area 18	Exploration	Petrobras	70
12	Mozambique	Zambezi Delta block	Exploration	Partner	17
13	Namibia	2714A	Exploration	Partner	50
14	Nigeria	Akpo Field	Production	Partner	20
		Agbami Field	Production	Partner	13
		Egina Field	Development	Partner	20
		Egina South Field	Exploration	Partner	20
		Preowei Field	Exploration	Partner	20
		OPL 315	Exploration	Petrobras	45
15	Senegal	Rufisque Profond	Exploration	Partner	40
16	Tanzania	Block 5	Exploration	Petrobras	100
Europe					
17	Portugal	Camarão	Exploration	Petrobras	50
		Mexilhão	Exploration	Petrobras	50
		Ostra	Exploration	Petrobras	50
		Amejoa	Exploration	Petrobras	50
18	Turkey	Block 3922 (Sinop)	Exploration	Petrobras	50
Asia					
19	India	Krishna Godavari	Exploration	Partner	15
		Cauvery	Exploration	Partner	25
20	Pakistan	Block G	Exploration	Partner	50
Middle East					
21	Iran	Tusan block	Exploration	Petrobras	100(2)

(1) All Argentine exploration and production projects are held through our 67.2% share in PESA.

(2) Risk service contract, under which Petrobras expenditures are reimbursed only if exploration results in economically viable oil discoveries.

(3) Joint venture.

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

During 2009, our capital expenditures for international exploration and production represented 10.4% of our

We have contracted five drilling units and one FPSO to support our ultra-deepwater operations in West Africa total capital spending for exploration and production.

and the U.S. Gulf of Mexico, among other regions. One of these rigs has been operating

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in Angola since October 2009. The others will go into operation between 2010 and 2011 under five-to ten-year contracts.

The table below shows our international exploration expenditures and how these were distributed geographically in 2009, 2008 and 2007.

	2009	**2008**	**2007**
Total capex international exploration (U.S.$ billion)	0.80	0.92	1.17
Of which:			
South America (outside of Brazil)	31.67%	9.74%	11.57%
Africa	8.66%	4.47%	5.76%
North America	8.16%	53.92%	23.72%
Other	16.14%	0.00%	0.00%
Drilling rigs and other(1)	35.37%	31.87%	58.95%

(1) In 2009, all investments were for drilling rigs.

In 2009, our net production outside Brazil averaged 140.7 mbbl/d of crude oil and NGLs and 16.5 mmm^3/d (583.37 mmcf/d) of natural gas. The table below shows our international development capital expenditures and how these were distributed geographically in 2009, 2008 and 2007.

	2009	**2008**	**2007**
Total capex international development (U.S.$ billion)	1.10	1.62	1.39
Of which:			
South America (outside of Brazil)	23.62%	44.27%	40.55%
Africa	27.56%	38.32%	36.05%
North America	48.82%	17.41%	23.40%
Other	0.00%	0.00%	0.00%

South America

We are active in a number of key hydrocarbon basins in Argentina, Bolivia, Colombia, Ecuador, Peru, Venezuela and Uruguay. In 2009, our average net production from the region (outside of Brazil) was 181.30 mboe/d, or 76.2% of our international production. Reserves in the region represent 77.2% of our international reserves. Our most significant natural gas production operations outside of Brazil are located in Argentina and Bolivia, where we produced an average 15.6 mmm^3 /d (552.7 mmcfd/d) of natural gas

In **Bolivia**, our production comes principally from the San Alberto and San Antonio fields. Following enactment of the Bolivian government s May 1, 2006 decree on the nationalization of hydrocarbons, we entered into new agreements under which we continue to operate the fields, but are required to make all sales of the hydrocarbons through YPFB with the right to recover our costs and participate in profits. At December 31, 2008, our proved reserves of natural gas were approximately 284.3 mmboe in Bolivia. However, on January 25, 2009, Bolivia adopted a new constitution that prohibits private ownership of the in 2009, or 94.7% of our international production. Argentina and Bolivia together accounted for 40% of our worldwide production of natural gas in 2009.

Our largest operating region outside Brazil is **Argentina**, where we operate primarily through our 67.2% interest in Petrobras Energia S.A. (PESA), which acts as a vertically integrated company in all segments of the oil industry. In 2009, we merged PESA and its parent company in order to reduce administrative costs and simplify our organizational structure. Our production is concentrated in the Neuquen, Austral and San Jorge basins with a smaller contribution from the Noroeste Basin.

country s oil and gas resources. As a result, we were not able to include any of our Bolivian proved reserves as reported at December 31, 2008 in our proved reserves for year-end 2009. We continue to report production from our operations in Bolivia under our existing contracts in that country.

In **Colombia**, in March 2010, we announced discoveries in the Balay Block, where we hold a 70% interest. In January 2010, we negotiated a farm-out agreement for 15% of our interest to Petroamerica Oil Corporation and 10% of our interest to Sorgenia E&P Colombia B.V., both still subject to regulatory approval. If approved, we will hold a 45% interest in the Balay Block. Our portfolio also includes interests in other onshore exploration and production contracts.

We are active in **Venezuela** through joint ventures with subsidiaries of Petroleos de Venezuela S.A. (PDVSA), which hold exploration and production rights and in which we hold minority interests. The Venezuelan government, through PDVSA, is the majority holder and operator.

In **Peru**, our subsidiary PIB BV acquired the remaining 60% interest in Petrobras Valores Internacional de España (PVIE) from our subsidiary PESA. PVIE holds interests in Peruvian, Venezuelan and Ecuadorian companies, in which the main assets are exploration and production rights in Block 10 in Northern Peru.

North America

The Gulf of Mexico is a strategically important region for us where we focus primarily on deepwater fields that leverage our experience in Brazil. We have operations in Mexico and in the United States.

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

As of December 31, 2009, we held interests in 211 offshore blocks in the **United States** GOM, 142 of which we operate. In January 2010, we acquired the remaining 50% interest in the Cascade fields. As a result, we currently invest in the Cascade and Chinook fields, in which we have interests of 100% and 66.67%, respectively. We have an approved Conceptual Plan for the development of these fields, which includes the first deployment of an FPSO facility in the GOM and also incorporates six technologies that are tested in Brazilian offshore waters, but are new to the GOM, including a disconnectable turret buoy, crude transportation by shuttle tanker, free-standing hybrid risers, under water electric submersible pumps, torpedo pile vertical loaded anchors and polyester mooring systems. We expect to begin production in the Cascade and Chinook fields in mid 2010. We also own a 20% interest in the world s deepest oil well located in the Tiber Prospect where we discovered oil in September 2009.

Europe

In 2006, Petrobras International Braspetro BV signed a joint study agreement with Petrogal (Galp) and Partex to study seismic data related to the Peniche Basin offshore **Portugal**. We hold a 50% interest in this consortium, and we signed four concession contracts in May 2007 in this Basin.

In **Turkey**, we withdrew from exploration efforts in the Kirlarelli Block in the Black Sea, in which we had engaged in 2006. Also in 2009, we chartered a drilling rig that began operating in the Sinop well in the Black Sea in the first quarter of 2010.

Middle East

In 2004, we signed a service contract with the National Iranian Oil Company (NIOC) in **Iran**. The agreement called for seismic data acquisition and processing and the drilling of at least two exploratory wells in the Tusan block in the Iranian Persian Gulf.

Petrobras has acquired and processed seismic data at a cost of approximately U.S.$22 million and drilled two exploratory wells at a cost of U.S.$156 million in Iran.

Our expenditures would be reimbursed under the service contract with the NIOC only if exploration resulted in economically viable oil discoveries. Petrobras has not had any assets, material liabilities, revenues or proved reserves associated with its operations in Iran in any of the last three years. The service contract with the NIOC expired in July 2009, and we have no additional commitments or further plans in Iran at this time.

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Africa

Our operations in Africa date back to 1979 and include exploration and production in Angola and Nigeria, and exploration in other countries.

In **Angola**, we continue our exploration activities and have announced two discoveries, in Block 15 (not operated by Petrobras) and in Block 18 (operated by Petrobras). We continue production activities in Block 2, a mature Block where we are not the operator, where our share of total production is 2.4 mboe/d.

In **Nigeria**, we enhanced production at the Agbami field, which commenced production in July 2008, and also in the Akpo field, which started production in March 2009. Our share of total production from both fields is approximately 40 mboe/d. The Egina field had its development plan approved by the Nigerian government in March 2009, while in the Preowei and Egina South fields exploration activities are underway. We are also the operator of Block OPL 315, with a 45% interest, in which exploration activities are also underway.

In May 2009, Petrobras joined Enigma, a wholly-owned subsidiary of Chariot Oil and Gas Limited, as a 50% partner in Block 2714A, in **Namibia.** This Block is located in offshore Southern Namibia and covers an area of approximately 5,500 km^2 (1.4 million acres) in water depths from 150 to 1,500 meters (492 to 4,921 feet). During the current exploration phase, which ends on August 2011, we will perform geological studies to better understand and evaluate the potential of the Block before deciding whether to drill an exploratory well.

Asia and Oceania

Since 2007, when we began our first exploration activities in Asia, another region where offshore and deep offshore exploration hold substantial potential, we have acquired rights to operate in India and in Pakistan.

In the beginning of 2009, we held interests in exploration blocks in the Krishna Godavari and Cauvery basins offshore eastern **India**. In the Krishna Godavari block, we have decided not to participate in the appraisal phase proposed by the operator and returned our participation interest in December 2009 after completing a minimum work program. We drilled two of the three wells we have committed to drilling with no discoveries in the Cauvary Block.

In April 2010, we acquired a 50% interest in an exploratory block in the North Carnarvon Australian Basin for U.S.$39 million. The acquisition remains subject to regulatory approval. Exploration activities in this Block have been on-going for five years, and we have committed up to U.S.$41 million to drill the pioneer well. We expect to begin drilling by mid-2010, and we will have the option to operate the Block after drilling is complete.

Other International Activities

Most of our international activities are focused on exploration and production. Our other international activities are summarized in the tables below and described in the text that follows.

Refining Assets as of December 31, 2009

Region	**Refinery**	**Group Share %**	**Crude Distillation Capacity** (mbbl/d)
South America			
Argentina(1)	Bahia Blanca	100	31
	Refinor/Campo Duran	28.5	26.4
	San Lorenzo(2)	100	50
North America			

United States	Pasadena, TX	100	100
Asia			
Japan	Nansei Sekiyu Kabushiki	87.5	100

(1) All Argentine refining operations are held through our 67.2% share in PESA.

(2) Sold in May 2010.

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Petrochemical Assets as of December 31, 2009

Region	Plant(1)	Products
South America		
Argentina	Campana	Ammonia, Urea, UAN
	Puerto General San Martin	Styrene and SBR
	Zarate	Polystyrene and BOPs
Brazil	INNOVA	Ethylbenzene, styrene, polystyrene

(1) All international petrochemical operations held through our 67.2% share in PESA.

Distribution and Gas and Power Assets as of December 31, 2009

Region	Distribution Assets	Gas and Power Assets
South America		
Argentina	Service Stations (604)**(1)**	Hydroelectric plant (2) Thermoelectric plant (2) Interest in TGS Interest in Edesur Interest in Cia Mega S.A.
Bolivia		Interest in GTB S.A. Interest in Transierra
Chile	Service Stations (227) Lubricant Plant (2) Others **(2)**	
Colombia	Service Stations (74) Storage facility (2) Lubricant blending plant (2)	
Paraguay	Service Stations (168) Others **(3)**	
Uruguay	Service Stations (89) Others **(4)**	Gas Distribution Companies (3)

(1) 360 retail and agricultural service stations sold in May 2010.

(2) Commercial aviation operation in eleven airports.

(3) Aviation fueling installation and LPG refueling plant.

(4) Installations for commercialization of marine and aviation products, petrochemicals and asphalt.

South America

We have integrated operations in South America, particularly in **Argentina**, where we participate across the energy value chain. In Argentina, we own the Pichi Picún Leufú hydroelectric plant, the gas-fired thermoelectric plant Genelba, an interest in natural gas transportation company TGS (Transportadora Gas del Sur), and interests in energy marketer Edesur, and Mega Company, a natural gas separation facility. We also own through our interest in PESA four petrochemical plants (three in Argentina and one in Brazil), two refineries providing 81 mbbl/d of net capacity, and an interest in the Refinor/Campo Duran Refinery. In January 2010, PESA entered into an agreement for the sale of its non-core fertilizer business with the Bunge Group for U.S.$80 million. We own 604 retail service stations operating under the brand names Petrobras. In May 2010, PESA reached an agreement for the sale of its refinery in San Lorenzo together with related distribution assets and inventories of oil and oil products for approximately U.S.$110 million. This transaction remains subject to regulatory approval.

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

In **Chile**, we acquired the downstream operations of Exxon Mobil for approximately U.S.$400 million in 2008, which include 227 service stations, fuel sale and distribution centers in 11 airports, six fuel distribution terminals, corresponding to 16% and 14% of the retail segment and industrial segment market shares, respectively. We also increased our market share in the Chilean lubricants market by 6% with the U.S.$12 million acquisition of Chevron Chile SAC, a producer and retailer of lubricants.

In **Uruguay**, we have fuel distribution operations, with 89 service stations. The Gas and Power portfolio includes gas distributors Distribuidora de Gas Montevideo S.A (retail sales in Montevideo) and Conecta S.A (commercial sales) throughout the country.

North America

In 2006, we entered the **United States** refining market by acquiring 50% of the Pasadena Refining System (PRSI) and 50% of PRSI s related trading company (Trading Company). On March 10, 2010, the United States District Court for the Southern District of Texas confirmed an arbitration award issued on April 10, 2009 which found that Petrobras America, Inc. (PAI), our indirect subsidiary in the United States, had effectively acquired 100% of the interest held by Astra Oil Trading NV (Astra) in both PRSI and the Trading Company and set the put- option exercise price for PRSI at U.S.$296 million. PAI is appealing the District Court s denial of its motion to dismiss.

Asia

In November 2007, we purchased 87.5% of Nansei Sekiyu Kabushiki Kaisha (NSS), a refinery in Okinawa, **Japan**. As a result of this acquisition, which was finalized in April 2008, we started refining operations in Asia for the first time with a capacity of 100 mbbl/d, and we recently began producing a 3% ethanol-gasoline mix. In April 2010, Sumitomo Corporation informed us that it intends to exercise a put option for the sale of its 12.5% stake in the NSS refinery pursuant to the terms of the shareholders agreement. We are currently reviewing Sumitomo s offer.

Information on PifCo

PifCo was incorporated in order to facilitate and finance the import of crude oil and oil products by us into Brazil, and has been our wholly owned subsidiary since 2000. Currently, PifCo acts as an intermediary between third-party oil suppliers and us by engaging in crude oil and oil product purchases from international suppliers, and reselling crude oil and oil products in U.S. dollars to us on a deferred payment basis, at a price which includes a premium to compensate PifCo for its financing costs.

PifCo also purchases crude oil and oil products from us for sale outside Brazil. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties, mainly outside Brazil. PifCo is generally able to obtain credit to finance purchases on the same terms granted to us, and PifCo buys crude oil and oil products at the same price that suppliers would charge us directly.

As part of our strategy to expand our international operations and facilitate our access to international capital markets, PifCo engages in borrowings in international capital markets supported by us, through guaranties of the related securities.

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

PifCo s Corporate Structure

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

PifCo s four subsidiaries are:

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- **Petrobras Europe Limited (PEL):** In May 2001, PifCo established PEL, a wholly owned subsidiary incorporated and based in the United Kingdom, to consolidate our trade activities in Europe, the Middle East, the Far East and Africa. These activities consist of advising on, and negotiating the terms and conditions for, crude oil and oil products supplied to PifCo, PIB BV, and us, as well as marketing Brazilian crude oil and crude oil products exported to the geographic areas in which PEL operates. PEL plays an advisory role in connection with these activities and undertakes no direct or additional commercial or financial risk. PEL provides these advisory and marketing services as an independent contractor, pursuant to a services agreement between PEL and us. In exchange, we compensate PEL for all costs incurred in connection with these activities, plus a margin.

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

- **Bear Insurance Company Limited (BEAR):** In January 2003, BEAR was transferred to PifCo from Brasoil. This transaction took place as part of the restructuring of our international business segment. BEAR currently serves as our captive insurance company, advising on and negotiating the terms and conditions of, certain of our insurance policies and certain insurance and reinsurance policies of our subsidiaries.

- **Petrobras Singapore Private Limited (PSPL):** In April 2006, PifCo created PSPL, a company incorporated in Singapore to trade oil and derivatives in connection with our trading activities in Asia. This company initiated operations on July 1, 2006.

PifCo s Principal Commercial Activities

PifCo purchases crude oil and oil products for resale to us and third parties. PifCo acquires substantially all of its crude oil and oil products either through purchases on the spot market or short-term supply contracts. PifCo also acquires a small portion of its crude oil and oil products through long-term supply contracts. PifCo s crude oil and oil product purchase obligations are, in most instances, guaranteed by us. PifCo then resells the products purchased to us at the purchase price it paid, plus a premium, determined in accordance with a formula designed to pass on PifCo s average costs of capital to us. PifCo also purchases crude oil and oil products from us for sale outside Brazil. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties, mainly outside Brazil.

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

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The following chart illustrates how PifCo acts as the intermediary between international crude oil suppliers and us:

PifCo purchases crude oil and oil products from international oil suppliers on a free-on-board (F.O.B.) basis under standard terms that traditionally require payment within 30 days from the bill of lading. We would typically be unable to meet the 30-day payment term imposed by international suppliers because of the complexity of Brazilian customs and importing regulations. For example, if a shipment to which a bill of lading relates must be delivered to different parts of Brazil, different sets of documents must be delivered to each delivery point. Depending on the unloading ports locations, this process may be completed up to 120 days from the vessel s departure. Because PifCo is not subject to the Brazilian regulations applicable to us, PifCo can pay the international supplier on time without having to produce these different sets of documents. To cover its financing costs, PifCo includes a premium when it sells crude oil and oil products to us. We are then able to buy crude oil and oil products from PifCo under terms that allow for payment up to 330 days from the date of the bill of lading, to ensure sufficient time to meet customs and importing regulations.

Exports Prepayment Program

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

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

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Since the creation of the program, the Trust has issued a total of U.S.$1,500 million in Senior Trust Certificates. We have prepaid or amortized a portion of the Senior Trust Certificates. Currently, there are U.S.$332 million in Senior Certificates outstanding.

Fuel Oil Export Sales

As the support for the exports prepayment program, we sell fuel oil to utilities, refineries and traders. The following table sets forth our fuel oil export sales for the period from 2005 to 2009:

	2009	**2008**	**2007**	**2006**	**2005**
Millions of U.S.$	1,708.6	2,848.5	2,205.9	1,500.1	1,077.6
Millions of barrels	29.5	51.8	39.6	67.3	25.5

Organizational Structure

Of our 37 direct subsidiaries listed below, 31 are incorporated under the laws of Brazil and six (PifCo, Petrobras International Braspetro B.V. (PIB BV), Braspetro Oil Company (BOC), Braspetro Oil Services Company (Brasoil), Petrobras Netherlands B.V. (PNBV) and Cordoba Financial Services GmbH) are incorporated abroad.

See Exhibit 8.1 for a complete list of our subsidiaries, including their full names, jurisdictions of incorporation and our percentage equity interest.

The following diagram sets forth our significant consolidated subsidiaries as of December 31, 2009:

Property, Plants and Equipment

Petrobras

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

We have the right to exploit crude oil and gas reserves in Brazil under concession agreements, but the reserves

The proposed legislation, which was submitted by the President of Brazil to the Brazilian Congress on August 31, 2009, is based on studies conducted by an inter-ministerial committee created in July 2008 to consider changes in the regulation of exploration and production activities in pre-salt areas not subject to existing concessions. Petrobras Chief Executive Officer, J.S. Gabrielli de Azevedo and the former Chair of our board of directors, Dilma Vana Rousseff, in her themselves are the property of the government under Brazilian law. Item 4. Information on the Company includes a description of our reserves and sources of crude oil and natural gas, key tangible assets, and material plans to expand and improve our facilities.

PifCo

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

Regulation of the Oil and Gas Industry in Brazil

Proposed Changes to the Oil Law

Recent discoveries of large petroleum and natural gas reserves in the pre-salt areas of the Campos and Santos Basins prompted a proposal to change the existing oil legislation regarding exploration and production activities.

capacity as Chief of Staff to President Luiz Inácio Lula da Silva, were members of this committee.

The proposed legislation would not affect existing pre-salt concessions, which cover approximately 28% of the pre-salt region. The proposed legislation includes the introduction of production-sharing contracts for oil and gas exploration and production in pre-salt areas not under concession and in potentially strategic areas to be defined by the National Energy Policy Council (CNPE). We would be the exclusive operator of all blocks under production-sharing contracts. The exploration and production rights for these blocks would either be granted to us on an exclusive basis or offered under public bids. If offered under public bids, we would be granted a minimum interest to be established by the CNPE that would not be less than 30%, with the additional right to participate in the bidding process in order to increase our interest in those areas. Under the production-sharing regime, the winner of the bid will be the company that offers the highest percentage of profit oil, which is the production of a certain field after deduction of royalties and cost oil, which is the cost associated with oil production, to the Brazilian government.

The legislative proposal currently under discussion includes a specific bill which proposes a transfer of rights under which the Brazilian government would assign to us oil and gas exploration and production rights in pre-salt areas not under concession, up to a maximum recovery of 5 billion barrels of oil equivalent. The transfer of rights would be subject to a contract with the Brazilian government that would determine the areas to be transferred and observe best practices in the industry in determining the amount to be paid in consideration for the above-mentioned transfer of rights. The contract will also determine the conditions for the reappraisal of the value of the transfer of rights after a certain period of time.

A separate provision of the proposed legislation would authorize the Brazilian government to subscribe for additional shares of our capital stock in connection with such transfer of rights . We would use the proceeds from this capitalization to pay for the transfer of rights, the exploration and production of the areas transferred to us by the Brazilian government, general corporate purposes and to finance capital expenditures related to our 2009-2013 Business Plan. In order to ensure transparency, our board of directors created a special committee comprised of minority shareholders representatives to monitor the transfer of rights transaction. We will observe all of the Brazilian Corporate Law requirements in carrying out the capitalization process, including the protection of the rights of our minority shareholders. See Item 10. Memorandum and Articles of Incorporation of Petrobras Preemptive Rights for a summary of these requirements.

The new regulatory model includes two additional proposals. The first foresees the creation of a fund consisting of resources from production- sharing contracts, subscription bonus and royalty payments. The second foresees the creation a new state-run non-operating company that will represent the interests of the Brazilian government in the production-sharing contracts. This new company will participate in operational committees, with voting rights and veto powers and will manage and control costs arising from production-sharing contracts. It will operate alongside the ANP, the independent regulatory agency that will oversee all production regimes, and the CNPE, the

We cannot estimate the impact that any change to the Oil Law would have on Petrobras, or when any new regulations may become effective.

Current Regulatory Framework

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

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

entity that will set the guidelines to be applied to the oil and gas sector, including the new regulatory model.

The Oil Law granted us the exclusive right to exploit crude oil reserves in each of our producing fields for 27 years from the date when they were declared commercially profitable. This initial 27-year period for production can be extended, at the request of the concessionaire and subject to approval from the ANP. The Oil Law also established a procedural framework for us to claim exclusive exploratory rights for a period of up to three years, later extended to five years, to areas where we could demonstrate that we had established prospects prior to the enactment of the Oil Law. In order to perfect our claim to explore and develop these areas, we had to demonstrate that we had the financial capacity to carry out these activities, either alone or through other cooperative arrangements.

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

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

See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Petrobras for

Since Brazil is not a member of OPEC, neither Brazil nor we are bound by OPEC guidelines. However, to the extent that OPEC influences international crude oil prices, our prices are affected, as our prices are linked to international crude oil prices. We have been invited to attend OPEC meetings as an observer.

Price Regulation

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

Exploration and Development Regulation

According to the Oil Law and under our concession agreements with ANP, we are required to pay the government the following:

- signature bonuses paid upon the execution of the concession agreement, which are based on the amount of the winning bid, subject to the minimum signature bonuses published in the relevant bidding guidelines (*edital de licitação*);

a discussion of the regulations governing our budget and strategic planning process.

- annual retention bonuses for the occupation or retention of areas available for exploration and production, at a rate established by the ANP in the relevant bidding guidelines based on the size, location and geological characteristics of the concession block;

- special participation charges at a rate ranging from 0 to 40% of the net operating revenues derived from the production of fields that reach high production volumes or profitability, according to the criteria established in the applicable legislation. In 2009, we paid this tax on 19 of our fields, including Albacora, Albacora Leste, Barracuda, Canto do Amaro, Caratinga, Carmópolis, Cherne, Espadarte, Jubarte, Leste do Urucu, Marimbá, Marlim, Marlim Sul, Marlim Leste, Namorado, Miranga, Peroá, Rio Urucu and Roncador. Net revenues are gross revenues less royalties paid, investments in exploration, operational costs and depreciation adjustments and applicable taxes. The Special Participation Tax uses as a reference international oil prices converted to *reais* at the current exchange rate; and

- royalties, to be established in the concession contracts at a rate ranging between 5% and 10% of gross revenues from production, based on reference prices for crude oil or natural gas established in the relevant bidding guidelines and concession contract. In establishing royalty rates in the concession contracts, the ANP also takes into account the geological risks and expected productivity levels for each concession. Virtually all of our crude oil production is currently taxed at the maximum royalty rate.

The Oil Law also requires concessionaires of onshore fields to pay to the owner of the land a participation fee that varies between 0.5% and 1.0% of the net operating revenues derived from the production of the field.

Environmental Regulations

All phases of the crude oil and natural gas business present environmental risks and hazards. Our facilities

At the federal level, our offshore activities and those that involve more than one Brazilian state are subject to the regulatory authority of the *Conselho Nacional do Meio Ambiente* (National Council for the Environment, or CONAMA) and to the administrative authority of IBAMA, which issues operating and drilling licenses. We are required to submit reports, including safety and pollution monitoring reports (IOPP) to IBAMA in order to maintain our licenses. Onshore environmental, health and safety conditions are controlled at the state rather than federal level, and there is strict liability for environmental damage, mechanisms for enforcement of environmental standards and licensing requirements for polluting activities.

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

- fines;

- partial or total suspension of activities;

- requirements to fund reclamation and environmental projects;

- forfeit or restriction of tax incentives or benefits;

- closing of the establishments or undertakings; and

- forfeiture or suspension of participation in credit lines with official credit establishments.

in Brazil are subject to a wide range of federal, state and local laws, regulations and permit requirements relating to the protection of human health and the environment.

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

In 2009, we invested approximately U.S.$1,013 million in environmental projects, compared to approximately U.S.$1,075 million in 2008 and U.S.$1,015 million in 2007. These investments were primarily directed at reducing emissions and wastes resulting from industrial processes, managing water use and effluents, remedying impacted areas, implementing new environmental technologies, upgrading our pipelines and improving our ability to respond to emergency situations.

Health, Safety and Environmental Initiatives

The protection of human health and the environment is one of our primary concerns, and is essential to our success as an integrated energy company. We have created a Health, Safety and Environment (HSE) Management Committee composed of executive managers of our business areas and directors of our subsidiaries BR Distribuidora, Transpetro and Petrobras Biocombustível. The Committee s work is supported by four commissions and four subcommissions as well as by temporary work groups, each responsible for a specific HSE issue, such as licensing and environmental compensation, emissions and climate change and health management.

We have also created an Environmental Committee composed of three members of our board of directors. This committee s responsibilities include: (i) overseeing and managing environmental and work safety issues affecting us; (ii) establishing measurable environmental targets and ensuring compliance; and (iii) recommending changes in environmental, health and safety policy, if necessary, to our board of directors. The Environmental Committee charter is awaiting approval by our board of directors.

Our actions to address health, safety and environmental concerns and ensure compliance with environmental regulations involved an investment of approximately U.S.$2,294 million in 2009 and included:

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

- Improvement of our response readiness: ten environmental protection centers and thirteen advanced bases for oil spill prevention, control and response, local and regional, onshore and offshore oil spill contingency plans involving public services and communities, three dedicated oil spill recovery vessels (OSRVs) fully equipped for oil spill control and fire fighting. In 2009, Petrobras conducted 15 regional emergency drills which involved the Brazilian Navy, the Civil Defense, firefighters, the military police, environmental organizations, and local governmental and community entities;

- ISO 14001 (environment) and OHSAS 18001 (health and safety) certification of our operating units. As of December 2009, Petrobras had 93% of the total number of 250 certifiable sites in Brazil and abroad certified in accordance with the standards mentioned above. The *Frota Nacional de Petroleiros* (National Fleet of Vessels) has been fully certified by the IMO International Management Code for Safe Operation of Ships and for Pollution Prevention (ISM Code) since December 1997;

- Regular and active engagement with the Brazilian Ministry of Mines and Energy and IBAMA, including negotiating new environmental compensation regulations and discussing environmental issues connected with new gas pipelines, oil and gas production projects and other aspects of our operations.

- A Climate Change strategic project, which aims to implement the highest standards in the energy industry regarding greenhouse gas management. By reducing the environmental impact of our operations, we will contribute to our sustainability and mitigate global climate change.

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

In 2009, we experienced oil spills totaling 67,102 gallons of crude oil, compared to 115,179 gallons of crude oil in 2008 and 101,970 gallons in 2007.

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

Insurance

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

Less valuable assets, such as small auxiliary boats, certain storage facilities, and some administrative installations, are self-insured. We do not maintain coverage for business interruption, except for a minority of our international operations and a few specific assets in Brazil. We also do not maintain coverage for our wells for substantially all of our Brazilian operations. We maintain coverage for operational third-party liability with respect to our onshore and offshore activities, including environmental risks such as oil spills. Although we do not insure most of our pipelines, we have insurance against damage or loss to third parties resulting from specific incidents, as well as oil pollution. We also maintain coverage for risks associated with cargo, hull

The premium for renewing our domestic property risk insurance policy for a 12-month period commencing June 2009 was U.S.$51 million. This represented a nominal increase of 82% over the preceding 12-month period. The increase was primarily due to the increase in the insured value of our assets, which in the same period, increased by 33%, from U.S.$61 billion to U.S$81 billion, and to an increase in our coverage limit (25% increase for onshore assets and 61% increase for offshore assets). Since 2001, our risk retention has increased and our deductibles may reach U.S.$50 million in certain cases.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

Management s Discussion and Analysis of Petrobras Financial Condition and Results of Operations

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

Overview

We earn income from:

- domestic sales, which consist of sales of oil products (such as diesel oil, gasoline, jet fuel, naphtha, fuel oil and liquefied petroleum gas), natural gas, ethanol, electricity and petrochemical products;

and machinery risk. All projects and installations under construction that have an estimated maximum loss above U.S.$50 million are covered by a construction policy.

- export sales, which consist primarily of sales of crude oil and oil products;

- international sales (excluding export sales), which consist of sales of crude oil, natural gas and oil products that are purchased, produced and refined abroad; and

- other sources, including services, investment income and foreign exchange gains.

Our expenses include:

- costs of sales (which are composed of labor expenses, operating costs and purchases of crude oil and oil products); maintaining and repairing property, plant and equipment; depreciation and amortization of fixed assets; depletion of oil fields; and exploration costs;

- selling (which include expenses for transportation and distribution of our products), general and administrative expenses; and

- interest expense, monetary and foreign exchange losses.

Fluctuations in our financial condition and results of operations are driven by a combination of factors, including:

- the volume of crude oil, oil products and natural gas we produce and sell;

- changes in international prices of crude oil and oil products, which are denominated in U.S. dollars;

- related changes in the domestic prices of crude oil and oil products, which are denominated in *reais*;

- fluctuations in the *real*/U.S. dollar and to a lesser degree, Argentine peso/U.S. dollar exchange rates; and

- the amount of production taxes that we are required to pay with respect to our operations.

Sales Volumes and Prices

The profitability of our operations in any particular accounting period is related to the sales volume of, and prices for, the crude oil, oil products and natural gas that we sell. Our consolidated net sales in 2009 totaled approximately 1,215,087 thousand barrels of crude oil equivalent, representing U.S.$91,869 million in net operating revenues, compared to 1,227,106 thousand barrels of crude oil equivalent, representing U.S.$118,257 million in net operating revenues in 2008, and approximately 1,182,235 thousand barrels of crude oil equivalent, representing U.S.$87,735 million in net operating revenues in 2007.

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

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

The average prices of Brent crude, an international benchmark oil, were approximately U.S.$62.40 per barrel in 2009, U.S.$96.99 per barrel in 2008 and U.S.$72.52 per barrel in 2007. For December 2009, Brent crude oil prices averaged U.S.$74.58 per barrel. Crude oil prices averaged U.S.$76.78 per barrel in the first quarter of 2010. We announced price decreases of 4.5% for gasoline and 15% for diesel in the domestic market in June 2009 to reflect international oil product prices. The increase in the CIDE by the Brazilian government fully offset the reduction in gasoline prices and partially offset the reduction in diesel prices.

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During 2009, approximately 72.3% of our net operating revenues were derived from sales of crude oil and oil products in Brazil, compared to 60.9% in 2008 and 69.2% in 2007. As export revenues of crude oil and oil products have decreased, domestic sales as a percentage of net operating revenues have increased.

Our revenues are principally derived from sales in Brazil. The following table sets forth our domestic sales by volume of oil products, natural gas and ethanol for each of 2009, 2008 and 2007:

	For the Year Ended December 31,								
	2009			2008			2007		
	Volume (mbbl, except as otherwise noted)	**Net Average Price (U.S.$) (1)**	**Net Operating Revenues (U.S.$ million)**	**Volume (mbbl, except as otherwise noted)**	**Net Average Price (U.S.$) (1)**	**Net Operating Revenues (U.S.$ million)**	**Volume (mbbl, except as otherwise noted)**	**Net Average Price (U.S.$) (1)**	**Net Operating Revenues (U.S.$ million)**
Energy products:									
Automotive gasoline	123,412	73.55	9,077	114,544	91.44	10,474	109,654	83.73	9,181
Diesel	270,099	93.71	25,312	273,877	109.65	30,030	257,304	96.42	24,809
Ethanol	294	71.43	21	34	58.82	2	62	80.65	5
Fuel oil (including bunker fuel)	37,235	48.23	1,796	35,541	82.29	2,925	38,647	55.89	2,160
Liquefied petroleum gas	76,759	41.00	3,148	77,796	45.42	3,533	75,326	40.36	3,040
Total energy products	**507,799**		**39,354**	**501,792**		**46,964**	**480,993**		**39,195**
Non-energy products:									
Petrochemical naphtha	59,832	44.07	2,637	55,135	80.91	4,461	60,609	73.92	4,480
Others	133,836	65.11	8,714	112,198	104.77	11,755	100,920	84.91	8,569
Total non-energy products	193,668		11,351	167,333		16,216	161,529		13,049
Natural gas (boe)	87,468	39.55	3,459	114,100	44.64	5,093	90,520	31.27	2,831
Sub-total	788,934	68.65	54,164	783,225	87.17	68,273	733,042		55,075
Distribution net sales	227,320	131.12	29,807	254,971	121.21	30,904	229,941	99.56	22,894
Intercompany net sales	(265,697)	66.11	(17,564)	(247,738)	109.42	(27,107)	(220,208)	78.29	(17,241)
Total domestic market	**750,558**	**88.48**	**66,407**	**790,458**	**91.17**	**72,070**	**742,775**	**81.76**	**60,728**
Export net sales	244,974	55.32	13,551	235,349	83.31	19,607	225,570	73.20	16,512
International net sales	103,056	57.03	5,877	59,713	101.73	6,075	134,949	35.12	4,739
Others	116,499	42.76	4,982	141,586	129.74	18,370	78,941	65.67	5,184

Sub-total	464,529	52.55	24,410	436,648	100.89	44,052	439,460	60.15	26,435
Services			1,052			2,135			572
Consolidated net sales	**1,215,087**		**91,869**	**1,227,106**		**118,257**	**1,182,235**		**87,735**

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

Effect of Taxes on Our Income

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

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

Inflation and Exchange Rate Variation

Inflation

Since the introduction of the *real* as the Brazilian currency in July 1994, inflation in Brazil has remained relatively stable. Inflation was 4.31% in 2009, 5.90% in 2008 and 4.46% in 2007, as measured by IPCA, the National Consumer Price Index. Inflation has had, and may continue to have, effects on our financial condition and results of operations.

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Exchange Rate Variation

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

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

In 2009, the *real* depreciated 8.1% against the U.S. dollar, compared to an appreciation of 5.7% in 2008 and 10.5% in 2007. When the *real* weakens relative to the U.S. dollar, our prices when expressed in dollars decline, unless we raise prices.

Foreign currency translation adjustments have a significant impact on the balance sheet of a company such as ours, whose assets are primarily denominated in *reais*, but whose liabilities are primarily denominated in foreign currencies. Asset values decrease in U.S. dollars when the *real* depreciates.

The changes in our asset values are charged to shareholders equity, but do not necessarily affect our cash flows, since our revenues and cash earnings are to a large degree linked to the U.S. dollar, and a portion of our operating expenses are linked to the *real*. See Note 2 of our audited consolidated financial statements for the year ended December 31, 2009, for more information about the translation of Brazilian *real* amounts into U.S. dollars.

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

Results of Operations

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

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

	2009	2008	2007
Crude oil and NGL production (mbbl/d):			
Brazil	1,971	1,855	1,792
International	132	111	112
Non-consolidated international production(1)	10	13	14
Total crude oil and NGL production	**2,113**	**1,979**	**1,918**
Change in crude oil and NGL production	6.8%	3.2%	(0.1)%
Average sales price for crude (U.S.$/barrel):			
Brazil	54.22	81.55	61.57
International	53.58	63.16	50.46
Natural gas production (mmcf/d):			
Brazil	1,902	1,926	1,638
International	576	594	648
Non-consolidated international production(1)		6	12
Total natural gas production	**2,478**	**2,526**	**2,298**
Change in natural gas production (sold only)	(1.9%)	9.9%	1.4%
Average sales price for natural gas (U.S.$/mcf):			
Brazil	3.76	6.69	5.86
International	2.11	2.84	2.68
Year-end exchange rate (*Reais*/U.S.$)	1.74	2.34	1.77
Appreciation (depreciation) during the year(2)	25.5%	(31.9%)	17.2%
Average exchange rate for the year (*Reais*/U.S.$)	2.00	1.84	1.95
Appreciation (depreciation) during the year(3)	(8.1%)	5.7%	10.5%
Inflation rate (IPCA)	4.3%	5.9%	4.5%

(1) Non-consolidated companies in Venezuela.

(2) Based on year-end exchange rate.

(3) Based on average exchange rate for the year.

Results of Operations 2009 compared to 2008

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

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

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

- Value-added, Programa de Formação do Patrimônio do Servidor Público (Civil Servant Savings Programs, or PASEP), Contribuição para o Financiamento da Seguridade Social (Contribution for the Financing of Social amounts into U.S. dollars.

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

Revenues

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

Security, or COFINS) and other taxes on sales of products and services and social security contributions. These taxes decreased 16.5% to U.S.$20,909 million for 2009 compared to U.S.$25,046 million for 2008, primarily due to lower prices and lower domestic sales volumes; and

- CIDE, the excise tax applied to the sale and import of crude oil, oil products and natural gas products due to the Brazilian government, which decreased 3.5% to U.S.$3,114 million for 2009 compared to U.S.$3,226 million for 2008, primarily due to lower prices and lower domestic sales volumes.

Cost of Sales (Excluding Depreciation, Depletion and Amortization)

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

- a 46.5% (U.S.$12,516 million) decrease in the cost of imports due to lower volumes and prices;

- a 38.5% (U.S.$3,531 million) decrease in costs for our international trading activities due to decreased offshore operations conducted by PifCo;

- a 36.5% (U.S.$4,465 million) decrease in production taxes and charges that include royalties, which decreased 35.7% (U.S.$1,988 million) in 2009 compared to 2008; special participation charge, which decreased 37.4% (U.S.$2,464 million) in 2009 compared to 2008; and rental fees for concession areas, which decreased 22.3% (U.S.$13 million) in 2009 compared to 2008. The decrease in production taxes and charges in 2009 was due to a 32.2% reduction in the reference price used to calculate royalties for our domestic production, which averaged U.S.$54.40 for 2009 compared to U.S.$80.25 for 2008, reflecting the average Brent price on the international market; and

- a 60.6% (U.S.$1,165 million) decrease in costs related to the generation and purchase of electricity for sale.

Depreciation, Depletion and Amortization

We calculate depreciation, depletion and amortization of most of our exploration and production assets using the units of production method.

Depreciation, depletion and amortization expenses increased 21.3% to U.S.$7,188 million for 2009 compared to U.S.$5,928 million for 2008, due to higher capital expenditures and increased oil and gas production.

Exploration, including Exploratory Dry Holes

Exploration costs, including costs fo