

PETROBRAS - PETROLEO BRASILEIRO SA

Form 424B2

September 03, 2010

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**The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Filed Pursuant to Rule 424(b)(2)  
Registration Statement No. 333-163665**

**PRELIMINARY PROSPECTUS SUPPLEMENT  
(SUBJECT TO COMPLETION)  
DATED SEPTEMBER 3, 2010**

**PROSPECTUS SUPPLEMENT  
(To Prospectus dated December 11, 2009)**

**Petróleo Brasileiro S.A. Petrobras**

**2,174,073,900 Common Shares, including Common Shares in the form of American Depositary Shares  
1,585,867,998 Preferred Shares, including Preferred Shares in the form of American Depositary Shares**

We are offering 2,174,073,900 common shares and 1,585,867,998 preferred shares (together with the common shares, the shares) in a global offering that consists of an international offering outside Brazil and a concurrent offering in Brazil. Of the total number of shares we are offering (excluding the over-allotment options), 80% will first be offered to our existing shareholders on a priority basis, and the Brazilian federal government, our principal shareholder, has informed us that it will participate in the priority subscription. The international offering includes a registered offering in the United States. The closings of the international and Brazilian offerings are conditioned upon each other.

In the international offering, the shares are being offered in the form of shares or in the form of American depositary shares (ADSs), each of which represents either two common shares (a common ADS) or two preferred shares (a preferred ADS). Shares sold in the international offering in the form of shares will be delivered in Brazil and paid for in *reais*.

The international underwriters named in this prospectus supplement are underwriting the sale of common ADSs and preferred ADSs. The Brazilian underwriters are underwriting the sale of common shares and preferred shares, including shares sold in the international offering in the form of shares.

Our common shares and preferred shares are listed on the São Paulo Stock Exchange (BM&FBOVESPA), under the ticker symbols PETR3 and PETR4, respectively. The closing prices of our common shares and preferred shares on BM&FBOVESPA on September 1, 2010 were R\$31.25 per common share and R\$27.03 per preferred share. The common ADSs and the preferred ADSs are listed on The New York Stock Exchange, or the NYSE, under the symbols PBR and PBRA, respectively. The closing prices on the NYSE on September 1, 2010 were U.S.\$35.07 per common ADS and U.S.\$31.12 per preferred ADS.

|                       | <b>Per<br/>Common ADS</b> | <b>Per<br/>Common Share</b> | <b>Per<br/>Preferred ADS</b> | <b>Per<br/>Preferred Share</b> | <b>Total(1)</b> |
|-----------------------|---------------------------|-----------------------------|------------------------------|--------------------------------|-----------------|
| Public offering price | U.S.\$                    | R\$                         | U.S.\$                       | R\$                            | U.S.\$          |
|                       | U.S.\$                    | R\$                         | U.S.\$                       | R\$                            | U.S.\$          |

Underwriting discounts  
and commissions  
Proceeds, before  
expenses, to us

|        |     |        |     |        |
|--------|-----|--------|-----|--------|
| U.S.\$ | R\$ | U.S.\$ | R\$ | U.S.\$ |
|--------|-----|--------|-----|--------|

(1) Amounts in *reais* have been translated into U.S. dollars at the selling rate reported by the Central Bank of Brazil as of September , 2010, or R\$ to U.S.\$1.00.

We have granted the international underwriters and the Brazilian underwriters options for a period of up to 30 days beginning on the date of the *Anúncio de Início* (commencement announcement date) with respect to this offering published in Brazil, to purchase additional ADSs or to place additional shares, in each case solely to cover over-allotments. These options are for an aggregate of up to an additional 187,997,094 common and preferred shares, including shares in the form of ADSs.

**Investing in our shares and ADSs involves risks. See Risk Factors beginning on page S-32 of this prospectus supplement.**

Delivery of the ADSs will be made through the book-entry facilities of The Depository Trust Company on or about September , 2010. Delivery of the shares will be made in Brazil through the book-entry facilities of the Brazilian Settlement and Custody Company (*Companhia Brasileira de Liquidação e Custódia*, or CBLC) on or about September , 2010.

**Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.**

*Global Coordinators and Joint Bookrunners*

**BofA Merrill Lynch    Bradesco BBI    Citi    Banco Itaú BBA    Morgan Stanley    Santander**

*Joint Bookrunners*

**BB Investimentos    BTG Pactual    Credit Agricole CIB    Credit Suisse    Goldman, Sachs & Co.    HSBC    ICBC Internat**

*Co-Managers*

**BBVA Securities    Deutsche Bank Securities    Mitsubishi UFJ Securities    Nomura    Raymond James    Scotia Capital S**

**The date of this prospectus supplement is September , 2010**

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document consists of two parts. The first part is the prospectus supplement, which describes this offering and certain other matters relating to Petrobras. The second part, the accompanying prospectus, gives more general information about the shares and ADSs and other securities that Petrobras may offer from time to time. Generally, references to the prospectus mean this prospectus supplement and the accompanying prospectus combined. If the information in this prospectus supplement differs from the information in the accompanying prospectus, the information in this prospectus supplement supersedes the information in the accompanying prospectus.

We are responsible for the information contained and incorporated by reference in this prospectus and in any related free-writing prospectus we prepare or authorize. We have not authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. Petrobras is not making an offer to sell the shares or ADSs in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus or any document incorporated by reference is accurate as of any date other than the date of the relevant document.

We are using this prospectus to offer our shares and ADSs outside Brazil. We are also offering our shares in Brazil by means of a Brazilian prospectus and accompanying reference form (*formulário de referência*) in Portuguese (the Brazilian offering documents). You should not rely on the Brazilian offering documents in making an investment decision in relation to our shares and ADSs.

In this prospectus supplement, unless the context otherwise requires or as otherwise indicated, references to Petrobras mean Petróleo Brasileiro S.A. Petrobras and its consolidated subsidiaries taken as a whole. Terms such as we, us and our generally refer to Petrobras, unless the context requires otherwise or as otherwise indicated.

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**FORWARD-LOOKING STATEMENTS**

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

our marketing and expansion strategy;

our exploration and production activities, including drilling;

our activities related to refining, import, export, transportation of petroleum, natural gas and oil products, petrochemicals, power generation, biofuels and other sources of renewable energy;

our projected and targeted capital expenditures and other costs, commitments and revenues;

our liquidity and sources of funding; and

development of additional revenue sources.

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

our ability to obtain financing;

general economic and business conditions, including crude oil and other commodity prices, refining margins and prevailing exchange rates;

global economic conditions;

our ability to find, acquire or gain access to additional reserves and to develop our current reserves successfully;

uncertainties inherent in making estimates of our oil and gas reserves, including recently discovered oil and gas reserves;

competition;

technical difficulties in the operation of our equipment and the provision of our services;

changes in, or failure to comply with, laws or regulations;

receipt of governmental approvals and licenses;

international and Brazilian political, economic and social developments;

natural disasters, accidents, 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.

For additional information on factors that could cause our actual results to differ from expectations reflected in forward-looking statements, please see Risk Factors in this prospectus supplement and in documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

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

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**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

We are incorporating by reference into this prospectus supplement the following documents that we have filed with the Securities and Exchange Commission (SEC):

1. The combined Petrobras and Petrobras International Finance Company (PifCo) annual report on Form 20-F for the year ended December 31, 2009, filed with the SEC on May 19, 2010.

2. The combined Petrobras and PifCo annual report on Form 20-F/A for the year ended December 31, 2009, filed with the SEC on August 31, 2010.

3. Reports on Form 6-K furnished by Petrobras to the SEC on the dates indicated below, concerning our financial condition and results of operations for the period ended June 30, 2010:

Report furnished on August 25, 2010, containing (a) financial statements prepared in accordance with U.S. GAAP as of June 30, 2010 and for the six-month periods ended June 30, 2010 and 2009, and (b) an awareness letter of KPMG Auditores Independentes.

Report furnished on August 26, 2010, containing our release concerning our earnings and financial condition for the six months ended June 30, 2010.

4. Reports on Form 6-K, furnished to the SEC by Petrobras on the dates indicated below, concerning other recent developments in our business:

Reports furnished on May 17, 2010 and May 27, 2010, relating to the May 31, 2010 payment of interest on capital for the 2010 fiscal year in the amount of R\$1,755 million.

Report furnished on June 23, 2010, relating to Petrobras Business Plan for 2010-2014.

Report furnished on July 19, 2010, relating to the approval by Petrobras board of directors of an advance payment of interest on capital for the 2010 fiscal year in the amount of R\$1,755 million.

Report furnished on August 13, 2010, relating to the shutdown of operations at the P-33 platform in the Marlim field of the Campos Basin.

Report furnished on August 30, 2010, relating to the August 31, 2010 payment of interest on capital for the 2010 fiscal year in the amount of R\$0.20 per common and R\$0.20 per preferred share.

5. Reports on Form 6-K, furnished to the SEC by Petrobras on the dates indicated below, concerning the capitalization of Petrobras, and transfer to Petrobras of certain exploration and production rights and related legal developments, and the global offering:

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Report furnished on June 10, 2010, relating to the approval by the Brazilian Federal Senate of legislation regarding Petrobras capitalization, the transfer to Petrobras of pre-salt oil and gas exploration and production rights and the introduction of a production-sharing regime for exploration and production activities in pre-salt and strategic areas.

Report furnished on June 23, 2010, relating to the approval by Petrobras shareholders of amendments to Petrobras bylaws to permit the capitalization transaction.

Report furnished on June 30, 2010, relating to the signature by the Brazilian president of legislation regarding Petrobras capitalization and the transfer to Petrobras of pre-salt oil and gas exploration and production rights.

Reports furnished on July 29, 2010 and August 12, 2010, relating to the approval by shareholders of the criteria and methodology for the valuation of the Brazilian federal treasury bills (*Letras Financeiras de emissão da Secretaria do Tesouro Nacional*, or LFTs) to be used by Petrobras shareholders at their

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election to pay for shares, and delegating authority to the board of directors of Petrobras to establish the value of each series of LFTs used for this purpose.

6. Any future filings of Petrobras on Form 20-F made with the SEC after the date of this prospectus supplement and prior to the completion of the offering of the securities offered by this prospectus supplement, and any future reports of Petrobras on Form 6-K furnished to the SEC during that period that are identified in those reports as being incorporated into this prospectus supplement or the accompanying prospectus.

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**WHERE YOU CAN FIND MORE INFORMATION**

Information that we file with or furnish to the SEC after the date of this prospectus supplement, and that is incorporated by reference herein, will automatically update and supersede the information in this prospectus supplement. You should review the SEC filings and reports that we incorporate by reference to determine if any of the statements in this prospectus supplement, the accompanying prospectus or in any documents previously incorporated by reference have been modified or superseded.

Documents incorporated by reference in this prospectus supplement are available without charge. Each person to whom this prospectus supplement and the accompanying prospectus are delivered may obtain documents incorporated by reference herein by requesting them either in writing or orally, by telephone or by e-mail from us at the following address:

Investor Relations Department Petróleo Brasileiro S.A. Petrobras  
Avenida República do Chile, 65 22nd Floor  
20031-912 Rio de Janeiro RJ, Brazil Telephone: (55-21) 3224-1510/3224-9947  
Email: [petroinvest@petrobras.com.br](mailto:petroinvest@petrobras.com.br)

In addition, you may review copies of the materials we file with or furnish to the SEC without charge, and copies of all or any portion of such materials can be obtained at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. We also file materials with the SEC electronically. The SEC maintains an Internet site that contains materials that we file electronically with the SEC. The address of the SEC's website is <http://www.sec.gov>.

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**SUMMARY**

*This summary highlights key information described in greater detail elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all of the information you should consider before investing in the shares and ADSs. You should read carefully the entire prospectus supplement, the accompanying prospectus including Risk Factors and the documents incorporated by reference herein, which are described under Incorporation of Certain Documents by Reference and Where You Can Find More Information.*

*In this prospectus supplement, unless the context otherwise requires or as otherwise indicated, references to Petrobras mean Petróleo Brasileiro S.A. Petrobras and its consolidated subsidiaries taken as a whole. Terms such as we , us and our generally refer to Petrobras, unless the context requires otherwise or as otherwise indicated.*

**Overview**

We are the fourth-largest energy company in the world in terms of market value, with a market capitalization of U.S.\$199.2 billion as of December 31, 2009, according to PFC Energy, an energy consultancy. We are also the largest holder of rights to explore oil and gas blocks in Brazil, according to the National Petroleum, Natural Gas and Biofuels Agency (ANP), with exploration rights to 225 blocks as of December 31, 2009. Our oil and natural gas production was 2.3 million barrels of oil equivalent per day for 2009, an increase of 4.3% over 2008, and 2.1 million barrels of oil equivalent per day for the first six months of 2010, an increase of 3.1% over the corresponding period of 2009. In 2009, we had sales of U.S.\$115.9 billion and net income of U.S.\$15.5 billion. In the first six months of 2010, we had sales of U.S.\$71.5 billion, an increase of 43.4% over the corresponding period of 2009, and net income of U.S.\$8.6 billion, an increase of 29.2% over the corresponding period of 2009.

We are world leaders in the exploration and production of oil from deep water and ultra-deep water reservoirs, accounting for approximately 20.0% of worldwide production from deep and ultra-deep water fields according to PFC Energy. We believe that our leading position is a result of the quality of our business initiatives, which reflect our ability to successfully develop and implement new technologies and procedures for the exploration and production of oil and natural gas. These initiatives contributed significantly to our current position as one of the most respected energy companies in the world, and an international leader in innovation and research.

Since 1963, we have fostered a culture of innovation, research and development through our research center, Cenpes (Leopoldo Américo Miguez de Mello Research and Development Center). We have, for example:

introduced the world's first floating production, storage and offloading unit (FPSO) with a round hull in 2007, minimizing the effects of waves and increasing the safety of our operations;

set the Brazilian record for ultra-deep water drilling, with a 6,915 meter (22,687 foot) deep well in the Santos Basin in 2005; and

developed pioneering technology for the exploration and production of oil and natural gas in deep waters, placing us in a unique position worldwide, particularly with the discovery and development of deep water production fields in the Campos Basin. Our first great discovery in the Campos Basin—the Garoupa field—occurred in 1974, with commercial production beginning in 1979 through an early production system.

We are a state-controlled company active in the energy sector for 57 years, with a strategic presence in 27 countries across five continents as of June 30, 2010. Our integrated operations include exploration, production, refining, logistics, commercialization and transportation of oil, oil products and natural gas, in addition to electric power, biofuels and other renewable sources of energy. Our activities comprise five business segments and our corporate segment:

*Exploration and Production.* This is our principal business segment, and encompasses oil and natural gas exploration, development and production activities in Brazil, sales and transfers of crude oil in

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domestic and foreign markets, transfers of natural gas to the Gas and Power segment and sales of oil products produced at natural gas processing plants. According to the ANP, we were responsible for approximately 98.5% of Brazil's total production of oil and natural gas in 2009.

*Refining, Transportation and Marketing.* This segment comprises Petrobras' downstream activities in Brazil, including refining, logistics, transportation, export and purchase of crude oil, as well as the purchase and sale of oil products and ethanol. Additionally, this segment includes the petrochemical division, which includes investments in domestic petrochemical companies. As of June 30, 2010, we operated 92.0% of Brazil's total refining capacity in Brazil.

*Gas and Power.* This segment consists primarily of the purchase, sale and transportation and distribution of natural gas produced in or imported into Brazil. This segment also includes Petrobras' participation in domestic natural gas transportation, natural gas distribution, thermoelectric power generation and two domestic fertilizer plants. The Gas and Power segment has included results from our fertilizer operations since January 1, 2010. In prior years, the results from our fertilizer operations were included in our Refining, Transportation and Marketing segment.

*Distribution.* This segment encompasses the oil product and ethanol distribution activities conducted by Petrobras' majority owned subsidiary, Petrobras Distribuidora S.A. BR (Petrobras Distribuidora), in Brazil. Petrobras Distribuidora is the largest oil products distributor in Brazil, with a market share of 38.6% and 38.7%, in 2009 and June 30, 2010, respectively, according to the ANP. As of June 30, 2010, Petrobras Distribuidora had approximately 7,000 service stations in Brazil.

*International.* This segment comprises Petrobras' international activities conducted in 26 countries outside Brazil, which include exploration and production, refining, transportation and marketing, distribution and gas and power.

*Corporate.* This segment includes activities not attributable to other segments, including corporate financial management, central administrative overhead and actuarial expenses related to Petrobras' pension and health care plans for inactive participants. Our Corporate segment also includes our bio-renewables operations, including the results of our subsidiary Petrobras Biocombustível.

Petrobras' principal executive office is located at Avenida República do Chile, 65, 20031-912 Rio de Janeiro RJ, Brazil, and its telephone number is (55-21) 3224-4477.

The following charts present the breakdown of our net operating revenues by business segment for 2009 and for the first six months of 2010. The percentages below represent the net operating revenues of our segments before eliminations, including sales to Petrobras and our affiliates and third parties.

For additional information about our business segments, see our annual report on Form 20-F for the year ended December 31, 2009 and Summary Consolidated Financial Data below.

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Our domestic oil and gas exploration and production is concentrated in basins located along the Brazilian coast and in the State of Amazonas, and our primary focus is on three major offshore basins: Campos, Santos and Espírito Santo, which also include pre-salt reservoirs.

*Campos Basin.* The Campos Basin is the most prolific oil and gas basin in Brazil as measured by proved hydrocarbon reserves and annual production. The Campos Basin is our largest oil- and gas-producing region, representing 84.2% of our total production in Brazil in 2009, and includes a vast portfolio of production projects still being developed. At December 31, 2009, we held proved crude oil reserves in the Campos Basin representing 90.0% of our total proved crude oil reserves in Brazil, and natural gas reserves in the Campos Basin representing 53.0% of our total natural gas proved reserves in Brazil. We expect our future new-source production projects in the Campos Basin to be in deep water oil fields, where we are currently developing eight major production projects. On September 1, 2008, we initiated production in the first exploratory well of the pre-salt layer of the Jubarte field in the Campos Basin. On May 29, 2010, we began pre-salt operations at an additional exploratory well in the Baleia Branca field in the Campos Basin.

*Santos Basin.* The Santos Basin is one of the most promising exploration areas offshore Brazil. In recent years, we made several shallow water discoveries in post-salt layers, particularly of natural gas, as well as deepwater discoveries of high quality crude oil in pre-salt layers. In May 2009, we initiated an extended well test (EWT) in the Tupi region using the FPSO Cidade de São Vicente, the first unit to produce oil from the pre-salt reservoirs of the Santos Basin.

*Espírito Santo Basin.* In recent years, we have discovered high quality light oil and natural gas in the post-salt layers of the Espírito Santo Basin. We intend to increase production from this basin in the near term, particularly of natural gas. For example, in 2009, we began operations in FPSO Cidade de São Mateus, with capacity to produce 25 thousand barrels of oil per day and 10 million cubic meters of natural gas per day. In addition to our recent discoveries in the post-salt layers, we are also concentrating our resources on the exploration of pre-salt reservoirs in the Espírito Santo Basin.

*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. As of December 31, 2009, we have drilled 41 exploration wells in this region, 85.0% of which have yielded discoveries of hydrocarbon resources. Our existing concessions in this area cover approximately 24.0% (35,739 km<sup>2</sup> or 8.8 million acres) of the pre-salt areas, with an additional 4.0% (6,000 km<sup>2</sup> or 1.5 million acres) under concession to other oil companies for exploration. The remaining 72.0% (107,230 km<sup>2</sup> or 26.5 million acres) of the pre-salt region is not yet under government concession, and the licensing of new pre-salt concessions is contingent on the outcome of a regulatory review by the Brazilian federal government. As described below, we have concluded an agreement with the Brazilian federal government under which we will receive rights to explore and produce oil, natural gas and other fluid hydrocarbons in pre-salt areas not currently under concession. Under legislation currently under consideration in the Brazilian Congress, we would also become the exclusive operator in all pre-salt areas not yet under concession and would be granted a minimum interest to be established by the National Energy Policy Council (CNPE) that would be not less than 30% in all pre-salt blocks not yet under concession.

*Other Basins.* We hold exploration and production rights in the basins of Alagoas, Amazonas, Barreirinhas, Camamu-Almada, Ceará, Foz do Amazonas, Jequitinhonha, Mucuri, Pará-Maranhão, Parecis, Parnaíba, Pelotas, Pernambuco-Paraíba, Potiguar, Recôncavo, Rio do Peixe, São Francisco, Sergipe, Solimões and Tucano.





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The following table presents additional information regarding the basins in which we operate as of December 31, 2009.

| Basin          | Total Area<br>(km <sup>2</sup> ) | Exploration<br>Blocks(1) |                            | Production<br>Fields | Average Production                             |  |
|----------------|----------------------------------|--------------------------|----------------------------|----------------------|--|--|
|                |                                  | Quantity                 | Area<br>(km <sup>2</sup> ) |                      | Oil<br>(thousands<br>of<br>barrels per<br>day) | Natural<br>Gas(2)<br>(million<br>cubic<br>meters per<br>day) |
| Campos         | 115,000                          | 21                       | 5,884                      | 41                   | 1,693.6  | 12.0   |
| Santos         | 348,900                          | 49                       | 28,384                     | 2                    | 14.4   | 0.7  |
| Espírito Santo | 75,000                           | 23                       | 8,623                      | 46                   | 40.9   | 1.5  |
| Others         | 3,047,100                        | 132                      | 94,226                     | 229                  | 221.9  | 6.4  |
| Total          | 3,586,000                        | 225                      | 137,117                    | 318                  | 1,970.8  | 20.6   |

(1) Blocks in which we hold exploration and production rights.

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

**New Regulatory Model for the Oil and Gas Industry in Brazil**

The Brazilian Congress is currently considering new oil and gas legislation that will set new rules for the exploration and production of oil and natural gas in Brazil. If approved, the new regulatory model contemplated by the legislation will allow us to be the exclusive operator in all pre-salt areas not yet under concession, which currently comprise 107,230 km<sup>2</sup> (26.5 million acres), in addition to other areas that the CNPE may deem strategic. 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. The proposed legislation was approved by the Brazilian Senate on June 10, 2010, and is currently being considered by the House of Representatives. If approved, the bill will be sent to the President for signature. The new legislation will then be implemented by the CNPE, the ANP and by other institutions in the Brazilian oil and gas sector.

**Assignment Agreement**

We will enter into an agreement with the Brazilian federal government (Assignment Agreement), under which the government will assign to us the right to conduct research activities and the exploration and production of fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. We expect to sign the Assignment Agreement shortly following the date of this preliminary prospectus supplement. We will file an English translation of the form of Assignment Agreement with the Securities and Exchange Commission

in a report on Form 6-K to be incorporated by reference in this prospectus supplement. The initial purchase price for our rights under the Assignment Agreement is R\$74,807,616,407, which was equivalent to U.S.\$42,533,327,500 as of September 1, 2010. The price was determined by negotiation between us and the Brazilian federal government, based on a number of factors, including the reports of independent experts obtained by us and by the ANP. The term of the Assignment Agreement is 40 years, which may be extended for an additional five years, upon our request, in certain specified cases. The Assignment Agreement is subject to a review process, which may result in the revision of the contract amount, the maximum production volume of five billion barrels of oil equivalent, the duration, and the minimum levels of goods and services to be acquired from Brazilian providers. See [Recent Developments](#) for more information.

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### **Our Competitive Strengths**

We believe that our main competitive strengths are:

#### ***Dominant position in the exploration, production, supply, refining and distribution of oil and oil products in Brazil.***

We hold a dominant position in the Brazilian oil and gas sector. Without taking into consideration the Assignment Agreement and the new regulatory model for the oil and gas industry in Brazil pending before the Brazilian Congress, we already had the largest number of exploration blocks in Brazil as of December 31, 2009, according to the ANP, representing 41.3% of the total area of all exploration blocks in Brazil. As of December 31, 2009, we had exploration and production rights in 576 of the 796 concession areas in Brazil, which produced a total of 2.1 million barrels of oil equivalent per day of oil and natural gas in 2009. As of June 30, 2010, we operated 92.0% of the total refining capacity in Brazil, through our 11 refineries, with a total refining capacity of 1.9 million barrels of oil per day. Our subsidiary Petrobras Distribuidora is the largest distributor of oil products in Brazil, with a market share of 38.7% on June 30, 2010, according to the ANP. As of June 30, 2010, Petrobras Distribuidora had a network of approximately 7,000 service stations.

#### ***Privileged access to new reserves and new proposed oil and gas regulations.***

Under the Assignment Agreement, as described above, we will have rights to explore and produce oil, natural gas and other fluid hydrocarbons in certain pre-salt areas not under concession, up to the limit of 5 billion barrels or oil equivalent. In addition, the new regulatory model for the oil and gas industry, if approved, will introduce new rules for the exploration and production of oil and natural gas in Brazil in areas not under concession and will place us in a unique position in the energy sector. According to the proposed legislation, we will be the exclusive operator in all pre-salt areas not yet under concession, in addition to other areas the CNPE may deem strategic. 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 30.0%, with the additional right to participate in the bidding process in order to increase our interest in those areas.

#### ***Wide reserves base and expansion prospects.***

As of December 31, 2009, we had estimated worldwide total proved reserves of 12.1 billion barrels of oil equivalent, of which 95.2% are located in Brazil. In addition, we have extensive interests in exploration areas in Brazil and abroad, which we and our partners constantly analyze in order to increase production capacity. As of December 31, 2009, the ratio of our proved reserves to production was 14 years. We believe that our proved reserves will allow us to (1) increase our production in a sustainable manner and (2) replace our imports of light oil with domestic production of high quality oil from recently discovered reservoirs. Our proved reserves base may significantly increase as a result of the exploration and production rights we hold over 85.6% of all pre-salt areas under concession from the Brazilian federal government, Law No. 12,276 and the potential enactment of the new regulatory model for the oil and gas industry in Brazil.

#### ***Leader in the exploration and production of oil in deep waters and ultra-deep waters.***

We are the leaders in exploration and production of oil in deep and ultra-deep waters, accounting for approximately 20.0% of the world's deep and ultra-deep water production in 2009, according to PFC Energy. We believe that our leading position results from our advanced knowledge of drilling techniques, exploration and production in deep and ultra-deep waters that we have acquired over the last 38 years, as we have continually developed technologies and procedures to expand our business in the deep seas, including innovative technology to explore wells over 3,000

meters (9,843 feet) deep. Our expertise has resulted in high productivity and allowed us to reduce our lifting costs.

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### ***Integrated large-scale production.***

Our dominant market position in Brazil allows us to integrate our businesses efficiently and to benefit from our large-scale production, with significantly lower operating costs. Our business model is efficient due to:

the fact that approximately 90.0% of our proved crude oil reserves and 53.0% of our proved natural gas reserves in 2009 were located in the Campos Basin, allowing us to concentrate the infrastructure necessary to support our activities in a single geographic area and reduce our exploration, development and production costs; and

the balance among (1) our oil production, especially in the Campos Basin, which in 2009 comprised 85.9% of our total oil production from Brazil, (2) the location of our refineries, particularly in the southeast region of Brazil, which alone account for 63.4% of our total refining capacity in Brazil, and (3) the total demand for hydrocarbons in the Brazilian market which, according to the ANP, is concentrated in the south and southeast regions of Brazil with a combined 65.0% of total hydrocarbon demand in 2009.

We believe that the synergies resulting from our business model put us in a privileged position to compete efficiently with our domestic and international competitors.

### **Our Strategies**

Under our 2010-2014 Business Plan, we plan to invest U.S.\$224.0 billion between 2010 and 2014, of which 95.0% will be invested in projects in Brazil and 53.0% in exploration and production activities alone. This amount does not include our funding requirements to acquire our rights under the Assignment Agreement or the capital expenditures that will be required to explore and develop the areas covered by the Assignment Agreement. The chart below presents our detailed investment plans, based on our 2010-2014 Business Plan:

We carry out our activities in an integrated, profitable and sustainable manner, with an emphasis on social and environmental responsibility, in Brazil and in the other markets where we operate. Based on this principle, we plan to expand our operations in targeted oil, oil products and natural gas markets, in addition to petrochemicals, electric power, biofuels and other renewable energy sources, maintaining our tradition with respect to the development of innovative technologies and methodologies which we believe are pillars of our success in carrying out our activities and of the excellence of our operations in all business segments through the following strategies:

#### ***Increase our production and our oil and natural gas reserves.***

Under our 2010-2014 Business Plan, we plan to increase our oil and natural gas production by (1) discovering and adding new reserves to our portfolio, (2) improving our revitalization and recuperation processes in existing fields, (3) developing our production in recently discovered areas, especially in the

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pre-salt areas of the Santos Basin, and (4) intensifying our exploration activities, expanding our exploratory frontiers both in Brazil and abroad, especially in the Gulf of Mexico, the west coast of Africa and Peru.

Without taking into consideration the Assignment Agreement, we estimate that our total oil and natural gas production will reach 3.9 million barrels of oil equivalent per day in 2014, including 3.0 million barrels of oil equivalent per day of oil from Brazil, 0.2 million barrels of oil equivalent per day of oil from outside Brazil, 0.6 million barrels of oil equivalent per day of natural gas from Brazil and 0.1 million barrels of oil equivalent per day of natural gas from outside Brazil. Under our 2010-2014 Business Plan, we believe that (1) until 2014, the increase in our production will come primarily from our production in post-salt areas, especially as a result of the development of projects in the Campos Basin and from investments we plan to make in infrastructure and production resources, and (2) beginning in 2014, production from pre-salt areas will account for a more significant portion of our total production, especially due to investments we plan to make in pre-salt areas between 2010 and 2014, particularly in the Santos Basin.

We plan to start up three large offshore production systems per year between 2010 and 2014 in the Campos, Santos and Espírito Santo basins, including in pre-salt areas. We plan to conduct an average of three extended well tests (EWTs) per year in pre-salt areas during the same period, and to build new vessels and acquire new equipment, including drilling rigs for ultra-deep water and support boats for the exploration and production of hydrocarbons.

### ***Expand our refining capacity in Brazil, in order to handle the expected increase in our oil production and in domestic demand for oil products, including petrochemicals.***

We intend to increase our refining, transportation and commercialization activities in Brazil, as well as our petrochemicals activities.

*Refining, Transportation and Commercialization Activities.* We plan to (1) increase our refining capacity in order to meet the expected increase in our domestic oil production and domestic demand for oil products, (2) upgrade our existing refineries to improve quality, comply with stricter environmental regulations, and meet the needs of the markets in which we operate, particularly the Brazilian market, (3) increase our exports of high aggregate value oil products without sacrificing international quality standards, and (4) complete projects aimed at improving our operations and expanding our fleet of ships to transport oil and oil products. We believe that the expansion of our existing refineries, the start-up of operations of the Abreu e Lima refinery, the initial phase of the Premium I Refinery and the initial phase of the Rio de Janeiro Petrochemical Complex Comperj will result in a domestic production capacity for oil products of 2.3 million barrels of oil per day in 2014.

*Petrochemicals.* We intend to expand our petrochemicals and biopolymer production, preferably through investments in companies operating in the petrochemical sector, particularly in Brazil.

### ***Consolidate our position in the Brazilian natural gas market and expand our electric power and fertilizer businesses.***

We believe that we are the leader in the Brazilian natural gas sector, in terms of production and commercialization. We intend to consolidate our position by increasing production to meet the estimated increase in natural gas demand between 2010 and 2014, which we estimate will reach 130.0 million cubic meters per day in 2014 as a result of an increase in the use of natural gas to generate electricity, produce fertilizers and supply end-users (vehicles, residences and commerce). We intend to allocate resources to (1) our infrastructure projects, for the expansion of our natural gas transportation network, (2) increase flexibility in the use of natural gas through chemical conversions into other substances, which will allow us to optimize production and increase our generation of electric power and production of fertilizers, and (3) increase our installed thermoelectric power generation capacity, which we estimate will reach 8.0

GW by 2014. We intend to expand our fertilizer production by building three new plants for the production of nitrogenates, particularly ammonia and urea, which we believe will produce a combined 1.4 million tons per year in 2014.

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***Maintain our position as the largest oil products distribution company in Brazil.***

We plan to ensure that Petrobras Distribuidora maintains its position as the largest oil products distribution company in Brazil. We will focus on projects to (1) maintain and expand Petrobras Distribuidora's service station network, (2) increase sales to retail markets, (3) improve our operations and logistics, and (4) improve our liquefied petroleum gas (LPG) business.

***Expand our participation in the biofuels business in Brazil and abroad.***

We plan to increase our production and infrastructure for the commercialization of biofuels both in Brazil and for export abroad, especially by investing in companies operating in the biofuel sector, including ethanol.

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**The Offering**

|   |   |
|---|---|
| Issuer  | Petróleo Brasileiro S.A. Petrobras, or Petrobras.   |
| Global offering                                 | The global offering consists of the international offering and the Brazilian offering. The international offering and the Brazilian offering are being conducted concurrently, and the closing of each is conditioned upon the closing of the other.  |
| International offering                          | The international offering is being conducted outside Brazil and includes an offering registered with the SEC. The international underwriters named elsewhere in this prospectus supplement are underwriting the sale of common ADSs and preferred ADSs. The international underwriters are also acting as placement agents on behalf of the Brazilian underwriters for sales of shares in the form of shares to investors outside Brazil.  |
| U.S. registered offering                        | The ADSs sold as part of the international offering and the shares sold in the form of shares to investors outside Brazil, are being sold by means of this prospectus supplement in an offering registered with the SEC.  |
| Brazilian offering                              | The Brazilian underwriters are underwriting the sale of common shares and preferred shares, including shares sold in the international offering to investors outside Brazil. The offering to investors in Brazil is exempt from registration with the SEC under Regulation S.   |
| Common ADSs                                     | Each common ADS represents two common shares. Common ADSs will be evidenced by American depositary receipts, or ADRs.   |
| Preferred ADSs                                  | Each preferred ADS represents two preferred shares. Preferred ADSs will be evidenced by ADRs.   |
| Purchases of common shares and preferred shares | The shares purchased in share form by investors outside Brazil will be delivered in Brazil and paid for in <i>reais</i> . Any investor outside Brazil purchasing these shares must be authorized to invest in Brazilian securities pursuant to the applicable rules and regulations of the Brazilian National Monetary Council ( <i>Conselho Monetário Nacional</i> , or CMN), the Brazilian Securities Commission ( <i>Comissão de Valores Mobiliários</i> , or CVM), and the Central Bank of Brazil ( <i>Banco Central do Brasil</i> ). |
| Offering Price                                  | <p>The public offering prices in the global offering are set forth on the cover page of this prospectus supplement, in U.S. dollars per ADS and Brazilian <i>reais</i> per share.</p> <p>The public offering prices were approximately equivalent to each other at the exchange rates prevailing on September 10, 2010.</p>   |
| Priority subscription                           | Each of our existing shareholders as of September 10, 2010 will be given the opportunity to subscribe shares in the Brazilian offering on a priority  |

basis. 80% of the total number of common shares and 80% of the total number of preferred shares offered in the global offering (excluding the underwriters' over-allotment options) will first be offered to our existing shareholders pursuant to the priority

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subscription. Priority subscriptions will be allocated based on the number of shares each shareholder owns as of September 17, 2010.

The price of the shares subscribed pursuant to the priority subscription will be the price to the public in the Brazilian offering, which will be determined when the marketing of the global offering has been completed, by agreement between us and the underwriters based on the process for evaluating investor demand known as bookbuilding. The price will be set forth on the cover page of the final prospectus supplement for the global offering. A shareholder that participates in the priority subscription will agree to pay for the shares at the price to be determined on the pricing date either (i) in cash in *reais* or (ii) using Brazilian treasury securities (*Letras Financeiras de emissão da Secretaria do Tesouro Nacional*, or LFTs) of specified series. The eligible series of LFTs are those maturing on September 7, 2014, March 7, 2015, September 7, 2015 and September 7, 2016. Each eligible series of LFTs will be valued at the market value of such series as reported by the Brazilian Financial and Capital Markets Association (*Associação Brasileira das Entidades do Mercado*, or ANBIMA) on the third day prior to settlement of the global offering, adjusted at the interest rate of the Brazilian Special Clearance and Custody System (*Sistema Especial de Liquidação e Custódia*, or the SELIC) of that same day for the three business days leading to settlement.

***A shareholder will not know the price per share at the time such holder commits to subscribe shares in the priority subscription. A shareholder will consequently be unable to know the cost of avoiding dilution of its interest in us, and a shareholder will also be unable to estimate the book value dilution that will result from the public offering price.***

Priority subscription is not available to holders of ADSs. An ADS holder that wishes to be eligible for priority subscription must make the necessary arrangements to cancel such holder's ADSs and take delivery of the underlying shares in a Brazilian account. A holder of our shares located outside Brazil must make certain representations concerning compliance with local law in the holder's jurisdiction in order to participate in the priority subscription. The priority subscription is not available to a shareholder if the subscription would violate local laws of the shareholder's jurisdiction. It is each shareholder's responsibility to determine its eligibility under local laws of its jurisdiction.

Brazilian federal government participation in the global offering

Our principal shareholder, the Brazilian federal government, will subscribe shares in the offering. The subscription price per share will be the same for the Brazilian federal government as for others purchasing in the Brazilian offering. The Brazilian federal government has informed us that (a) it will pay for all the shares it subscribes by delivering newly issued eligible LFTs that are fungible with the previously issued LFTs of the same series (b) it will accept, toward the payment of the initial purchase price under the Assignment Agreement, LFTs we receive in payment for shares, and for that purpose it will apply the same valuation

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LFTs we use in the global offering and (c) it will invest, together with BNDES Participações S.A. BNDESPAR, R\$74,807,616,407 in the offering through the priority subscription, without any price limit for the shares. We will apply all the LFTs we receive from the Brazilian federal government toward the payment of the initial purchase price under the Assignment Agreement. If necessary, we will also apply LFTs and cash we receive from other purchasers in the global offering. As of the date of this preliminary prospectus, we cannot determine the number of common shares and preferred shares the Brazilian federal government will subscribe or the total subscription price it will pay. See The Global Offering.

Over-allotment options

We have granted the international underwriters and the Brazilian underwriters options for a period of up to 30 days beginning on the date of the *Anúncio de Início* (commencement announcement date) with respect to this offering published in Brazil, to purchase additional ADSs or to place additional shares, in each case solely to cover over-allotments. These options are for an aggregate of up to an additional 187,997,094 common and preferred shares, including shares in the form of ADSs.

Use of proceeds

The aggregate proceeds of the global offering, net of fees and expenses, including underwriting discounts and commissions, will be approximately R\$ billion (U.S.\$ billion), assuming no exercise of the over-allotment options, or approximately R\$ billion (U.S.\$ billion) if the over-allotment options are exercised in full. Our proceeds from this offering will include cash and LFTs. The Brazilian federal government will, and other shareholders participating in the priority subscription may, pay for our shares with LFTs. We will apply all the LFTs we receive from the Brazilian federal government towards the payment of the initial purchase price under the Assignment Agreement, but it is possible that after such application we will retain part of the net proceeds in the form of LFTs.

We intend to use the net proceeds from this offering (1) to pay the initial purchase price under the Assignment Agreement and (2) to continue to develop all of our business segments. Specifically, we plan to allocate the net proceeds from this offering as follows:

approximately % (including all of the LFTs we receive from the Brazilian federal government) to pay the initial purchase price under the Assignment Agreement; and

approximately % to finance investments under our 2010-2014 Business Plan while maintaining an adequate capital structure and staying within our targeted financial leverage ratios.

We expect to meet our aggregate funding needs with a combination of the net proceeds from the global offering, proceeds from other financings and cash flow generated by our operations.

Share capital before and after the global offering

Our share capital consists of 5,073,347,344 common shares and 3,700,729,396 preferred shares.

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Immediately after the global offering, we will have            common shares and preferred shares outstanding, assuming no exercise of the over-allotment options.

**Distributions**

Under Brazilian law and our bylaws, we are required to distribute to our shareholders an annual amount equal to not less than 25% of our adjusted net profits, as calculated under Brazilian GAAP and adjusted as required by Law No. 6,404, dated December 15, 1976, as amended, which we refer to as the Brazilian Corporation Law, (which may differ significantly from net income under U.S. GAAP), unless our board of directors advises our shareholders at our shareholders' meeting that payment of the mandatory dividend for the preceding year is inadvisable in light of our financial condition and our shareholders approve that recommendation.

Holders of preferred shares are entitled to minimum annual dividends equal to the greater of (i) 5% of their pro rata share of our paid-in capital or (ii) 3% of the book value of their preferred shares. To the extent that we declare dividends with respect to any year in amounts which exceed the minimum preferential dividends on preferred shares, holders of common shares and preferred shares will receive the same additional dividend amount per share.

The holders of ADRs will be entitled to receive dividends to the same extent as the holders of our shares, subject to deduction of any applicable fees and charges.

**Voting Rights**

Holders of common shares are entitled to one vote per share at meetings of our shareholders. The Brazilian federal government is required by law to own at least a majority of our voting stock. Pursuant to our bylaws, our preferred shares generally do not have voting rights, except in the event of specified dividend arrearages or if we enter a liquidation.

Holders of ADSs do not have voting rights but may instruct the ADS depository how to vote the shares underlying their ADSs under the circumstances described in the applicable deposit agreement.

**Listings**

Our common shares and preferred shares are publicly traded in Brazil on the São Paulo Stock Exchange (BM&FBOVESPA), under the symbols PETR3 and PETR4, respectively.

Our common ADSs and preferred ADSs trade on the New York Stock Exchange (NYSE) under the symbols PBR and PBRA, respectively.

Our common shares and preferred shares trade on the Mercado de Valores Latinoamericanos en Euros (LATIBEX), under the symbols XPBR and XPBRA, respectively.

Our common shares and preferred shares are listed on the Bolsa de Comercio de Buenos Aires (BCBA) under the ticker symbols APBR and



APBRA, respectively.

Lock-up agreements

We and each of our directors and executive officers who holds more than 100 shares of our share capital have agreed, subject to

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certain exceptions, for a period of 90 days from the date of the final prospectus supplement not to directly or indirectly offer or sell any shares or ADSs, without the prior written consent of the underwriters. For further information, see Underwriting.

ADR depository

JPMorgan Chase Bank, N.A.

Risk factors

Investors should consider the risk factors discussed beginning on page S-32 and the other information included or incorporated by reference in this prospectus supplement, before investing in our shares or the ADSs.

Expected timetable for the global offering (subject to change):

|   |                    |
|---|--------------------|
| Commencement of marketing of the global offering                | September 3, 2010  |
| Pricing of offering   | September 23, 2010 |
| Allocation of common and preferred shares and ADSs              | September 23, 2010 |
| Settlement and delivery of common and preferred shares and ADSs | September 29, 2010 |

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL DATA**

The tables below present our summary consolidated financial data at and for the periods indicated. The annual data in the table below have been derived from our audited financial statements. Our audited financial statements as of December 31, 2008 and 2009 and for the years ended December 31, 2007, 2008 and 2009, appear in our annual report on Form 20-F for the year ended December 31, 2009, incorporated by reference into this prospectus supplement. The data at June 30, 2010 and for the six months ended June 30, 2009 and 2010 have been derived from our unaudited interim financial statements, incorporated by reference into this prospectus supplement, which in the opinion of management, reflect all adjustments which are of a normal recurring nature necessary for a fair presentation of the results for such periods. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the operating results to be expected for the entire year. You should read the information below in conjunction with our audited and unaudited consolidated financial statements and notes thereto, which are incorporated by reference into this prospectus supplement.

**Income Statement Data**

|           | 2009          | For the Year Ended December 31,                          |               |               | 2005          | For the Six Months Ended June 30, 2010 |  |
|-----------|---------------|--|---------------|---------------|---------------|--|--|
|           |               | 2008   | 2007          | 2006          |               |  |  |
|           |               | (In U.S.\$ million, except for share and per share data) |               |               |               |  |  |
| g         | 91,869        | 118,257  | 87,735        | 72,347        | 56,324        | 57,183                                 |  |
| Income(1) | 21,869        | 25,294   | 20,451        | 19,844        | 15,085        | 12,425                                 |  |
| for the   |               |  |               |               |               |  |  |
| able to   | 15,504        | 18,879   | 13,138        | 12,826        | 10,344        | 8,563                                  |  |
| verage    |               |  |               |               |               |  |  |
| shares    |               |  |               |               |               |  |  |
| (3)       | 5,073,347,344 | 5,073,347,344  | 5,073,347,344 | 5,073,347,344 | 5,073,347,344 | 5,073,347,344                          |  |
|           | 3,700,729,396 | 3,700,729,396  | 3,700,729,396 | 3,699,806,288 | 3,698,956,056 | 3,700,729,396                          |  |
| Income    |               |  |               |               |               |  |  |
| d         |               |  |               |               |               |  |  |
| ares      | 2.49          | 2.88   | 2.33          | 2.26          | 1.72          | 1.42                                   |  |
| d         |               |  |               |               |               |  |  |
| DSs(4)    | 4.98          | 5.76   | 4.66          | 4.52          | 3.44          | 2.84                                   |  |
| luted     |               |  |               |               |               |  |  |
| :(2)(3)   |               |  |               |               |               |  |  |
| d         |               |  |               |               |               |  |  |
| ares      | 1.77          | 2.15   | 1.50          | 1.46          | 1.18          | 0.98                                   |  |
| d         |               |  |               |               |               |  |  |
| DSs(4)    | 3.54          | 4.30   | 3.00          | 2.92          | 2.36          | 1.96                                   |  |
| nds       |               |  |               |               |               |  |  |
| d         |               |  |               |               |               |  |  |
| ares      | 0.59          | 0.47   | 0.35          | 0.42          | 0.34          | 0.27                                   |  |

|             |      |      |      |      |      |      |
|-------------|------|------|------|------|------|------|
| d<br>ADS(4) | 1.18 | 0.94 | 0.70 | 0.84 | 0.68 | 0.54 |
|-------------|------|------|------|------|------|------|

- (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 and 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 period.

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**Table of Contents****Balance Sheet Data**

|  | 2009    | As of December 31,<br>2008 2007 2006<br>(In U.S.\$ million) |         |        | 2005   | As of<br>June 30,<br>2010 |
|--|---------|---|---------|--------|--------|---------------------------|
| <b>Assets:</b>   |         |   |         |        |        |                           |
| Total current assets   | 42,644  | 26,758  | 29,140  | 30,955 | 25,784 | 40,282                    |
| Property, plant and equipment,<br>net                              | 136,167 | 84,719  | 84,282  | 58,897 | 45,920 | 147,083                   |
| Investments in non-consolidated<br>companies and other investments | 4,350   | 3,198   | 5,112   | 3,262  | 1,810  | 5,466                     |
| Total non-current assets   | 17,109  | 11,020  | 11,181  | 5,566  | 5,124  | 17,733                    |
| Total assets   | 200,270 | 125,695   | 129,715 | 98,680 | 78,638 | 210,564                   |
| <b>Liabilities and shareholders<br/>equity:</b>                    |         |   |         |        |        |                           |
| Total current liabilities  | 30,965  | 24,756  | 24,468  | 21,976 | 18,161 | 34,660                    |
| Total long-term liabilities(1)                                     | 25,736  | 17,731  | 21,534  | 16,829 | 12,747 | 26,483                    |
| Long-term debt(2)  | 48,149  | 20,640  | 16,202  | 13,610 | 13,739 | 50,477                    |
| Total liabilities  | 104,850 | 63,127  | 62,204  | 52,415 | 44,647 | 111,620                   |
| Shareholders equity  |         |   |         |        |        |                           |
| Shares authorized and issued:                                      |         |   |         |        |        |                           |
| Preferred shares   | 15,106  | 15,106  | 8,620   | 7,718  | 4,772  | 17,157                    |
| Common shares  | 21,088  | 21,088  | 12,196  | 10,959 | 6,929  | 22,584                    |
| Capital reserve and other<br>comprehensive income                  | 57,864  | 25,715  | 44,363  | 25,622 | 21,216 | 57,780                    |
| Petrobras shareholders equity                                      | 94,058  | 61,909  | 65,179  | 44,299 | 32,917 | 97,521                    |
| Noncontrolling interest  | 1,362   | 659   | 2,332   | 1,966  | 1,074  | 1,423                     |
| Total equity   | 95,420  | 62,568  | 67,511  | 46,265 | 33,991 | 98,944                    |
| Total liabilities and shareholders<br>equity                       | 200,270 | 125,695   | 129,715 | 98,680 | 78,638 | 210,564                   |

(1) Excludes long-term debt.

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



**Table of Contents****Selected Income Statement Data by Segment**

|                                 | For the Year Ended December 31, |          |          | For the Six Months |          |
|---------------------------------|---------------------------------|----------|----------|--------------------|----------|
|                                 | 2009                            | 2008     | 2007     | Ended June 30,     | 2009     |
|                                 | (In U.S.\$ million)             |          |          |                    |          |
| <b>Net operating revenues:</b>  |                                 |          |          |                    |          |
| Exploration and Production      | 38,777                          | 59,024   | 41,991   | 26,100             | 15,028   |
| Supply                          | 74,621                          | 96,202   | 69,549   | 47,296             | 32,238   |
| Gas and power                   | 5,652                           | 8,802    | 4,912    | 3,466              | 2,883    |
| Distribution                    | 29,672                          | 30,892   | 23,320   | 17,229             | 12,627   |
| International                   | 10,197                          | 10,940   | 9,101    | 6,391              | 3,995    |
| Corporate                       |                                 |          |          |                    |          |
| Eliminations(1)                 | (67,050)                        | (87,603) | (61,138) | (43,299)           | (26,977) |
| Total net operating revenues    | 91,869                          | 118,257  | 87,735   | 57,183             | 39,794   |
| <b>Operating income (loss):</b> |                                 |          |          |                    |          |
| Exploration and Production      | 14,717                          | 31,846   | 21,838   | 11,888             | 5,442    |
| Supply                          | 9,607                           | (2,504)  | 4,183    | 1,228              | 6,669    |
| Gas and power                   | 557                             | (342)    | (987)    | 428                | 166      |
| Distribution                    | 971                             | 887      | 783      | 520                | 387      |
| International                   | 508                             | (443)    | (311)    | 697                | 172      |
| Corporate                       | (3,817)                         | (4,291)  | (3,964)  | (2,281)            | (1,587)  |
| Eliminations(1)                 | (674)                           | 141      | (1,091)  | (55)               | (433)    |
| Total operating income (loss)   | 21,869                          | 25,294   | 20,451   | 12,425             | 10,816   |
| <b>Net income:</b>              |                                 |          |          |                    |          |
| Exploration and Production      | 9,683                           | 21,031   | 14,072   | 7,839              | 3,597    |
| Supply                          | 6,456                           | (1,996)  | 2,785    | 716                | 4,569    |
| Gas and power                   | 447                             | (223)    | (834)    | 393                | 188      |
| Distribution                    | 634                             | 839      | 446      | 341                | 252      |
| International                   | (154)                           | (808)    | (815)    | 564                | (344)    |
| Corporate                       | (1,116)                         | (57)     | (1,796)  | (1,254)            | (1,350)  |
| Eliminations(1)                 | (446)                           | 93       | (720)    | (36)               | (285)    |
| Total net income                | 15,504                          | 18,879   | 13,138   | 8,563              | 6,627    |

(1) Internal operations among our business segments, which are not included in our consolidated financial statements.

**Table of Contents****Financial Indicators**

|   | For the Year Ended December 31, |         |         | For the Six Months     |         |
|---|---------------------------------|---------|---------|------------------------|---------|
|   | 2009                            | 2008    | 2007    | Ended June 30,<br>2010 | 2009    |
| Gross margin(1)   | 46.4%                           | 38.4%   | 43.3%   | 42.8%                  | 47.5%   |
| Operational margin(2)   | 23.8%                           | 21.4%   | 23.3%   | 21.7%                  | 27.2%   |
| Net margin(3)   | 16.9%                           | 16.0%   | 15.0%   | 15.0%                  | 16.7%   |
| <b>Adjusted EBITDA by segment</b> (in millions of U.S.\$)(4): |                                 |         |         |                        |         |
| Exploration and Production                                    | 19,255                          | 35,372  | 24,960  | 14,511                 | 7,182   |
| Supply  | 10,979                          | (1,602) | 5,196   | 1,831                  | 7,256   |
| Gas and power   | 933                             | (240)   | (792)   | 708                    | 280     |
| Distribution  | 1,136                           | 1,361   | 831     | 620                    | 462     |
| International   | 1,118                           | 236     | 492     | 1,144                  | 279     |
| Corporate   | (3,764)                         | (4,185) | (4,135) | (2,188)                | (1,544) |
| Eliminations(5)   | (675)                           | 141     | (1,091) | (46)                   | (433)   |
| Total adjusted EBITDA   | 28,982                          | 31,083  | 25,461  | 16,580                 | 13,482  |
| Adjusted EBITDA Margin(6)                                     | 31.5%                           | 26.3%   | 29.0%   | 29.0%                  | 33.9%   |

- (1) Net operating revenue less cost of sales as a percentage of net operating revenues.
- (2) Operating income (loss) as a percentage of net operating revenues.
- (3) Net income as a percentage of net operating revenues.
- (4) Adjusted EBITDA is a measure not recognized under U.S. GAAP, which means operating income (loss) before financial results (financial income and expenses), depreciation and amortization expenses, impairment, investments and employees profit sharing plans. See the table below for a reconciliation of Adjusted EBITDA to Net Income.
- (5) Internal operations among our business segments, which are not included in our consolidated financial statements.
- (6) Adjusted EBITDA as a percentage of net operating revenues.

**Reconciliation of Adjusted EBITDA to Net Income**

|  | For the Year Ended |      |      | For the Six Months     |      |
|--|--------------------|------|------|------------------------|------|
|  | 2009               | 2008 | 2007 | Ended June 30,<br>2010 | 2009 |



**(In U.S.\$ million)**

|  |         |         |         |        |        |
|--|---------|---------|---------|--------|--------|
| Net income attributable to Petrobras                             | 15,504  | 18,879  | 13,138  | 8,563  | 6,627  |
| Depreciation, depletion and amortization                         | 7,188   | 5,928   | 5,544   | 4,130  | 2,891  |
| Impairment of oil and gas properties                             | 319     | 519     | 271     | 94     |        |
| Financial income   | (1,899) | (1,641) | (1,550) | (924)  | (822)  |
| Financial expenses   | 1,295   | 848     | 677     | 822    | 482    |
| Monetary and exchange variation                                  | 175     | (1,584) | 1,455   | 781    | 900    |
| Total income tax expense   | 5,238   | 9,259   | 5,888   | 3,047  | 2,498  |
| Equity in results of non-consolidated companies                  | (157)   | 21      | (235)   | 28     | (215)  |
| Non-controlling interest in results of consolidated subsidiaries | 1,319   | (1,146) | 273     | 39     | 1,121  |
| Adjusted EBITDA  | 28,982  | 31,083  | 25,461  | 16,580 | 13,482 |

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**Table of Contents****Selected Operational Data**

| <b>Sales Volume</b>  | <b>For the Year Ended</b>                       |             |             | <b>For the Six Months</b> |             |
|--|---|-------------|-------------|---------------------------|-------------|
|  | <b>2009</b>                                     | <b>2008</b> | <b>2007</b> | <b>Ended June 30,</b>     | <b>2009</b> |
|  | <b>December 31,</b>                             |             |             | <b>2010</b>               |             |
|  | <b>(In thousands of barrels of oil per day)</b> |             |             |                           |             |
| Oil products   | 1,754   | 1,737       | 1,725       | 1,874                     | 1,691       |
| Ethanol, nitrogen products, bio-diesel, natural gas and other products | 352   | 409         | 310         | 362                       | 322         |
| Domestic market  | 2,106   | 2,146       | 2,035       | 2,236                     | 2,013       |
| International market   | 1,244   | 1,228       | 1,204       | 1,370                     | 1,289       |
| Total  | 3,350   | 3,374       | 3,239       | 3,606                     | 3,302       |

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**RECENT DEVELOPMENTS**

**New Regulatory Model for the Oil and Gas Industry in Brazil**

The Brazilian Congress is currently considering new oil and gas legislation that will set new rules for the exploration and production of oil and natural gas in Brazil. If approved, the new regulatory model contemplated by the legislation will allow us to be the exclusive operator in all pre-salt areas not yet under concession, which currently comprise 107,230 km<sup>2</sup> (26.5 million acres), in addition to other areas that the National Energy Policy Council (CNPE) may deem strategic. 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. The proposed legislation was approved by the Brazilian Senate on June 10, 2010, and is currently being considered by the House of Representatives. If approved, the bill will be sent to the President for signature. The new legislation will then be implemented by the CNPE, the National Petroleum, Natural Gas and Biofuels Agency (ANP) and by other institutions in the Brazilian oil and gas sector.

**Assignment Agreement (*cessão onerosa*)**

We will enter into an agreement with the Brazilian federal government (Assignment Agreement), under which the government will assign to us the right to conduct research activities and the exploration and production of fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. The Assignment Agreement will be entered into pursuant to specific provisions of Law No. 12,276. The draft of the Assignment Agreement was approved by our Board of Directors on September 1, 2010 and by the CNPE on September 1, 2010, following a valuation procedure conducted by the ANP, as required by Law No. 12,276, and a negotiation between us and the Brazilian federal government. We expect to sign the Assignment Agreement shortly following the date of this preliminary prospectus supplement. We will file an English translation of the form of Assignment Agreement with the SEC in a report on Form 6-K to be incorporated by reference in this prospectus supplement.

***Basic Terms***

*Purpose.* Under the Assignment Agreement, we will pay a specified amount, the initial purchase price, for the right to conduct exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. Although the Assignment Agreement grants certain rights to us that are similar to those of a concession, the Assignment Agreement is not a concession under Brazilian law.

*Area Covered.* The Assignment Agreement covers six firm blocks plus one contingent block, located in the pre-salt areas and identified in the Assignment Agreement. These blocks are located in the Santos Basin and have expected geological characteristics similar to the discoveries made elsewhere in the pre-salt area.

*Supervision and Inspection.* The ANP has regulatory authority over our activities in the areas subject to the Assignment Agreement, as well as over our compliance with the Assignment Agreement.

*Costs and Risks.* All our exploration and other activities under the Assignment Agreement will be conducted at our expense and at our risk.

*Price*

The initial purchase price for our rights under the Assignment Agreement is R\$74,807,616,407, which was equivalent to U.S.\$42,533,327,500 as of September 1, 2010. The price was determined by negotiation between us and the Brazilian federal government, based on a number of factors, including market conditions, current oil prices and the reports of independent experts obtained by us and by the ANP.

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We intend to use the proceeds of our sale of shares to the Brazilian federal government in the global offering for the payment of the initial purchase price. The Assignment Agreement provides that we may use the LFTs we will receive from the Brazilian federal government in this offering to pay the initial purchase price and the LFTs will be valued at the same price at which they are valued for purposes of the global offering. We expect to deliver such LFTs to the Brazilian federal government immediately following the settlement of the global offering.

The Assignment Agreement sets forth the initial prices and volumes for each block, as follows:

|   | INITIAL EVALUATIONS            |                       |                       |
|---|--------------------------------|-----------------------|-----------------------|
|   | Volume<br>(millions of<br>boe) | Price<br>(U.S.\$/boe) | Value<br>(U.S.\$)     |
| <b>Block 1</b>  |                                |                       |                       |
| Florim  | 467                            | 9.0094                | 4,207,389,800         |
| <b>Block 2</b>  |                                |                       |                       |
| Franco  | 3,058                          | 9.0400                | 27,644,320,000        |
| <b>Block 3</b>  |                                |                       |                       |
| Guará South   | 319                            | 7.9427                | 2,533,711,300         |
| <b>Block 4</b>  |                                |                       |                       |
| Iara  | 600                            | 5.8157                | 3,489,420,000         |
| <b>Block 5</b>  |                                |                       |                       |
| Tupi South  | 128                            | 7.8531                | 1,005,196,800         |
| <b>Block 6</b>  |                                |                       |                       |
| Tupi Northeast  | 428                            | 8.5357                | 3,653,279,600         |
| <b>Block 7 (contingent block)</b>                         |                                |                       |                       |
| Peroba  |                                |                       |                       |
| <b>Initial Purchase Price of the Assignment Agreement</b> |                                |                       | <b>42,533,327,500</b> |

**Duration**

The term of the Assignment Agreement is 40 years, which may be extended for an additional five years, upon our request, in cases of (i) *force majeure*, (ii) delay in obtaining applicable environmental licenses, provided that such delay is attributable only to the relevant environmental authority, (iii) suspension of the activities by determination of the ANP, or (iv) changes in the geological conditions forecast for each area. The extension will only apply to areas in which the ANP identifies the occurrence of one of the events specified above. The ANP will take into account the period of time of the delay occurred to determine the length of the extension, subject to the five-year limit indicated above.

**Contingent Area**

We may request that the Brazilian federal government perform the activities set forth in the mandatory exploration program, as described below, for the contingent block within four years from the date of the Assignment Agreement, and provided that it is proved, based on oil and gas industry best practices, that the total volume recoverable in the other blocks is less than the maximum volume provided by the Assignment Agreement.

The activities set forth in the mandatory exploration program for the contingent block must be performed within the term of the exploration phase. At any time, in case we or the Brazilian federal government identify the possibility of producing the maximum volume provided for in the Assignment Agreement in the other blocks, we will be required to return the contingent block to the Brazilian federal government immediately.

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***Revision***

The Assignment Agreement is subject to a review process. We will notify the Brazilian federal government and the ANP ten months before the date anticipated for the declaration of commerciality of each area covered by the agreement, in order to initiate the review process, which will begin immediately after the declaration of commerciality of each area in each of the blocks. The review process will be concluded when we issue our last declaration of commerciality, based on each area's revised prices and volumes, for all the areas subject to the Assignment Agreement and notify the ANP. The contingent area will also be subject to the review process.

The conclusion of the review process may result in the renegotiation of the contract price, the maximum production volume of five billion barrels of oil equivalent, the duration, and the minimum levels of goods and services to be acquired from Brazilian providers.

If the revised price is higher than the initial purchase price, we may agree with the Brazilian federal government on one or more of the following payment options: (i) a payment to be made by us, in cash or LFTs, to the Brazilian federal government in an amount equal to the difference between the revised price (resulting from the review process) and the initial purchase price; or (ii) a reduction in the maximum production volume of five billion barrels of oil equivalent, where we may agree to return the areas covered by the Assignment Agreement. If the revised price is lower than the initial purchase price, then the Brazilian federal government will pay us in cash, LFTs, securities issued by us or through other means agreed between us, the difference between the revised price and the initial purchase price. In either case, the difference between the revised price and the initial purchase price in U.S. dollars will be converted into Brazilian reais, based on the average PTAX exchange rate published by the Central Bank of Brazil for the month prior to the review of each area and will be adjusted by the interest rate of the Brazilian Special Clearance and Custody System (*Sistema Especial de Liquidação e Custódia*), or the SELIC rate, until the payment date. Payments must be made within three years of the completion of the review process.

The review process will be based on reports of independent experts to be engaged by us and by the ANP. The following factors will be considered in the review process:

*Reference Date:* the date of the reports obtained by us and the ANP for purposes of calculating the initial purchase price;

*Discount Rate:* a discount rate of 8.83% per year;

*Oil Reference Price:* will be equal to the average trading price of the month preceding the revision date (Crude Light West Texas Intermediate - WTI), in U.S.\$/barrel in each block, as published by the New York Mercantile Exchange, the NYMEX, under the code CL, for the futures contract of eighteenth maturity, minus the differential in relation to Brent crude oil. The Brent crude oil differential (the price of WTI minus the Brent price) shall be calculated using yearly averages of monthly projections as specified in the most recently published reports of the Pira Energy Group (available on their website for a fee) for the year following the revision, or, if not available, a comparable forecast published by an international entity renowned for its technical competence in the oil and natural gas industry. For each area under the Assignment Agreement, the calculation of the differential of the price of barrel of oil equivalent applicable to each area in relation to Brent crude oil shall be based on the most recent fluid characterization data available as of the revision date, and shall be conducted in accordance with the methodology specified in the ANP Ordinance No. 260/2000.

*Natural Gas Reference Price in U.S.\$/MMBtu:* the natural gas reference price equals the price in the reference market (PMR) minus installments in connection with transportation fees (TTr), processing fees (TP), transfer fees (TT) and sales expenses (DC), according to the following formula:  $PRGN = PMR - (TTr$

+ TP + TT + DC), where:

- n The price in the reference market (PMR) in U.S./MMBtu is the average sale price of domestic natural gas in the twelve months preceding the review date, per volume, consistent with our

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practices of firm commitments to the non-thermoelectric market in the states of Rio de Janeiro and São Paulo.

- n The transportation fees (TTr) in U.S.\$/MMBtu are contractual fees of gas pipelines used to transport natural gas between our processing plants and LNG terminals, as follows:  $TTr = TTr_{(h)}$ , where  $TTr_{(n)}$  equals the transportation fees of gas pipeline n.
- n The processing fees (TP) in U.S.\$/MMBtu are based on the cost of processing pre-salt natural gas, in our Cabiúnas terminal in Macaé, State of Rio de Janeiro, taking into account the revenues from the commercialization of liquid hydrocarbons which will result from the processing of natural gas.
- n The transfer fees (TT) in U.S.\$/MMBtu are based on the cost of transferring natural gas from the pre-salt areas from our production units to the Cabiúnas terminal.
- n Sales Expenses (DC) in U.S.\$/MMBtu correspond to the costs incurred in the commercialization of natural gas, which include, among others, the preparation and management of the natural gas commercialization contracts, logistical costs of supplying natural gas and costs associated with payments related to such supply.

Calculations of the processing and transfer fees will be based on audited information we have available for equivalent projects involving processing and transfer of pre-salt natural gas. Calculations of sales expenses will be based on audited information we have available regarding natural gas commercialization.

*Tax:* Applicable taxes will be the Brazilian taxes applicable to fields under the Assignment Agreement, in force at the revision period;

*Cost:*

For transactions between the date of the execution of the Assignment Agreement and the revision date, the cost shall be the effective cost incurred by us, in U.S.\$, separately for each area under the Assignment Agreement.

Investments and operational costs, and additional future costs will be estimated according to best practices in the oil industry, taking into consideration the operational environment, and based on the market prices practiced for each good or service at the revision date.

*Lease and rent:* in case lease and rent are applicable, they will be considered according to best practices in the oil industry, for production assets including, but not limited to, production units and underwater equipment. For recent agreements, lease and rent will be estimated based on daily lease rates applied to Stationary Production Units that have an equivalent market value (CAPEX). Any taxes due pursuant to the transfer of lease and rent costs will be added to the total payment.

Investment costs, operating costs and additional expenses will be calculated in U.S. dollars; and

*Exchange Rate:* the difference between the revised price and the initial purchase price will be converted from U.S. dollars to Brazilian *reais* using the annual average PTAX exchange rate (calculated by the Brazilian Central Bank) applicable in the month immediately preceding the payment.

***Phases***

Our performance under the Assignment Agreement is divided into two phases:

*Exploration phase.* This phase comprises the appraisal for purposes of determining the commerciality of any discoveries of oil, natural gas and other fluid hydrocarbons. The exploration phase will start as of the date of the execution of the Assignment Agreement and will end upon the declaration of commerciality of each respective reservoir discovered in each area covered by the Assignment Agreement. We will have four years, which may be extended for an additional two-year period, to comply with the mandatory working program and other ANP-approved activities as set forth in the Assignment Agreement. If we discover oil and decide to appraise such discovery, we must issue a

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notice of discovery to the ANP. Upon completion of the mandatory working program in each area, we may notify the ANP in writing that we are ending the exploration phase by issuing a declaration of commerciality of each area or that there have been no discoveries which would justify the development of a given area.

*Production Phase.* The production phase begins as of the date of delivery of the declaration of commerciality by us to the ANP, and it lasts until the termination of the Assignment Agreement. It comprises a development phase, during which we will carry out activities pursuant to a development plan approved by the ANP. Following the development phase, we may start production pursuant to a notification to the ANP.

### ***Mandatory Exploration Program***

During the exploration phase, we are required to perform a mandatory working program, as specified in an annex to the Assignment Agreement. We may perform other activities outside the scope of the mandatory working program, provided that such activities are approved by the ANP.

The ANP will impose fines on us for delays in the performance of the mandatory exploration program. If the delay is less than two years, the fine will correspond to the amount of such non-performed activities, proportional to the number of outstanding days. If the delay is greater than two years, then the fine will be equal to twice the amount of the activities of the mandatory exploration program for the relevant block.

### ***Reallocation of Volumes***

The Brazilian federal government and we may negotiate the redistribution of the volume of oil and natural gas originally assigned for each block, observing the price per barrel of oil equivalent applicable to each area, in the following scenarios: (i) the relevant environmental authority does not grant a permanent license for the performance of oil and natural gas exploration and production activities in a certain block or field, or (ii) the production of the volume allotted for any block is not feasible under petroleum industry best practices due to the geological features of the reservoirs, observing the economic parameters established in the review process (as discussed below).

The Assignment Agreement value for the volumes of oil and natural gas to be redistributed to a new block will equal (i) the assignment agreement value for the volumes of oil and natural gas that were not produced divided by the price per barrel of oil equivalent applicable to that block, multiplied by (ii) the price per barrel of oil equivalent applicable to the area to which this volume is redistributed.

If it is not possible to redistribute all of the volumes of oil and natural gas not produced by us, the redistribution procedure will be performed in part, and the Brazilian federal government will pay us the amount resulting from the multiplication of the volume not subject to production following the partial redistribution and the price of barrel of oil equivalent applicable to each redistributed block. This dollar amount will be converted to *reais* using the average PTAX exchange rate for the 12 months preceding the date of the review process of such block, and adjusted by the SELIC rate during the period between the date of the review process of such block and the date of payment by the Brazilian federal government.

If it is determined that it is not possible to redistribute any amounts as described above, the Brazilian federal government will reimburse us for an amount equivalent to total volume of barrels of oil equivalent that was not produced multiplied by the dollar price of barrel of oil equivalent applicable to the relevant block, converted in *reais* using the average PTAX exchange rate for the month preceding the date of the review process, and adjusted by the SELIC rate from the date of the review process of such block to the date of payment by the Brazilian federal government.

The manner and terms of payment of the reimbursement in either case will be negotiated by us and the Brazilian federal government. Payments will be made no later than three years after the conclusion of the review process.

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### ***Unitization***

A reservoir covered by a block assigned to us in the Assignment Agreement may extend to areas outside such block. In such case, we must notify the ANP immediately and if the adjacent area is licensed to a third-party concessionaire, the ANP will inform the third-party concessionaire that we should negotiate an Unitization Agreement. If the adjacent area is not licensed, the Brazilian federal government shall indicate a representative to negotiate with us.

If the parties are unable to reach an agreement within a deadline imposed by the ANP, the agency will determine the terms and obligations related to such unitization, on the basis of an expert report, and will also notify Petrobras and the third-party concessionaire or representative, as applicable, of such determination. Until the unitization agreement is approved by the ANP, operations for the development and production of such reservoir must remain suspended, unless otherwise authorized by the ANP.

### ***Licenses, Authorizations and Permissions***

We are required to obtain all licenses, authorizations, permissions and rights required by applicable law, as determined by the relevant authorities or based on rights of third parties whether or not contemplated in the Assignment Agreement, that may be necessary to perform our operations under the Assignment Agreement.

### ***Environmental***

We are required to preserve the environment and protect the ecosystem in the area subject to the Assignment Agreement, to avoid damages and losses to the fauna, flora and natural resources, and we will be liable for all damages arising from our operations, including for any recovery measures in the case of damage to the environment.

### ***Brazilian Content***

The Assignment Agreement requires us to acquire a minimum level of goods and services from Brazilian providers and to provide equal conditions for such providers to compete with foreign companies for the sale of goods and services, in accordance with the minimum Brazilian requirement per item listed in the Assignment Agreement. The Brazilian content threshold is 37% for the exploration phase. For the development phase, it is (i) 55% for the development phases beginning production by 2016, (ii) 58% for the development phases beginning production between 2017 and 2019, (iii) 65% for the development phases beginning production as of 2020. Despite the minimum percentages set forth for each development phase timeframes, the average global percentage of Brazilian content in the development phase shall be at least 65%. If we fail to comply with the Brazilian content obligations, we may be subject to specific fines imposed by the ANP.

### ***Royalties and expenses with Research and Development***

Once we begin commercial production in each field, we will be required to pay monthly royalties in an amount equal to 10% of the oil and natural gas production. We are also required to invest at least 0.5% of our yearly gross revenues from oil, natural gas and other fluid hydrocarbons production under the Assignment Agreement in research and development activities related to energy and environmental issues being conducted in universities and national research and technical development institutions, public or private, previously registered with the ANP for this purpose.

### ***Miscellaneous Provisions***

We shall not assign our rights under the Assignment Agreement.

Any breach of the Assignment Agreement or of any regulations of the ANP caused by us may lead to administrative sanctions and fines to be imposed by the ANP, in accordance with applicable legislation and the terms of this Assignment Agreement, and respecting the due process of law.

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If our breach of the Assignment Agreement is considered by the ANP not to be significant, intentional, or a result of negligence, imprudence or recklessness, or if it is proved that we worked diligently to curing such breach, the ANP may, instead of terminating the Assignment Agreement, apply the sanctions mentioned above.

The Assignment Agreement shall terminate upon (i) the production of the maximum production of five billion barrels of oil equivalent, (ii) the expiration of the term, or (iii) upon the request of the ANP, if we fail to observe the cure period established by the ANP in connection with the breach of an obligation that proves relevant for the continuation of operations in each block. Such cure period may not be less than 90 days, except in cases of extreme emergency.

The Brazilian federal government and we will only be excused from the performance of the activities set forth in the Assignment Agreement in cases of *force majeure*, which includes, among others, delays in the obtaining an environmental license, provided that such delay is attributable only to the relevant environmental authority.

The Assignment Agreement is subject to Brazilian law.

The Brazilian federal government and we will use our best efforts to settle any disputes amicably. If we are unable to do so, we may submit such dispute for arbitral review by the Brazilian Federal Attorney's Office (*Advocacia-Geral da União Federal*), or initiate a legal proceeding at the Federal Court located in Brasília, Brazil.

**Accounting treatment of Assignment Agreement**

The transfer of rights to explore and produce oil, natural gas and other fluid hydrocarbons in certain pre-salt areas under the Assignment Agreement represents access to oil and gas property. In accordance with ASC#16