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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K/A

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

For the month of November, 2010

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

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

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

Form 20-F ___X___ Form 40-F _______

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

Yes _______ No___X____

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

Petróleo Brasileiro S.A. Petrobras and Subsidiaries

Consolidated Financial Statements

September 30, 2010 and 2009

with Review Report of Independent

Registered Public Accounting Firm

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

Consolidated FINANCIAL STATEMENTS

Contents

Review report of independent registered public accounting firm

To the Board of Directors and Shareholders of

Petróleo Brasileiro S.A. - Petrobras

Rio de Janeiro - Brazil

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

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

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

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil

November 23, 2010

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2010 and December 31, 2009

Expressed in Millions of United States Dollars

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

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED BALANCE SHEETS (Continued)

September 30, 2010 and December 31, 2009

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

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

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

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

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

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

Other expenses, net (Note 18 (a))	**40**	(36)
	453	161
Income before income taxes	**18,663**	16,258

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

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

Common	5,090,152,531	5,073,347,344
Preferred	3,713,832,071	3,700,729,396

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED STATEMENTS OF CASH FLOWS

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

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

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

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED STATEMENTS OF CASH FLOWS

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

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

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

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

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

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Continued)

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

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

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Continued)

September 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

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

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

1. Basis of Financial Statements Preparation

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

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

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

The preparation of these financial statements requires the use of estimates and assumptions to reflect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto. Management reviews its estimates periodically, including those related to oil and gas reserves, pension and health care liabilities, depreciation, depletion and amortization, abandonment costs, contingencies and income taxes. While the Company uses its best estimates and judgements, actual results could differ from those estimates as further confirming events occur.

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

Events subsequent to September 30, 2010, were evaluated until the time of the Form 6-K filing with the Securities and Exchange Commission.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

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

2. Accounting Policies

2.1 Recently Adopted Accounting Standards

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

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

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

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

2.2 Change in accounting estimates

The Company changed at the beginning of 2010, as a consequence of the periodic assessment of the expected useful lives of its assets, depreciation rates from thermoelectric power plants and facilities from Refining, Transporting and Marketing segment, based on reports prepared by independent appraisers. The changes were accounted for prospectively in accordance ASC 250 (Accounting changes and error corrections) and the Company s results of operations were increased in US$246, net of taxes, in the nine-month period ended September 30, 2010.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

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

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

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

2. Accounting Policies (Continued)

2.3 IFRS adoption for local purposes

The Brazilian Corporation Law was amended in 2007 to permit Brazilian GAAP to converge with International Financial Reporting Standards, or IFRS , as issued by the International Accounting Standards Board, or IASB . The adoption of IFRS in Brazil is mandatory for the year ended December 31, 2010 and it is tax neutral in accordance with the current income tax legislation.

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

3. Derivative Instruments, Hedging and Risk Management Activities

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

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

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

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

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

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

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

a) Commodity price risk management

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

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

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

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

a) Commodity price risk management (Continued)

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

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

The hedges settled during the period from January to September 2010 corresponded to approximately 68% of the traded volume of imports and exports to and from Brazil plus the total volume of the products traded abroad.

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

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

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

Commodity Contracts **Maturity in 2010**	**Notional amount in thousands of bbl*** **As of September 30, 2010**
Futures and Forward contracts	(10,673)
Option contracts	(9,834)

* A negative notional value represents a sale position.

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

b) Foreign currency risk management

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

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

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

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

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

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

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

b) Foreign currency risk management (Continued)

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

Foreign Currency	**Notional Amount US$ million**
Sell USD / Pay BRL	149

Cash flow hedge

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

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

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

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

b) Foreign currency risk management (Continued)

Cash flow hedge (Continued)

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

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

c) Interest rate risk management

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

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

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

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

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

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

Total Derivatives	**135**	**(80)**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

In millions of dollars As of December 31,	**Asset Derivatives 2009**		
	Balance Sheet Location	Fair Value	Balanc
Derivatives qualified as hedging instruments under Codification Topic 815			
Foreign exchange contracts	Other current assets	65	
Total		**65**	
Derivatives not qualified as hedging instruments under Codification Topic 815			
Foreign exchange contracts	Other current assets	1	Other pa

Commodity contracts	Other current assets	35	Other pa
Total		**36**	
Total Derivatives		**101**	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

Derivatives Not Qualified as Hedging Instruments under Codification Topic 815	Location of Gain or (Loss) Recognized in
Foreign exchange contracts	Financial income/(expens
Commodity contracts	Financial income/(expens
Total	

Derivatives Not Qualified as Hedging Instruments under Codification Topic 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative

		September 30, 2009
Foreign exchange contracts	Financial income/(expenses) net	**(33)**
Commodity contracts	Financial income/(expenses) net	**(103)**
Total		**(136)**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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4. Income Taxes

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal income tax. The statutory enacted tax rates for income tax and social contribution have been 25% and 9%, respectively, for the nine-month periods ended September 30, 2010 and 2009.

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

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

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

(1) On May 10, 2007, the Brazilian Federal Revenue Office recognized Petrobras right to deduct certain tax incentives from income tax payable, covering the tax years of 2006 until 2015. During the nine-month period ended September 30, 2010, Petrobras recognized a tax benefit in the amount of US$95 (US$115 on September 30, 2009) primarily related to these incentives in the Northeast, within the region covered by the Northeast Development Agency (ADENE), granting a 75% reduction in income tax payable, calculated on the profits of the exploration of the incentive activities, which have been accounted for under the flow through method.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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4. Income Taxes (Continued)

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

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

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4. **Income Taxes** (Continued)

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

	September 30, 2010	December 31, 2009
Current assets	**474**	669
Valuation allowance	**(23)**	(8)
Current liabilities	**(11)**	(15)
Net current deferred tax assets		