

# Sustainability Report

2010



# Profile

Founded in 1953, Petrobras is a publicly traded company with activities in 30 countries on all continents. The oil sector leader in Brazil, it ranks third among the international energy companies in market value, according to PFC Energy's ranking. Petrobras operates in exploration and production, refining, oil and natural gas trade and transportation, petrochemicals, oil product distribution, electric energy, biofuels, and in other sources of renewable energy.

# Mission

Operate in a safe, profitable manner, with social and environmental responsibility, in Brazil and abroad, providing products and services that meet clients' needs and that contribute to the development of Brazil and of the countries in which it operates.

# Vision for 2020

We will be one of the five largest integrated energy companies in the world and the preferred choice among our stakeholders.

# Attributes of the Vision for 2020

Our operations will stand out for:

- » Their strong international presence
- » Being a global reference in biofuels
- » Excellence in operations, management, energy efficiency, human resources, and in technology
- » Their profitability
- » Being a benchmark in social and environmental responsibility
- » Their commitment to sustainable development

# Values

- » Sustainable development
- » Integration
- » Results
- » Readiness for change
- » Entrepreneurship and innovation
- » Ethics & transparency
- » Respect for life
- » Human & cultural diversity
- » People
- » Proud to be Petrobras

# Highlights

OPERATIONAL SUMMARY	2008	2009	2010
<b>PROVED RESERVES</b> - SPE Criterion - (billions of barrels of oil equivalent - boe) <sup>(1)(2)</sup> - BRAZIL AND ABROAD	<b>15.1</b>	<b>14.9</b>	<b>16.0</b>
Oil and condensate (billions of barrels)	12.5	12.6	13.4
Natural gas (billion boe)	2.6	2.3	2.6
<b>AVERAGE DAILY PRODUCTION</b> (thousand boe) <sup>(1)</sup> - BRAZIL AND ABROAD	<b>2,400</b>	<b>2,526</b>	<b>2,583</b>
<b>BRAZIL</b>			
> Oil & LNG (thousand bpd)	1,855	1,971	2,004
> Natural gas (thousand boe)	321	317	334
<b>ABROAD</b>			
> Oil & LNG (thousand bpd)*	124	141	152
> Natural gas (thousand boe)	100	97	93
<b>FLOW WELLS</b> (oil and natural gas) - on December 31 <sup>(1)</sup>	<b>13,174</b>	<b>14,905</b>	<b>15,087</b>
<b>DRILLING RIGS</b> - on December 31	<b>109</b>	<b>100</b>	<b>98</b>
<b>PLATFORMS IN PRODUCTION</b> - on December 31	<b>112</b>	<b>133</b>	<b>132</b>
<b>PIPELINES</b> (km) - on December 31	<b>25,197</b>	<b>25,966</b>	<b>29,398</b>
<b>VESSEL FLEET</b> - on December 31	<b>189</b>	<b>172</b>	<b>291</b>
Amount - Own operation	54	52	52
- Operated by third parties	135	120	239
<b>TERMINALS</b> - on December 31 <sup>(3)</sup>			
Amount	46	47	48
<b>REFINERIES</b> - on December 31 <sup>(1)(5)</sup>			
Nominal installed capacity (thousand barrels per day - bpd)	2,223	2,223	2,288
Average daily oil products production (thousand barrels per day - bpd)	1,970	2,034	2,052
Brazil	1,787	1,823	1,832
Abroad	183	211	220
<b>IMPORTS</b> (thousand barrels per day - bpd)	<b>570</b>	<b>549</b>	<b>615</b>
Oil	373	397	316
Oil Products	197	152	299
<b>EXPORTS</b> (thousand barrels per day - bpd)	<b>673</b>	<b>705</b>	<b>697</b>
Oil	439	478	497
Oil Products	234	227	200
<b>OIL PRODUCTS TRADE</b> (thousand barrels per day - bpd)			
Brazil	1,737	1,754	1,960
<b>INTERNATIONAL SALES</b> (thousand barrels per day - bpd)			
Oil, gas, and oil products	552	537	593
<b>SOURCE OF THE NATURAL GAS</b> (millions of m <sup>3</sup> per day) <sup>(4)</sup>	<b>58</b>	<b>45</b>	<b>62</b>
Domestic gas	29	23	29
Bolivian gas	29	22	26
LNG		1	8
<b>DESTINATION OF THE NATURAL GAS</b> (millions of m <sup>3</sup> per day) <sup>(4)</sup>	<b>58</b>	<b>45</b>	<b>62</b>
Distributors	37	32	37
Thermoelectric plants	14	5	16
Refineries	5	6	7
Fertilizers	2	2	2
<b>ENERGY</b> <sup>(1)</sup>			
Number of thermoelectric plants <sup>(5)(6)</sup>	18	18	15
Installed capacity (MW) <sup>(5)(6)</sup>	6,103	6,136	5,944
<b>FERTILIZERS</b> <sup>(1)</sup>	<b>2</b>	<b>2</b>	<b>2</b>

(\*) Includes non-consolidated

(1) Includes information from abroad for Petrobras' part in associated companies

(2) Proved reserves measured according to the SPE (Society Petroleum Engineers) criterion

(3) Includes only Transpetro terminals

(4) Excludes flaring, own consumption by E&P, liquefaction and reinjection

(5) Only includes assets in which there is an interest of 50% or more

(6) Only includes the natural gas-fired thermoelectric plants

PERFORMANCE SCHEDULE	2006	2007	2008	2009	2010
<b>INDICATOR</b>					
<b>Environment</b>					
Oil & Oil Product Leaks (m <sup>3</sup> )	293	386	436	254	668
Energy consumption (terajoule - TJ)	576,762	574,145	604,333	527,717	716,673
Greenhouse gas emissions (million tons of CO <sub>2</sub> equivalent)	50.43	49.88	57.6	57.8	61.1
Carbon dioxide emissions - CO <sub>2</sub> (million tons)	46	45	54	52	57
Methane emissions - CH <sub>4</sub> (thousand tons)	190	206	188	235	196
Nitrous oxide emissions - N <sub>2</sub> O (tons)	997.23	919.5	1,215	1,241	1,360
Atmospheric emissions - NOx (thousand tons)	233.54	222.65	244.50	222.04	227.75
Atmospheric emissions - SOx (thousand tons)	151.96	150.9	141.79	135.39	133.73
Other atmospheric emissions - includes particulate matter (thousand tons)	17.11	15.22	16.71	19.30	17.51
Fresh water withdrawal (million m <sup>3</sup> )	178.8	216.5	195.2	176.0	187.3
Water effluent disposal (million m <sup>3</sup> )	164.3	172.8	181.14	197.2	172.6
<b>Occupational Health and Safety</b>					
Lost Time Injury Frequency Rate - LTIFR (includes employees and workers)	0.77	0.76	0.59	0.48	0.52
Fatalities (including employees and workers)	9	15	18	7	10
Fatal Accident Rate (fatalities per 100 million man-hours of exposure to risk - including employees and workers)	1.61	2.28	2.4	0.81	1.08
Percentage of Lost Time (includes employees only)	2.06	2.19	2.31	2.36	2.38
<b>Employees*</b>					
Number of employees	62,266	68,931	74,240	76,919	80,492
Number of workers	176,810	211,566	260,474	295,260	291,606
<b>Contributions to society</b>					
Investments in social projects (R\$ million)	199.6	248.6	225.1	173.6	199.3
Investments in cultural projects (R\$ million)	288.6	205.5	206.8	154.6	170.3
Investments in environmental projects (R\$ million)	44.6	51.7	53.8	93.9	257.7
Investments in sports projects (R\$ million)	58.2	80	69	42.4	80.5

CONSOLIDATED FINANCIAL INFORMATION	2008	2009	2010
Gross Operating Revenue (R\$ million)	266,494	230,504	268,107
Net Operating Revenue (R\$ million)	215,118	182,710	213,274
Operating Profit (R\$ million)	45,950	46,128	47,057
Profit / Share (R\$)	3.76	3.30	3.57
Net Profit (R\$ million)	32,988	28,982	35,189
EBITDA (R\$ million)	57,170	59,944	60,323
Net Debt (R\$ million)	48,824	71,533	62,067
Investments (R\$ million)	53,349	70,757	76,411
Gross Margin	34%	40%	36%
Operating Margin	21%	25%	22%
Net Margin	15%	16%	16%

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# Message from the CEO

THREE MAJOR ACCOMPLISHMENTS MARKED 2010: the start-up of operations at the Lula field Pilot System, in the accumulation area known as Tupi, in the Santos Basin Pre-Salt layer; the raising of R\$120.2 billion through the world's largest ever equity issuance; and the signing of the Transfer of Rights Agreement, guaranteeing the company the right to produce 5 billion barrels of oil equivalent (boe) in Pre-Salt areas that are not under concession.

Petrobras' dedication to exploring new business frontiers has allowed the company to make these achievements, which have strengthened it. Petrobras has a robust portfolio in the Santos Basin Pre-Salt layer, the most promising exploration region along the Brazilian coast. The capitalization operation provided the resources needed not only for the Transfer of Rights Agreement, but also to support Petrobras 2010-2014 Business Plan, which calls for investments in the order of \$224 billion.

The company's net revenue reached R\$35.2 billion, 17% more than in 2009. This is a result of the expanding Brazilian economy, of the increased oil and natural gas production, higher oil trade volumes on the Brazilian market, and of the international oil price recovery. Domestic oil and natural gas liquids output added up to 2.004 million barrels of oil per day (bpd), up 1.7% over the previous year due mainly to new platforms going on stream. Natural gas production in Brazil, meanwhile, rose to 56.6 million cubic meters per day, 5.6% more than in the previous year. The total volume of oil and natural gas produced by Petrobras in 2010 was 2.583 million boed, 245,000 of which coming from units abroad.

The company's proved oil and natural gas reserves, according to the ANP/SPE criteria, climbed to 15.986 billion boe in late 2010, a 7.5% increase over 2009 thanks to the addition of new discoveries, particularly in the

Lula and Cernambi fields. The rate of reserve replacement was 229%, meaning that for each barrel of oil equivalent produced, Petrobras added 2.29 barrels to its reserves.

The excellent results achieved in 2010 confirmed Petrobras' strategic direction is on the right track. Investments amounted to R\$76.4 billion, 8% more than in 2009. These investments were mainly directed to increase oil and natural gas production, to improve and enhance refining facilities, to hire new vessels to transport company products, and to complete the construction work for the pipeline network that interconnects all of the main Brazilian markets. The large investments made in each of the segments in which the company operates underpin Petrobras' position as an integrated energy company.

Most of the investments (43%) were earmarked for Exploration and Production, which received R\$32.7 billion, 6% more than a year earlier. The goal of the investments was to boost oil and natural gas output and reserves. In the Pre-Salt area, the highlight was the start-up of operations of the Lula Pilot System, with nominal capacity of 100 thousand barrels of oil and 3.5 million cubic meters of natural gas per day.

The Downstream area investments were R\$28.5 billion, 73% more than in the previous year. The company advanced the construction work of the Abreu e Lima Refinery and the Rio de Janeiro Petrochemical Complex (Comperj), and set the two Premium refinery projects. The goal is twofold: add value to domestic oil and supply the Brazilian oil product market.

The Gas & Power area invested R\$6.9 billion, equivalent to 9% of the total and up 5% compared with the previous year. These resources were directed mainly to integrate the Southeast-Northeast pipeline network,

primarily via Gasene, in order to enable natural gas supply source diversification and flexibilization.

Seeking to increase its stakes in the biodiesel and ethanol business, Petrobras invested R\$1.2 billion in this area, a sum equivalent to 2% of the total investments. In Distribution, Petrobras continued growing its market share, maintaining its leading position in the domestic fuel market, of which it holds a 38.8% share. To this end, it invested R\$900 million, equivalent to 1% of the total, mainly in automotive market projects and in logistics and operations.

Our performance is the end result of massive investments in technology development and in qualifying employees, this combined with our relentless commitment to adopting good corporate governance practices. Year after year, Petrobras stands out worldwide for its pioneering technology in oil exploration and production. Petrobras is the Brazilian company that invests the most in R&D. In 2010, it invested R\$1.8 billion in this area, with special emphasis on the doubling of the Research Center, one of the world's biggest and key to the development of new technologies for all segments the company has operations in, particularly oil production in the Pre-Salt area.

To address both the corporate challenges it faces and the company's ever-growing business expansion, the Petrobras System increased its staff by 4.65% compared to 2009, ending the year with 80,492 employees. Two selection entry processes were held for Petrobras Holding alone. Approximately 336,000 candidates signed-up for the process and 2,687 were hired.

With activities on all continents and operations in 25 countries besides Brazil, Petrobras ended 2010 ranked third among the global energy companies in market value. We were

listed on the Dow Jones Sustainability Index, the world's most important in this regard, for the fifth year in a row, evidence of our commitment to the environment and to sustainable development.

Petrobras' Sustainability Report brings together, under a single cover, not only the company's main achievements, but also the challenges it faced in 2010. The information contained herein is part of our strategy to conduct business and activities with social and environmental responsibility, aligned with the ten principles of the UN Global Compact. This is why we reaffirm our commitment to continue taking part in this initiative, of which the company has been a signatory since 2003, fulfilling and reporting our activities under the ten principles relating to Labor, Human Rights, Environment, and Transparency.

In 2010, Petrobras once again has proven its competence to overcome challenges. Technological accomplishments, increased reserves and output, refining plant enhancements and modernizations, and a record equity issuance ensured the sustainability the company needed and guaranteed continuity in the implementation of its Business Plan.

**José Sergio Gabrielli de Azevedo**  
*Petrobras' CEO*

# Parameters for the report

**PETROBRAS' SUSTAINABILITY REPORT REACHES THE A+ LEVEL OF APPLICATION**

PETROBRAS APPLIES THE GUIDELINES SET out in the third generation of Global Reporting Initiative's Sustainability Reporting Framework (GRI G3) to draft its report. Headquartered in Amsterdam, the Netherlands, the initiative brings together representatives of governments, companies, NGOs, and experts in order to set parameters and indicators for the preparation of sustainability reports. This reporting model is the one that is currently most widely used by world-class companies operating in several industries worldwide.

We present our sustainability report to our stakeholders every year, disclosing our economic, social and environmental performance and focusing primarily on integrating the three pillars of our corporate strategy:

growth, profitability, and social responsibility. The information provided in the document covers the period ranging from January 1 to December 31, 2010. The latest report was released last year and concerned the activities carried out in 2009. We also report on our compliance with the ten principles of the UN Global Compact, of which we are signatories.

Since it presents information on all GRI guidelines essential performance indicators, Petrobras' sustainability report is in accordance with application level A+. We use a materiality matrix to define and prioritize content, and the issues considered most relevant both by Petrobras' stakeholders and by the company are addressed in the printed version of the document. Additional

information is available in the online version of this report, which is posted on Petrobras' website. The contents of the report were submitted to an external audit conducted by KPMG Auditores Independentes (check the statement out on page 102).

The Subcommittee for Social Responsibility Report Preparation and Assessment conducts the process of developing the company's sustainability report. Comprising representatives of 24 Petrobras System areas and subsidiaries, the subcommittee consolidates information compiled and obtained by a network of about 300 collaborators. It also assess the information published in the report to then undertake actions aiming to improve company management.

Transporte S.A. (Transpetro), Liqueigás, and the Alberto Pasqualini Refinery (Refap). The criteria used to select these companies and subsidiaries were their role in management and control and the organization's representativeness in the Petrobras System.

When the data considered for the performance indicator differs from the scope set for the report, this information is presented in sections highlighted within the text itself, in footnotes or in the notes to the graphs and schedules.

Some information from previous years on performance indicators, stated in historical series, have been reviewed and, therefore, these figures differ from those published in previous editions of the report. In such cases, explanations about data updates or on possible indicator calculation methodology changes are reported together with the reviewed information in order to facilitate understanding. The same is true concerning the techniques used to calculate a given indicator - if necessary, an explanation comes along with the indicator.

In 2010, no significant change was made to the scope or coverage compared to the company's previous report.

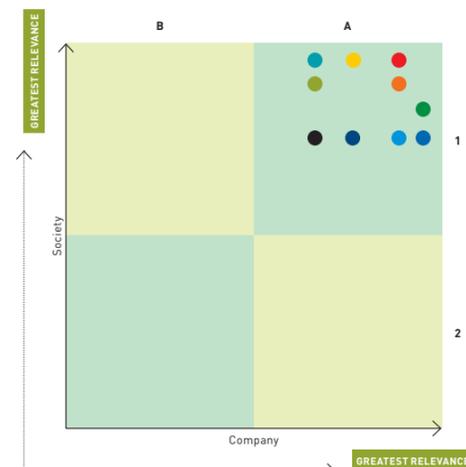
**LIMIT OF THE REPORT**

In preparing the content for the 2010 Sustainability Report, the activities of Petrobras' in Brazil and in 29 other countries where it has activities were considered - except for the thermoelectric plants controlled indirectly by the company -, as were those of Petrobras Distribuidora, Petrobras Química S.A. (Petroquisa), Petrobras Biocombustível, Petrobras

**MATERIALITY MATRIX**

The materiality matrix provides the themes that are priority for the company, which are determined based on the crossing of the perceptions of key stakeholders - employees, investors, suppliers, communities, experts and public authorities, among others. Get to know the ten issues considered most strategic for Petrobras activities. Additional information about the materiality process can be found in the online version of the Report.

	1. Risk management
	2. Alternative and renewable energy
	3. Emissions reductions and management
	4. Accident prevention
	5. Contribution to local development
	6. Impact on local communities
	7. Accountability and transparency
	8. Pre-Salt management, policy and feasibility
	9. Research and development / technological innovation
	10. Engagement and dialogue with stakeholders



**REPORT CAPTIONS**

There are a few graphic figures in the report that were designed to help the reader find content, to associate content to indicators, to identify the relevance in the materiality matrix, and to find more information about a particular topic. These graphic figures are as follows:

- » **More information on the topic** : available on Petrobras' website ([www.petrobras.com.br](http://www.petrobras.com.br)) or in the online version of the Sustainability Report ([www.petrobras.com.br/rs2010](http://www.petrobras.com.br/rs2010)).
- » **Some additional information can be found on the investor relations website:** [www.petrobras.com.br/ri](http://www.petrobras.com.br/ri).
- » **Global Compact Icon:** appears next to the chapter corresponding to Petrobras' actions related to a certain principle of the Global Compact.
- » **Material topic** : the indication appears next to items considered material by the main stakeholders at the materiality matrix process.
- » **GRI indicators:** in the GRI table of contents, the table shows, next to the indicator, the description of the topic, the guidelines degree of adherence, and the page where the information is presented.

**CONTACT US**

E-mail comments, questions, suggestions and criticism regarding Petrobras' Sustainability Report to [rs2010@petrobras.com.br](mailto:rs2010@petrobras.com.br). This feedback helps us increasingly adjust the content to the readers' demands and needs.



CORPORATE  
PERFORMANCE

## PROFILE

# A global company of Brazilian origin

PETROBRAS IS THE THIRD LARGEST energy company in the world, with an average daily output of 2.6 million barrels of oil equivalent. Established in 1953 and with a presence in 30 countries on all continents, the company is a state-run, publicly traded company controlled by the Brazilian government by means of the Ministry of Mines and Energy.

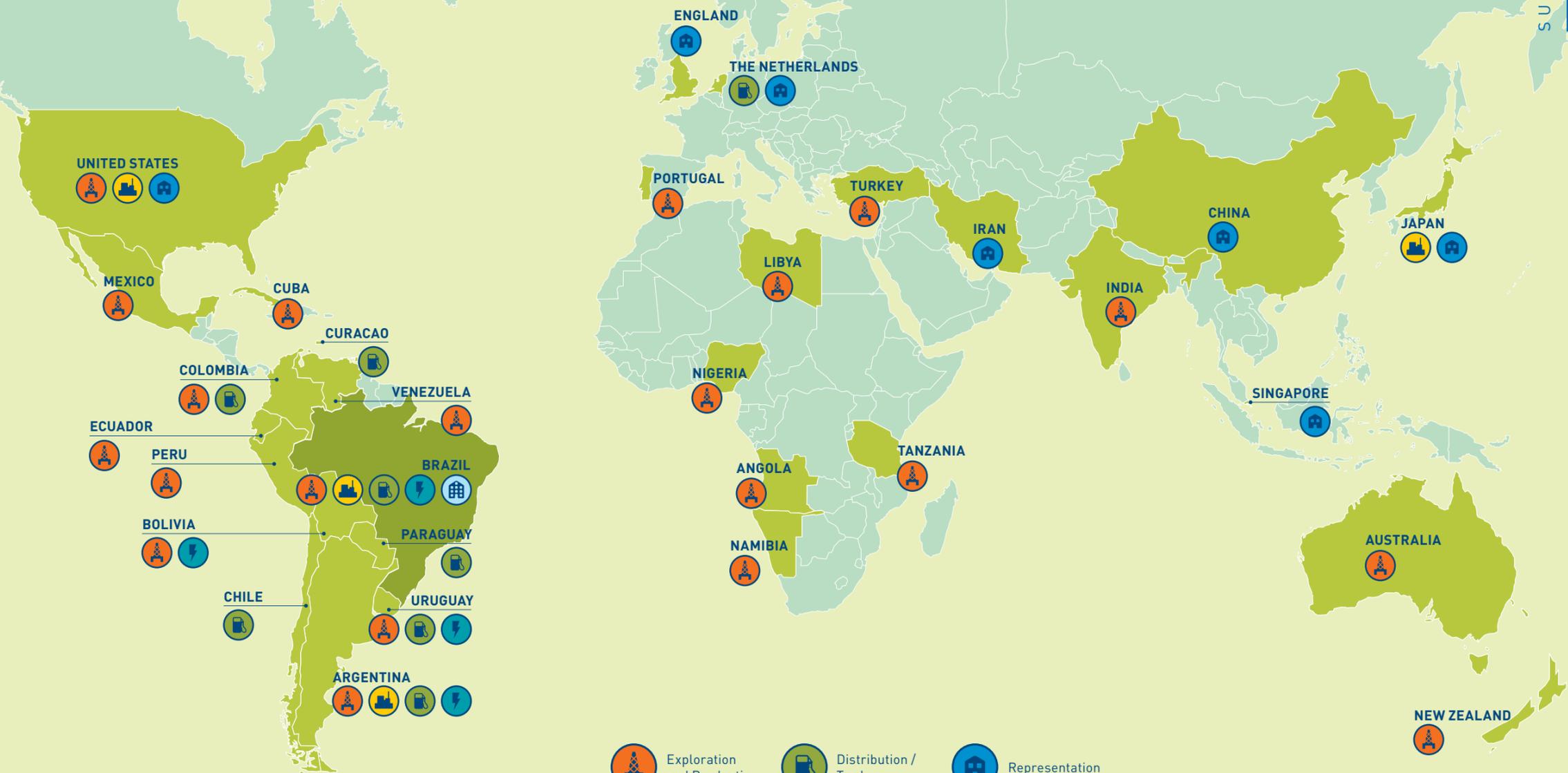
The oil and gas industry leader in Brazil, Petrobras has integrated operations in exploration and production, refining, oil and natural gas trade and transportation, petrochemicals, oil product distribution, electricity, biofuels, and in other sources of renewable energy.

Products made by the Petrobras System – formed by the Company, its subsidiaries, jointly controlled and associated companies –, are present in virtually all areas of modern life, ranging from the fuel that moves cars and propels aircraft to the liquefied petroleum gas (LPG) used in the kitchens of homes and businesses. Diesel fuel, gasoline, lubricants, naphtha, biodiesel, ethanol, fuel oil and jet fuel, among others, complement the company's portfolio.

[Learn more about our operations at Petrobras' website](#)

Petrobras' main customers include, in addition to end consumers, businesses operating in logistic transportation, agricultural, industrial, air, maritime, and rail markets and in the thermoelectric segment.

COMPANY PROFILE	
Name	Petrobras
Corporate name	Petróleo Brasileiro S.A.
World headquarters	Rio de Janeiro, Brazil
Number of employees (Dec/2010):	80,492 (Petrobras System)
Number of products offered	255 products (Petrobras Holding)
Main products	Diesel fuel, liquefied petroleum gas, gasoline, lubricants, naphtha, fuel oil, and jet fuel.





### PERFORMANCE ON THE BRAZILIAN MARKET

Petrobras has a daily output of 2.338 million barrels of oil equivalent of oil and natural gas. The average total daily production, adding Brazil and abroad, is 2.583 million.

Petrobras Distribuidora operates nationwide in the Service Station and Consumer markets - the latter including the sale of large amounts of fuel, lubricants, special products, asphalt, emulsions, and energy.

The LPG market, served by Liquigás, is broken down into two business areas: Bottled and Bulk. The bulk area is characterized by direct sales to corporations, while the bottled one is geared to small corporate clients and individuals, mostly through its reseller network.

Petroquisa has ownership interests in companies operating in the petrochemical and chemical segments and has national (Northeastern, Southeastern, and Southern Brazil) and international coverage.

Transpetro, in turn, operates nationwide, with facilities in 19 states and in the Federal District. Such facilities include water and land transportation terminals, pipelines, and vessels that transport and store oil, oil products, gas, petrochemicals, and biofuels for all types of customers, such as fuel and gas distributors, among others.

The market for biodiesel, Petrobras Biocombustível's flagship product, is regulated by federal law. In order to meet the demand for the biodiesel that is needed to compose the B5 blend (5% biodiesel in diesel), the National Petroleum Agency (ANP) organizes auctions covering the entire Brazilian territory.

To become a Petrobras customer and purchase gasoline or diesel, the company must be registered as a distributor by the ANP, and such record must be published in Official Register.

### GLOBAL OPERATIONS

Petrobras has operations in 29 countries, besides Brazil, and projects on five continents. In addition to its representation offices and production units, the company has cooperation agreements with other countries to develop knowledge and business that can make both technology and energy projects feasible. A total of R\$4.8 billion was invested in the international businesses, 12% of which earmarked for refining, petrochemicals, distribution, and gas and energy, while 88% to exploration and production, of which 60% were allocated to develop production.

### PETROBRAS AND ITS BUSINESS AREAS

The company's large array of activities, products and customers demand efficiency and organizational capacity. Therefore, Petrobras' businesses are divided into four areas:

- » **Exploration & Production** – This area encompasses oil, natural gas liquids (NGL), and natural gas exploration, production development, and production in Brazil. It aims, primarily, to supply the Brazilian refineries and to trade, on the domestic and foreign markets, both excess oil and the products produced at its natural gas processing plants;
- » **Downstream** – This area undertakes oil and oil product refining, logistics, transportation, and trade activities, ethanol exports, and shale extraction and processing. Additionally, it holds interests in businesses operating in the petrochemical industry in Brazil. It aims to produce high-quality oil products, ensuring the supply of products that are essential for the entire population's daily life;
- » **Gas & Power** – This area's activities include transporting and trading natural gas produced in Brazil or imported; liquefied natural gas (LNG) transportation and marketing; electric energy production and sales; and equity interests in natural gas transporters and distributors and in thermal power plants in Brazil. It is also responsible for the fertilizer business;
- » **International** – This area works with oil and gas exploration and production, supply, and gas, power and distribution operations carried out abroad, in several countries of the Americas, Africa, Europe, Asia, and Oceania.

Petrobras also has the Corporate Finance and Services areas. Each of these areas is controlled by a director, except the Corporate area, which is connected directly to the CEO.

 Learn, in the online version of the Report, the main changes made to the organizational structure in 2010

### PETROBRAS SYSTEM'S MAIN COMPANIES\*

- » Petróleo Brasileiro S.A. (Petrobras)
- » Petrobras Distribuidora S.A.
- » Petrobras Transporte S.A. (Transpetro)
- » Petrobras Química S.A. (Petroquisa)
- » Petrobras Biocombustível S.A.
- » Liquigás Distribuidora S.A.
- » Refinaria Alberto Pasqualini S.A. (Refap)
- » Petrobras Gás S.A. (Gaspetro)

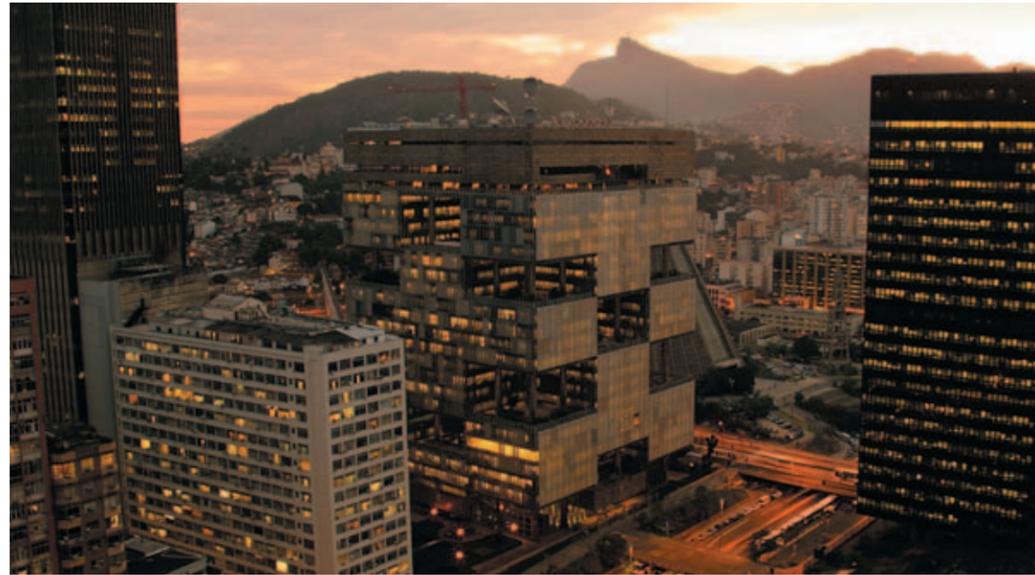
\*The companies above are controlled by Petrobras or by one of its subsidiaries.

### ONE MILLION SHAREHOLDERS

Petrobras has 396,975 shareholders at BM&FBovespa, which, added to the shareholders of funds that invest in Petrobras shares (365,899), to FGTS fund investors (86,562), and to holders of ADRs (180,000 approximately), increase the company's total number of investors to close to a million shareholders.



# The path towards transparency



PETROBRAS ADOPTS THE BEST CORPORATE governance practices and the most advanced management tools, according to international standards. As a publicly-held company, it is subject to the rules set forth by the Securities and Exchange Commission (CVM) and by BM&FBovespa. Abroad, it meets the Securities and Exchange Commission (SEC) and the NYSE rules, in the United States; the rules set forth by the Latibex, of the Madrid Stock Exchange, in Spain; as well as those of the Buenos Aires Stock Exchange and of the Comisión Nacional de Valores (CNV), in Argentina.

To meet these standards, the company relies on instruments such as its bylaws and the Corporations Law (Act 6404, of 1976), based on which it is managed. It also adopts other business drivers, such as codes of Ethics and Good Practices, the Code of Conduct of the High Federal Administration, the Code of Competitive Conduct, and the Corporate Governance Guidelines.

Petrobras also meets the standards set forth under the Sarbanes-Oxley Act (SOX), enacted in

2002 by the U.S. Congress aiming to protect investors by improving the accuracy and reliability of the information disclosed by companies.

## BUSINESS DRIVERS

Over the years, Petrobras has developed policies, codes and procedures that reflect the company's commitment to issues such as sustainability, business ethics and valuing its employees, among others.

One such instrument is Petrobras' Social Responsibility Policy, which, aligned to UN Global Compact principles, establishes eight guidelines focused on corporate activities, integrated management, sustainable development, human rights, diversity, working principles, sustainable social investments, and workforce commitment.

To Petrobras, social responsibility is the integrated, ethical, and transparent management of its business and activities and of its relationships with all of its stakeholders, promoting human rights and citizenship, respecting human and cultural diversity,

fighting against discrimination, degrading work, child and slave labor, aiming to contribute to sustainable development and to reduce social inequality.

The company's activities are guided by codes and policies such as the Code of Ethics, the Code of Good Practices, the Code of Competitive Conduct, and by policies on HSE, Human Resources, Social Responsibility, Corporate Performance, New Business Development, Capital Discipline, Communications, Tax Management, and Principles of Corporate Security.

## GLOBAL COMPACT

Petrobras has been a signatory of the United Nation Global Compact since 2003, an initiative through which businesses commit, voluntarily, to fulfill and report their performance

regarding ten principles related to Labor, Human Rights, the Environment, and Transparency.

The company has been a member of the Brazilian Committee of the Global Compact since its inception, and has been represented by its CEO on the Global Compact's International Board since 2006, when it became the only Latin American and oil and gas industry company to be on the Board.

## TRANSPARENCY HIGHLIGHTS

For the fifth consecutive year, Petrobras is part of the Dow Jones Sustainability Index (DJSI), the most important global index in this category, which brings together over 300 companies from 57 industry sectors. The company distinguished itself in the Transparency criterion, in which it again got the highest score in the industry.

More information can be found in the online version of the Report

In the online version of the Report, learn more about other commitments Petrobras has taken-on and initiatives and forums in which it takes part

## THE TEN PRINCIPLES OF THE GLOBAL COMPACT

<p><b>1 RESPECT</b> and support internationally proclaimed human rights in its area of influence</p>	<p><b>2 MAKE SURE</b> the company is not complicit with human rights abuses</p>	<p><b>3 UPHOLD</b> the freedom of association and recognize the right to collective bargaining</p>	<p><b>4 ELIMINATE</b> all forms of forced or compulsory labor</p>	<p><b>5 EFFECTIVELY</b> eradicate all forms of child labor from its productive chain</p>
<p><b>6 ELIMINATE</b> discrimination in respect of employment and occupation</p>	<p><b>7 SUPPORT</b> a precautionary, responsible, and proactive approach to environmental challenges</p>	<p><b>8 UNDERTAKE</b> initiatives and practices to promote and disseminate environmental responsibility</p>	<p><b>9 ENCOURAGE</b> the development and dissemination of environmentally friendly technologies</p>	<p><b>10 WORK AGAINST</b> corruption in all its forms, including extortion and bribery</p>

## PETROBRAS AND ABNT LAUNCHED ISO 26000 IN BRAZIL

In December 2010, Petrobras, in partnership with the Brazilian Association of Technical Standards (ABNT), promoted the release of the International Standard ISO 26000: Guidance on Social Responsibility in Brazil. The company was the industry representative of the Brazilian delegation on the international working group responsible for building the standard. In 2011, the company will sponsor, together with ABNT, a nationwide series of seminars promoting the ISO 26000 standard in which the free distribution of the printed standard is provided.

Petrobras' internal actions to implement the ISO 26000 guidelines include qualifying workforce through specific training courses on the issues covered by the standard to be held at Petrobras University, and providing training in social responsibility to suppliers. The standard establishes the definition, principles, and core themes of social responsibility and was drafted on a multi-stakeholder process encompassing representatives of the industry, government, labor, consumers, NGOs, academia and services, research and consulting organizations.



**CORPORATE STRUCTURE**

In 2010, the Basic Organization Plan, approved by the Board of Directors, was refined to include Petrobras' Corporate Governance Model and its structure, comprising: the Board of Directors and its committees, the Executive Board, the Fiscal Committee, the Internal Audit, the Ombudsman's Office, the Business Committee, and the Integration Committee.

Petrobras' directors are elected by the General Meeting without any influence from the Executive Board. Since 1999, the Board has been chaired by a non-executive member of the company.

In late 2010, the President of Brazil enacted Act 12,353, which determines the participation of active employees on the Boards of state-owned and mixed-economy companies and their subsidiaries and affiliates. The representative will be selected through elections organized together with the trade unions. Petrobras, Petrobras Distribuidora, Liquigás, Transpetro, Refap (the Alberto Pasqualini Refinery), and TBG (Transportadora Brasileira Gasoduto Brasil-Bolívia S.A.) are expected to elect employee representatives to serve on their Boards of Directors from 2011.

The company's Code of Good Practices provides policies on important issues related to insider trading - such as a ban on trading in securities in certain periods - and to the conduct of Petrobras' Senior Management officers

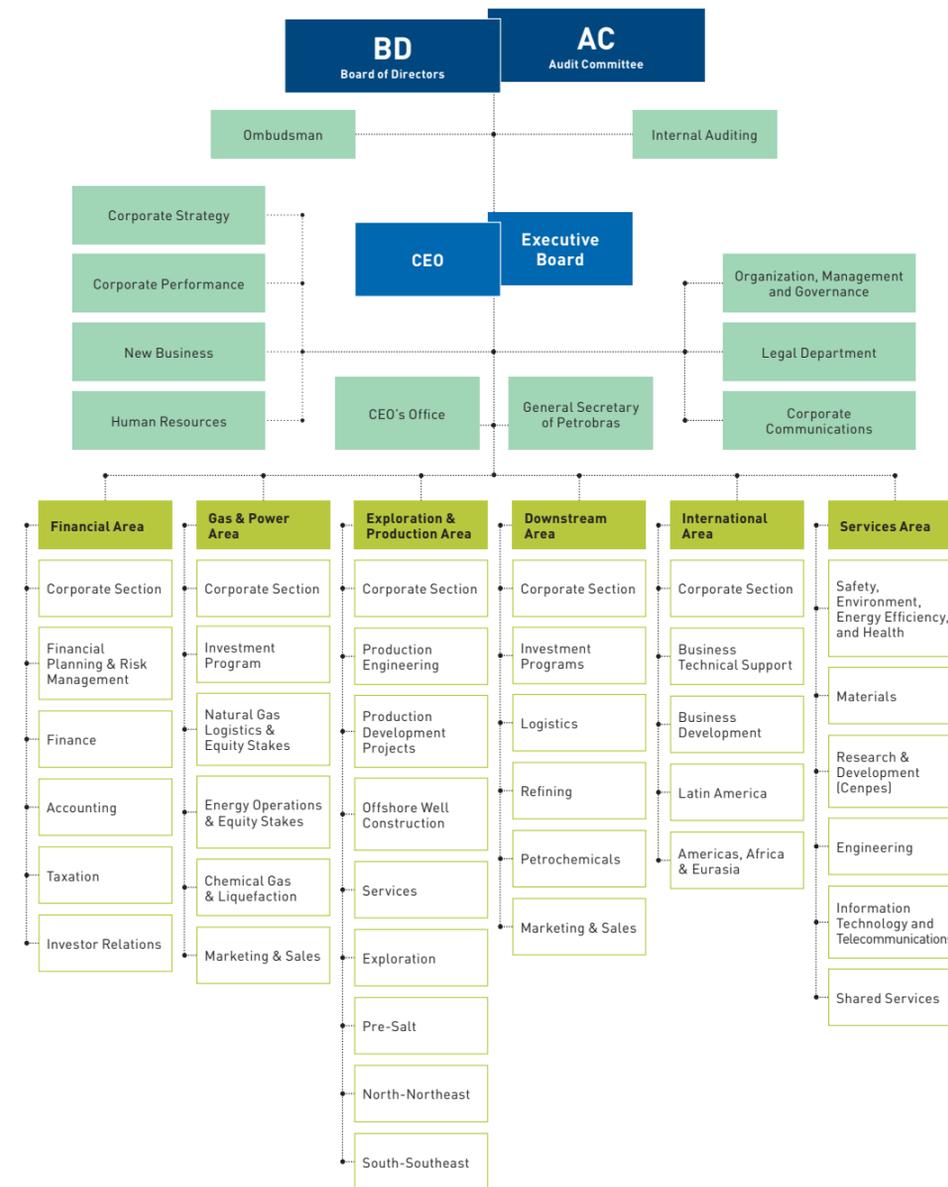
and employees, emphasizing it is necessary to avoid any situation that may characterize conflict of interest and affect the company's business. The Code of Ethics also addresses the subject, only more generally, as it is a tool for all Petrobras employees, and not only for the senior management.

According to the Corporate Governance Guidelines, the Board has committees to assist in the analysis of financial and environmental issues. Petrobras has specific units in its organizational structure to supervise, implement and monitor its economic, social, and environmental practices. With links to the Business Committee, Integration Committees were created specifically to address economic, environmental, and social issues. These include, for example, the Financial Integration Committee and the Corporate Function Integration Committee. These committees are composed of executive managers from related areas.

The Board of Directors should also assess its performance annually pursuant to criteria it defines. Likewise, it is also foreseen that the Board should also assess the performance of Petrobras' CEO and officers to ensure the alignment of the interests of the members of the Executive Board with the shareholders' long-term interests. Board of Director and Executive Board evaluation mechanisms are currently being studied.

- e. **Business Committee:** comprising members of the Executive Board and other company executives, this committee aims to examine and give its opinion to the Executive Board on corporate matters involving more than one Area, as well as those whose importance and relevance demand broader discussion.
- f. **Integration Committees:** composed of executive managers of the company, these committees are forums to analyze and examine issues under their scope and can also assist in structuring information to be presented to the Business Committee and to the Executive Board. They are divided into: Segment Committees (E&P, Downstream, and Gas & Power) and Corporate Committees (Corporate, Financial, Technology, and Engineering & Services).

**OVERALL COMPANY ORGANIZATION**



**PETROBRAS' CORPORATE GOVERNANCE STRUCTURE ENCOMPASSES:**

- a. **Board of Directors:** composed of nine members elected - four of whom independent - by the General Shareholders Meeting, which is responsible for guiding and for the higher management of the company.
- b. **Audit Committee:** a permanent body, this committee comprises five members who are also elected by the General Shareholders Meeting. It is responsible for monitoring management actions and for reviewing the financial statements, among other duties.
- c. **Executive Board:** composed of the CEO and six officers elected by the Board of Directors, the Executive Board is responsible for managing the company's business.
- d. **Board of Directors' Committees:** composed of three members of the Board of Directors, these committees are intended to assist the Board by providing analyses and recommendations on specific issues (pursuant to Corporate Governance Guidelines adopted by the Board of Directors, Petrobras has three Board Committees: Auditing, Environment, and Compensation & Succession).

Learn more about the qualifications of Petrobras' officers and about our managers compensation policy in the online version of the Report

### GENERAL OMBUDSMAN

The General Ombudsman's Office is a channel for dialogue between the company's stakeholders and its executive management and aims to receive denunciations, complaints, and suggestions. Linked directly to the Board of Directors, the General Ombudsman's Office acts independently as an instrument to drive transparency and ethics.

The Ombudsman's term is for two years, renewable once for an equal period. The General Ombudsman's Office is responsible for concerns related to other Petrobras System enterprises, except for Petrobras Distribuidora and Transpetro, which have ombudsmen in their organizational structures.

### INVESTOR RELATIONS

Petrobras is committed to providing correct and accurate information to its investors - whether corporate or individual, including shareholders and debenture holders. The goal is to maintain ongoing dialogue and credibility, a prerequisite for successful share trading.

The investor relations Internet portal ([www.petrobras.com.br/ri](http://www.petrobras.com.br/ri)) brings together data about the company, such as its corporate strategy, corporate governance, competitive advantages and risk factors, operational highlights, announcements, reports, information about the dividends payment policy, and about shareholding breakdown, among others. In addition to press releases

and material facts, the Investor Relations Portal provides presentations, conference calls, chats, event calendars, and shareholders meeting minutes.

A telephone support for shareholders and an e-mail address to be used solely by this audience ([acionistas@petrobras.com.br](mailto:acionistas@petrobras.com.br)) are also available. Each quarter, after the results are announced, a chat is held with investors, and information is sent to them by letter or fax. Information about the company is available over social networks, the Internet, and cell phones. In 2010, this structure, coupled with advertising and corporate communications, allowed for the widespread divulging of the equity issuance.

### INDEXES PETROBRAS IS LISTED ON

- » **Bovespa:** Ibovespa, Brasil (IBrX), and Brasil 50 (IBrX50).
- » **New York Stock Exchange:** Nyse International 100 Index, Nyse World Leaders Index, Dow Jones Sustainability Index, and Nyse Energy Index, the latter through Petrobras Energia Participaciones S.A.

### STOCK MARKET PERFORMANCE

In a year marked by stability, the main highlight was the large number of new investors who took part in Petrobras' equity issuance, bringing to 396,975 the number of shareholders at the BM&FBovespa on December 31, 2010, up 26.48% over the previous year.

Despite the good operating results and although the huge potential of the Pre-Salt region was confirmed with the declaration of commerciality of the Lula and Cernambi fields, the company's shares closed the year in a slump. At BM&FBovespa, the common stocks (PETR3) were down 26.65%, while the preferred ones



(PETR4) fell 25.62%. At the New York Stock Exchange (NYSE), where common and preferred ADRs are traded, the slump was 20.63% and 19.38%, respectively. Even with the price drop, the company's market value ended the year 18.6% above the 2009 mark, closing at \$236.5 billion as a result of the capitalization process.

Petrobras distributed gross dividends of R\$1.03 per common or preferred share referring to the 2010 fiscal year, adding up to R\$11.73 billion. Furthermore, in 2010, Petrobras had approved and made the payment of three anticipated distributions of interest on equity for the 2010 fiscal year. This anticipation was worth R\$0.91 per common or preferred share, for a total of R\$7.95 billion.

Petrobras shareholding composition was maintained even after the capitalization, and its main shareholders took part in the offering. The Government increased its stake in the company's total capital through the Sovereign Fund, which purchased 4.6% of the bonds offered to the market.

### TREATMENT OF MINORITY SHAREHOLDERS

During the capitalization process, questions were raised about the benefits the operation would afford minority shareholders. The main concerns included the price Petrobras would pay the Federal Government per barrel, an amount set by the Brazilian President. In that case, Petrobras complied with the current legislation and got the approval for the price to be paid per barrel from a Special Committee formed by minority shareholder representatives both to monitor all stages of the equity issuance and to make sure the process was transparent and done pursuant to the Corporations Law.

Petrobras also made sure that minority shareholders were entitled to acquire shares and receipts in the same extent they held in the period prior to the capitalization to avoid the dilution of their holdings if they so wished. In other words, the Government could only grow its share in the capital if the minority shareholders did not fully exercise their rights.

The corporate governance guidelines determine minority shareholders are entitled to elect one of the members of the Board of Directors, or more if there is a multiple voting process. The holders of preferred stocks may also elect an officer, provided they represent, together, at least 10% of the joint stock, excluding the controlling shareholder.

Petrobras' Senior Management must always consider the opinion, suggestions or recommendations made by the minority shareholders, especially the holders of preferred stocks and particularly in matters such as company transformations, mergers, amalgamations, or spin-offs, the approval of contracts between Petrobras and the Federal Government, directly or through third parties, as well as other companies in which the Federal Government has an interest; and the assessment of assets to be used to pay-in a company capital increase, among others.



### TRANSPARENCY AND ACCOUNTABILITY

Transparency is just as important for the success of an operation such as Petrobras' equity issuance as financial engineering is. It is an ethical principle that guides Petrobras System's operations and must express itself as respect for the public interest, according to the rights for personal privacy and to the company's Information Security Policy. In addition to the UN Global Compact, through its tenth principle, Petrobras participates in initiatives geared to promote transparency and fight corruption, such as the Partnering Against Corruption Initiative (Paci) and the Extractive Industries Transparency Initiative (Eiti).

Although risks related directly to corruption are not assessed, complaints forwarded by the Ombudsman, by Customer Service, and by external control bodies – such as the Federal Court of Auditors and the Controller General of the Union or the Federal Prosecutors

Office – are investigated. Inquiry commissions determine whether there was employee involvement in misconduct, including acts of corruption. When necessary, audits are proposed for company units.

Petrobras also undertakes a series of actions related to maintenance and improvement of internal control, thus making a significant contribution to prevent corruption. Once the allegations have been investigated, the outcome of the investigation is forwarded to the heads of units, who, according to the severity of the facts, determine specific sanctions and measures. When complaints are considered valid, managers are requested to take action. In 2010, no employee was fired for corruption, nor were any contracts with business partners rescinded or not renewed for this reason. Furthermore, no final decision was handed down regarding any lawsuit relating to corrupt practices<sup>(1)</sup>.

All newly-hired college degree employees at Petrobras Holding attend a lecture about the company's anti-corruption policies and actions. Lectures are also made on the subject during integration courses for new managers. Additionally, issues relating to corruption prevention policies are addressed during the presentation of the Petrobras' Code of Ethics to new employees. Enhancements to the company's anti-corruption policies, including training for the workforce, are being planned for 2011.

Petrobras does not make contributions to political parties or political campaigns of candidates to elected positions; Learn more about Petrobras' position on public policies in the online version of the report, where you can also get more information on: [\[a\]](#)

- Unfair competition;
- Non-compliance with laws and regulations;
- Tax debts;
- Actions on products and services.

# Sustainable growth



PETROBRAS ENDEAVORS TO BE, BY 2020, one of the world's top five integrated energy companies, and the preferred choice among all of its stakeholders. To achieve this goal, its corporate strategy is based on integrated growth,

profitability, and social and environmental responsibility. As outlined in our Business Plan, we intend to expand our operations in the oil products, petrochemicals, gas and power, bio-fuels, and distribution target markets.

### PILLARS OF PETROBRAS' CORPORATE STRATEGY

- » Grow oil and gas production in a sustainable manner, becoming one of the five largest oil producers in the world.
- » Expand refining in Brazil, ensuring sufficiency in domestic supply and leadership in distribution, while developing export markets for products, with emphasis in the Atlantic Basin.
- » Consolidate leadership in the Brazilian natural gas market, and establishing an international presence and increasing the domestic electricity generation business and gas chemical, emphasizing fertilizers.
- » Operate in the petrochemicals sector in activities that are integrated manner with the other businesses of the Petrobras System.
- » Operate in Brazil and abroad in the biofuels sector in activities that are integrated with the Petrobras System, and to do so on a sustainable basis.

Get to know Petrobras' position on public policies in the online version of the Report [\[a\]](#)

<sup>(1)</sup> Refers to Petrobras Holding in Brazil, Petrobras Distribuidora, and Refap.

**INVESTMENTS**

Focusing on achieving the company's growth and expansion goals, the strategic planning foresees investments in the order of \$224 billion under the 2010-2014 Business Plan, \$50 billion more than the previous plan (2009-2013).

Projects in Brazil will get \$212.3 billion, in other words, approximately 95% of the total. The remaining \$11.7 billion will be invested in other countries, with special emphasis on the activities in the Gulf of Mexico, off the West Coast of Africa, and in Latin America.

In the division per segment, the strategy's focus on Exploration and Production (E&P) is reinforced by investments of \$118.8 billion, 53% of the total. The 2010-2014 Business Plan not only revised and expanded the production growth targets for the Pre-Salt exploratory frontier, but also boosted the amount slated to be invested in this project to \$33 billion between 2010 and 2014.

Commercial oil production got underway at the Pre-Salt cluster in July 2010. It is expected to reach the milestone of 241,000 barrels per day in 2014, when the company's estimated total production will be 3.9 million barrels of oil equivalent per day (boed).

As production increases, investments are also needed to escalate the refining capacity. The 2010-2014 Business Plan earmarks \$73.6 billion for Refining, Transportation, and Marketing, about 70% more than had been foreseen under the previous plan. The goal is to ensure the supply of the Brazilian oil product market by continuously enhancing the domestic refining facilities, to develop the market in order to export oil products from Brazil, and to ensure the best value alternative to place domestic oil produced in excess of the country's refining capacity.

It is expected that by 2014, Petrobras will be able to process about 2.26 million barrels per day of the total of 2.99 million the company will produce. This expansion will afford two direct benefits to the Brazilian economy: a reduction in the imports of oil products such as diesel and jet fuel, which have much higher value added than crude, and an improvement in Brazil's position as a net exporter of oil. After achieving self-sufficiency in oil production, in 2006, the next step is to guarantee it in oil products.

NEW REFINERIES OPERATING IN THE COMING YEARS		
UNIT	REFINING CAPACITY	OPERATION
Rio de Janeiro Petrochemical Complex [Comperj]	165,000 barrels per day at each of the two units. Production of approximately 1.3 million tons of ethene per year.	The first unit is scheduled to go into operation in 2013, while the second one in 2018.
Abreu e Lima Refinery (state of Pernambuco)	230,000 barrels per day.	In 2013.
Premium I Refinery (state of Maranhão)	300,000 barrels per day in each of the two phases.	First phase in 2014, and the second in 2016.
Premium II Refinery (state of Ceará)	300,000 barrels per day.	In 2017.

**OTHER INVESTMENTS**

Expanding the gas pipeline network and the natural gas transport system is the main goal to be achieved with the investments of \$17.8 billion in gas and energy by 2014, an amount that is about 50% higher than had been foreseen under the 2009-2013 Plan.

These actions are intended to grow the supply of natural gas in Brazil, enabling major

consumers, such as glass, ceramics, and chemical industries not only to enhance their use of this fuel in their plants, but also to contribute to the competitiveness of these sectors, meeting the strategic objective of leveraging the use of natural gas. Other company priorities in these areas are to generate thermal energy; ensure flexibility to trade natural gas on the thermal and non-thermal markets; to act globally and vertically in

the integrated liquefied natural gas (LNG) value chain – in the outflow of gas coming from the Pre-Salt, for example –; and to convert natural gas into ammonia and urea. These actions will contribute to the overall goal of balancing the competitiveness/profitability ratio for natural gas as compared to its competitors.

Petrobras will invest \$5.1 billion in the Petrochemicals segment. Part of this amount will be used in the Quattor Braskem merger process, together with the Odebrecht Group, pursuant to an agreement signed in January 2010. The transaction allows Petrobras to consolidate its main petrochemical assets in Braskem, which remained a private joint stock corporation and became the largest petrochemical company in the Americas in terms of thermoplastic resin (PE, PP and PVC) production capacity, catapulting it to a new position in scale and efficiency and preparing it to face the challenges brought about by the international market.

Investments in biofuels will add up to \$3.5 billion by 2014. Ethanol production is expected to increase 193% - from 942,000 m<sup>3</sup>, in 2010, to 2.6 million m<sup>3</sup> in 2014. This will consolidate the company's position as a leading producer of ethanol, one of the most competitive biofuels in the world. Petrobras' ethanol exports are expected to grow 135%, from 449,000 m<sup>3</sup>, in 2010, to 1.055 million m<sup>3</sup> in 2014.

The Distribution segment will get \$2.5 billion in funds by 2014. The goal is not only to strengthen the leadership position in the Brazilian oil product and biofuel distribution market, but also to expand Petrobras Distribuidora's market share - with a 1.4 percentage point growth on the global market compared to 2009, reaching 40%, and a 3 percentage point increase in the automotive market, growing to 33.6%. Of the total investments, about 27% will be earmarked for the service station network, 26% for consumer services, 24% for the operations and logistics area, and 23% for Liquigás and others.

**INTERNATIONAL OPERATIONS**

Petrobras will invest \$11.7 billion, 5% of the \$224 billion foreseen for the next four years, in projects overseas. This amount is slightly below the \$12.6 billion foreseen in

the previous Business Plan, reflecting the company's focus on opportunities in Brazil, especially with the Pre-Salt discoveries, on account of the increased output from existing fields, and due to the stabilization of long-term production. The production of oil and liquefied natural gas abroad is expected to rise from 239,000 barrels per day in 2010 to 304,000 barrels per day in 2014.

**● PRE-SALT MANAGEMENT, POLICY AND FEASIBILITY**

**PRE-SALT DISCOVERIES - A NEW CHAPTER IN A STORY OF SUCCESS**

The discovery of oil in the Pre-Salt layer off the Brazilian coast has begun a new chapter in the country economic history and, particularly, in Petrobras' deep and ultra-deep water oil exploration operations.

Petrobras currently has 15.283 billion boe in reserves in Brazil. If recoverable volumes ranging from 8.1 billion to 9.6 billion boe, referring to Petrobras' participation in Lula, Cernambi, Guará, Iara, and Parque das Baleias, are confirmed, and figuring in the 5 billion barrels of oil and gas equivalent foreseen under the transfer of rights agreement, Petrobras' reserves would as much as double in coming years.

Located about 300 km off the Brazilian coast - three times the distance to the Campos Basin, which today represents more than 60% of the oil lifted in Brazil -, the Lula field was the first to be discovered. With the discovery of other fields in an area that ranges for 800 km along the Brazilian coast, between the states of Santa Catarina and Espírito Santo, the Pre-Salt established itself not only as a potential undertaking, but also as a challenge for Petrobras and its partners: while oil is lifted from depths of just over 4,000 meters in Campos, the Pre-Salt fields can be as deep as 5,000 to 7,000 meters from the sea surface.

Between 2010 and 2014, Petrobras will invest \$212.3 billion in projects in Brazil, \$142.2 billion (67% of total) to be spent on orders placed to Brazilian suppliers. The domestic content requirement for the equipment industry will help consolidate Brazil as an oil industry goods and services supplier hub.

### THE WORLD'S LARGEST CAPITALIZATION

On September 24, 2010, Petrobras raised R\$120.2 billion in the largest equity issuance in the world's history. The transaction increased the company's value sharply. On that date, Petrobras reached \$223 billion in market value and ranked second among the oil and gas companies in the world.

The funds derived from the capitalization allowed Petrobras to pay the Federal Government R\$74.8 billion to secure the right to explore and produce, for 40 years, extendable for another five years, five billion barrels in seven wells in the Pre-Salt layer - an amount equivalent to a third of its current reserves.

The capitalization also lowered Petrobras' debt-to-equity ratio to 17%, from 31% before the offer. The improved capital structure is essential for Petrobras to proceed with the investment program that was designed to change the company's production level.

The investments will enable oil and gas output to grow to 3.9 million barrels of oil equivalent per day in 2014, 51% more than the 2.58 million produced in 2010 and the most significant increase among all major oil companies in the world. Investments of \$224 billion will be made in this period, especially on making it feasible to explore the wells nestled in Pre-Salt layer - the new frontier that will get \$33 billion in assets and is considered the biggest oil discovery made in the Southern Hemisphere in the last 30 years.

Nevertheless, the equity issuance has not gone unquestioned. Some of the issues raised were related to minority interest (read, on page 17, treatment of minority shareholders), others to the share value slump allegedly caused by the capitalization due of a seemingly excessive involvement of the Federal Government, and some to delays in the process. Concerning these issues, Petrobras has positioned itself through its communication areas, publishing needed clarifications, such as:

**Slump in stock value** - In addition to the announcement of the capitalization, which

would naturally cause a fall in any company's stock value, 2010 was marked by some peculiarities, such as the delayed effects of the international crisis that devalued many assets; the disaster in the Gulf of Mexico, which affected oil companies in particular; and the electoral process in Brazil, the complexity of which caused a delay in the completion of the public offering. On the other hand, there were substantial spikes in Petrobras' stock value in late 2010 and early 2011 which offset some of the losses incurred during the year.

**The role of the Government** - The company's capitalization process was carried out pursuant to the principles of good governance and transparency and complied with all of the market rules, including the provision of information and clarifications. The final terms of the transfer of rights agreement were submitted to Petrobras' decision-making bodies in accordance with its model of Corporate Governance, including the Minority Committee. This ensured transparency and fairness to all shareholders.

To determine the price of the barrel, Petrobras submitted to the Brazilian Presidency's Chief of Staff office and to the Finance and Mines and Energy Ministries, the preliminary assessment prepared by independent certifier DeGolyer and MacNaughton, hired by the company, which, together with an assessment commissioned by ANP, served as the parameters to set the price for the Transfer of Rights.

**Delay** - Given the importance and scale of transfer of rights and capitalization operations, unprecedented for Petrobras and for the market itself (the planning of which was contingent on several factors, including external to the company), it is natural that preparing and implementing such transactions would initially involve the assessment of several scenarios and alternatives. It was due to an extremely important factor for these assessments - the pricing of the barrel for the transfer of rights - that the company rescheduled the public share offer.

### CHANGES IN THE REGULATORY FRAMEWORK

The discovery of these reserves caused the Federal Government to change rules for oil and natural gas exploration and production in the Pre-Salt cluster areas, including regulations related to Petrobras' equity issuance. The main reason behind this is that the regulatory framework in place, drawn up in 1997, was based on a scenario of economic instability and high risk and sought, through the concession system, to afford returns to those who take the risk on. These conditions are very different from those involved in Pre-Salt exploration.

With the new regulatory framework, Brazil now has three oil and natural gas exploration and production regulation systems: transfer of rights, concession, and production sharing. The transfer of rights agreement was approved for Petrobras and entitled it to engage in oil and natural gas exploration and production (E&P) activities in certain areas of the Pre-Salt. Pursuant to the agreement, the company can produce up to 5 billion barrels over a period of 40 years, extendable for another five, upon the payment of R\$74.8 billion, which has already been made.

### ● ACCIDENT PREVENTION

Recognized as the world's largest deepwater operator, Petrobras is a reference in excellence in this area, which is based on a modern technical and technological knowledge, always having safety as its main goal.

The company follows strict operating procedures, complying with both domestic and international safety rules. It undertakes risk analyses for offshore drilling projects, and the equipment that is used - both in the Pre-Salt area and in other sites off the Brazilian coast - meet the requirements of the industry's most advanced safety standards, incorporating the Brazilian and international experience accumulated over the years in well drilling operations.

All offshore drilling rigs are equipped with detection systems that ensure immediate and automatic well closure in case of an emergency, keeping the situation from spinning out of control. There are gas detectors installed in several places on the platform, alarms that signal pressure or volume increases inside the well, in addition to systems to prepare and inject fluids into the well, which also serve as safety barriers.

Controlling rock formation stability while drilling oil wells is essential and part of all of Petrobras' well projects. The Pre-Salt wells are drilled using synthetic fluid designed to inhibit the dilution of the salt rock. Although

stability issues may occur, they are specific and may happen both in the Pre-Salt or in any other area.

Internal well safety training has been provided since 1971. All the workers on the platforms have certification accredited by the International Association of Drilling Contractors (IADC) and participate in weekly accident drills.

There are emergency plans in place for oil spills in all Brazilian oil basins, over and above local plans specific to each drilling and production unit in operation.

To ensure both maximum protection for its operations and speedy responses, Environmental Defense Centers - located at strategic points of operation - keep collector boats, ferries, chemical dispersants, bioremediation agents, and up to 20 thousand linear meters of containment and oil absorption barriers constantly available.

Petrobras has 14 large vessels dedicated solely to responding to environmental emergencies, and these ships may also get support from other resources from the company's fleet of over 80 aircraft and 200 vessels, if necessary.

The emergency plan response capacity was designed taking worst-case incident scenarios into account and to cover all areas where Petrobras operates, including the Pre-Salt cluster.

SPILL PREVENTION NETWORK

- » 30 large vessels to collect oil;
- » 130 support vessels;
- » 150,000 meters of containment barriers;
- » 120,000 meters of absorption barriers;
- » 200 oil collectors;
- » 200,000 liters of chemical dispersants;
- » Ten Environmental Defense Centers and 13 outposts;
- » Emergency Response Centers, distributed in over 20 cities in Brazil.

● RISK MANAGEMENT

RISK MANAGEMENT

Petrobras' risk management strategy considers the various types of risks - factors that impact business results and require constant monitoring due to the growth targets and to the profitability expectations the company is exposed to -, ranging from the variables traded on the financial markets due to the business (market risks) to those resulting from the production process (operational risk). Risks arising from obligations to third parties (credit risk), from the negative exposure of the company's brand (reputation risk), from environmental impacts caused by the operations (environmental risks), from impacts on production or on the business caused by natural physical phenomena (physical hazards), and also from issues caused by acts contrary to the regulations in force in the countries and in the markets (regulatory risk) are also managed.

In March 2010, in compliance with the new corporate governance model, the Executive Board established the Financial Integration Committee to replace the Risk Management Committee.

This new committee, coordinated by the Finance Area and comprising its executive managers (with the possibility of convening executive managers from business areas to discuss specific topics), assumed the primary responsibility to manage the company's risks. Regarding the financial market, Petrobras limits operations with derivatives to specific short-term transactions. Transactions with

derivatives (futures, swaps, and options) are carried out solely to protect the result of physical load transactions on the international market.

Petrobras transfers to the insurance market, by hiring insurance, risks that may cause significant damage to the company and those that must be insured by legal or contractual disposals. Because of its ability to assume a significant portion of the risks, Petrobras hires deductibles of up to \$50 million.

In 2010, the final premium for the company's main policies (operating risks and oil risk) totaled \$45,1 million, for an insured asset value of \$95 billion. 

CREDIT RISKS

In 2010, the total volume of loans Petrobras granted to its customers in Brazil and abroad was more than \$37 billion. The main customers include large companies operating in the oil market, known as majors, and the Petrobras subsidiaries, which received about 28% and 44% of the total credit granted, respectively.

The operations are carried out in accordance with the guidelines established under the Sarbanes-Oxley Act (SOX). Once analyzed, the loans are approved by Credit Commissions or, at a higher level, by the financial boards and those in contact with the customers. Credit use by customers, both in Brazil and abroad, is controlled centrally, and the control and loan granting processes are improved constantly in

order to provide greater support to the trade activity, especially on international markets.

ENVIRONMENTAL RISKS

Petrobras has been working to minimize the impacts of its operations and products on the environment and, thus, their risks. The key risk factors include issues such as energy efficiency, air emissions, and climate change, activities in protected or sensitive areas, and waste and emergency management, such as oil spills.

So far as the first three are concerned, the company has adopted greenhouse gas emission and energy intensity indicators and set targets for these indexes. This resulted in the preparation of the annual air emission inventory, which is verified by

independent auditors and consolidates information from data collected from upwards of 30,000 sources. In the past five years, Petrobras invested more than R\$300 million in energy efficiency projects, which have afforded savings of about 3,000 boed. Additional investments amounting to \$976 million are expected to be made between 2010 and 2015 (learn more in the chapter about the Environment, on page 83).

All Petrobras operating units must develop specific action plans for biodiversity management. The criteria used to acquire, store, and provide environmental data, such as those relating to protected areas and to species that are rare, threatened or of socio-economic importance, are governed by a technical rule.



THE PRECAUTIONARY PRINCIPLE

The precautionary principle is considered in risk and environmental impact assessments made for new ventures or if changes are introduced to existing facilities, as prescribed by the Corporate Guidelines for Environment, Safety and Health (HSE). An example of the application of this principle could be the assessment of impacts on climate change, which Petrobras is already conducting when analyzing new developments or changes.

When new products are launched into the market, especially formulated ones, their components are investigated to determine whether any of them represents some unknown risk to the environment or to human health in case of environmental impact. If the formulation has any component that poses unknown risks, such component is substituted for another one that has known and manageable risks. The Precautionary Principle is also applied in the requirement for the submission of the certificate of conformity of equipment and piping installed in service stations and in all elements that can be marketed during oil changes.

In Exploration & Production, for example, an essential topic is the responsibility for operational safety, for people's health, and for environmental preservation. The "E&P Operating Principles" also ensure the safety issue, stating that in case of doubt, the employee must stop the procedure.

In 2010, Petrobras held ten regional emergency response drills (nine national and an international one in partnership with the Clean Caribbean & Americas -

ACC), which involved the Brazilian Navy, Civil Defense, Fire Departments and Police, as well as environmental agencies, city halls and local communities.



Learn more about the insurance policy of Petrobras in the online version of the Report 

## OTHER ACTIONS TO MITIGATE ENVIRONMENTAL RISKS

- » Increased energy efficiency: with the support of 48 Internal Energy Conservation Commissions, Petrobras implements and develops energy efficiency projects aiming to reduce the consumption of electricity and fuels at its plants;
- » Gas Utilization Optimization Plan in the Campos Basin: 93 actions were taken to improve the use of gas on 24 platforms;
- » Voluntary commitment to not release the CO<sub>2</sub> produced in the Pre-Salt to the atmosphere;
- » Power generation from renewable sources;
- » Investments in biofuels;
- » Encourage rational fuel use through actions carried out under the Ministry of Mines and Energy's National Program for Oil Products and Natural Gas Use Rationalization (Conpet).
- » Geoportal, a geographic information system that enables the integration of and access to information about biodiversity at the company, currently under approval.

## REPUTATION RISKS

In essence, the company's activities are oil and natural gas production and the refining and trade of products derived from these fossil fuels, which contribute to the increased concentration of greenhouse gases in the atmosphere. These businesses may raise concerns among different segments of the society.

To prevent corporate reputation-related risks, Petrobras has a program in place designed to manage these issues and provide the necessary information about the company's actions focusing on the sustainability of its operations. In 2010, this concern afforded Petrobras recognition both by the Reputation Institute as the most reputable company in its industry in Brazil; and by Fortune magazine, which ranked the company fifth among those with the best reputations in the oil industry, especially with regard to Management Quality.

## REGULATORY RISKS

The association that is made between fuels and global climate change may lead to stricter domestic and international regulations concerning oil, gas, and oil products production and trade. Such strictness can lead to

new technical and trade requirements in the product supply chain, increasing costs and reducing overall competitiveness.

## PHYSICAL AND OPERATIONAL RISKS

The increased intensity of extreme weather phenomena may impact Petrobras facilities and operations negatively. This may require changes in design and deployment criteria for new facilities and equipment, making changes to existing facilities and adjustments to routines and procedures, increasing costs and the degree of operational risk.

The demand for skilled workers required for the projects planned for the oil and gas industry, and the current availability of such professionals in the market, point to the need for an effort to provide professional training in this area in Brazil. The lack of physical infrastructure and the need to solve the material and equipment necessity are also risks that have been considered. As a result, Petrobras has invested about R\$50 million among domestic manufacturers to develop products that are currently not made in Brazil and competitively replace imports.

## Intangible wealth



PETROBRAS CONSIDERS ITS INTELLECTUAL CAPITAL as intangible assets – divided into human, organizational, relationship, and technological mastery capital. The intangible asset management issue is specified in Petrobras' Guide for Excellence in Management, covering items such as brand, reputation, and scientific knowledge.

Over the years, the company has been ranked among the most admired and with the best reputation by the society and its stakeholders. In recognition of its intangible asset management strategy, Petrobras has been listed as the only Brazilian corporation among the 30 finalists of the Most Admired Knowledge Enterprises (Make) Awards, sponsored by The Know Network (TKN), a London based-or-

ganization with international recognition. In 2010, Petrobras and Petrobras Distribuidora were granted the "Most Admired Companies in Brazil" award in the "Agribusiness" and "Fuel and Oil Products Distributors" categories, respectively.

The Petrobras brand was considered the most valuable and the third strongest in Brazil. Additionally, it was ranked among the world's top one hundred in a survey carried out in 2010 by the BrandAnalytics consultancy and the Millward Brown Institute. Also in 2010, for the sixth year in a row, Petrobras was the most recalled brand by Brazilian consumers in the "Fuel" category of the Folha Top of Mind Awards promoted by the *Folha de São Paulo* newspaper.

Corporate image is a valuable intangible asset for the company as well. Since 2000, Petrobras has been using the Corporate Image Monitoring System (Sismico), a methodology developed specifically for Petrobras that allows the company to monitor the evolution of its image in the public opinion and among its various stakeholders through quantitative indicators. Sismico results show the company's image in Brazil is strong and consolidated, both from an evolutionary perspective and in comparison with other brands. It is based on strong feelings of pride and by the recognition of its excellence and contribution to Brazilian development. [a](#)

With the growing internationalization of its activities, Petrobras started considering all of its brands as potentially global. The product and service brand development, monitoring, and protection stages aim to use such brands in several markets. The company has set metrics to monitor and manage this over time. Intangible asset management is part of Petrobras' Guide to Management Excellence.

**● RESEARCH AND DEVELOPMENT/ TECHNOLOGICAL INNOVATION**

**RESEARCH & DEVELOPMENT**

For the past several years, Petrobras has been standing out for its pioneering technology in oil exploration and production, especially in deep waters. The company is a world leader in this segment, which accounts for about a fifth of the demand for equipment designed to explore hydrocarbons at great depths.

The company's growing investments in Research & Development (R&D) - R\$1.8 billion in 2010, up 30% over 2009 - help consolidate the position of an enterprise that generates and owns relevant scientific capital, a

[a](#) Learn more about brand management on Petrobras' website

feature that is one of the most outstanding intangible assets.

The 2010 highlights include the duplication of the Leopoldo Américo Miguez de Mello Research Center (Cenpes). The center is now the biggest research complex in the Southern Hemisphere and among of the world's largest, equipped with laboratories designed to meet Petrobras' technological needs, especially those involving the Pre-Salt area. Cenpes hires some 1,800 employees, 41% of whom hold post graduation certificates.

In 2010, R\$517 million were set aside for projects in partnership with universities and research institutes aiming to develop studies, qualify technicians and researchers, and to build laboratory infrastructure. The company adopts the thematic network model to encourage technological research consistent with its strategic interests, which will be carried out through collaborative networks between institutions of recognized competence in the selected topics.

Petrobras is encouraging renowned oil and gas industry suppliers to build research centers in Brazil, strengthening partnerships particularly in Pre-Salt-related projects.

The company's R&D strategy is divided into three key areas: business expansion, adding value to and diversifying products, and sustainability. [a](#)

**● EMISSIONS REDUCTIONS AND MANAGEMENT**

**REDUÇÃO DE EMISSÕES**

Creation of the Experimental Center for CO<sub>2</sub> Separation Technologies in the Miranga on-shore field, in Pojuca (state of Bahia). The center is testing technologies to separate, capture, and store CO<sub>2</sub> and may contribute to future Santos Basin Pre-Salt development projects by avoiding emissions to the atmosphere.

[a](#) Get to know more details about the Research and Development lines in the online version of the Report

# Trust-based relations



TO PETROBRAS, STAKEHOLDERS ARE GROUPS OF individuals or organizations with common issues or common social, political, economic, environmental or cultural needs that establish or may establish relationships with the company and can influence or be influenced by company's activities, businesses or its reputation.

The definition and categories of stakeholders originated from the project titled "The stakeholders," which figures under Petrobras' Strategic Agenda. Conducted in 2008, the work consisted of reviewing the definition and classification of stakeholders appearing in the Integrated Communication Plan (CIP), as derived from Petrobras' Strategic Plan and Business Plan, so it would match Petrobras' Vision for 2020. In addition to bringing the stakeholder concepts and classifications, the CIP contains strategic communication goals drawn from surveys carried out among the stakeholders. It can be applied in different countries where the company has activities,

considering the predefined environment and the nature of the operation.

The "Petrobras Stakeholders" concept was established based on extensive research and systematized queries done among the 20 areas and companies regarding the Petrobras System. Thirteen stakeholder categories were defined: civil society organizations; communities; competitors; consumers; customers; internal public; investors; partners; press; public authorities; resellers; scientific and academic community; and suppliers. The Executive Board approved the definition and the categories in 2009, and since then they have been officially adopted.

The classification helped assess the relationships and guide the company's efforts regarding the particular needs of each stakeholder. Based on this content, each Petrobras area can now map their stakeholder categories, get to know their main segments, and guide activities towards them. [a](#)

WE HAVE SEVERAL CHANNELS OF DIALOGUE WITH THE DIFFERENT STAKEHOLDERS TO RESPOND TO ISSUES AND DEMANDS RAISED BY EACH OF THEM

[a](#) Learn more about the definitions of the 13 categories of Petrobras stakeholders in the online version of the Report

### ● ENGAGEMENT AND DIALOGUE WITH STAKEHOLDERS

Developing communication and engagement practices with its stakeholders is a key factor for the company's long-term returns. Research tools, such as focus groups, forms and interviews, whether conducted personally, by phone or over the Internet, are used aiming to identify and analyze characteristics, needs, and image and reputation issues among the target audiences and the public opinion. The techniques are adopted according to the nature of the public under analysis and to the type of data that is expected to be obtained - quantitative or qualitative.

Petrobras conducts periodical surveys - Corporate Image Monitoring System (Sismico), RepTrak™ (Reputation Tracking), and the Corporate Social Responsibility Monitor (CSR), which, in addition to providing a base for the communication diagnoses and for the annual review of the CIP, also supply indicators to assess the achievement of the communication objectives.

**Corporate Image Monitoring System (Sismico):** Petrobras has been using this system to measure and monitor the evolution of its image since 2000. The Sismico consolidates information collected from quantitative surveys conducted with the public opinion and stakeholders and generates indicators about the company's image. Structured to provide a historical series, it allows comparisons, among the several publics, of each of the indicators that make up the image of Petrobras. The surveys are carried out annually or every two years, according to publics being studied.

**RepTrak™:** developed by the Reputation Institute, this is a methodology used internationally to measure the corporate reputation of organizations. Petrobras uses two annual studies conducted with the methodology: the Global RepTrak™ Pulse and the RepTrak™ Deep Dive. The former provides an overview of the reputation of the world's largest companies in their countries of origin. The latter allows Petrobras' reputation to be compared

with that of other companies, based on six dimensions: financial performance; products and services; leadership; citizenship; work environment; and innovation.

**Corporate Social Responsibility Monitor (CSR):** developed by the Market Analysis Research Institute and conducted annually, the study allows the understanding, posture, and expectations of the public opinion of a given country about corporate social responsibility. It also brings the rankings of the companies recalled the most for their social responsibility or for inappropriate attitudes. The methodology provides a more detailed analysis of the perceptions on Petrobras' performance on social responsibility.

**EcQ™ - Employee Communication Quotient:** The Reputation Institute developed this quotient to measure employee alignment to the company's corporate strategies based on the determination of the audience's levels of knowledge, understanding, and commitment to such strategies. In 2008, Petrobras had already created a pilot project to apply the indicator and, in 2009, it increased the use of the methodology and conducted two more projects. Study frequency has been not defined yet.

The company also conducts studies focused on specific situations, themes, and stakeholders to assist it in its decision-making processes. The highlight, is the public opinion survey completed in 2010, which used quantitative and qualitative methodologies and involved people from several Brazilian capitals aiming to measure the impact the Parliamentary Commission of Inquiry (CPI), carried out in 2009, had on the image of Petrobras.

In addition, the company provides a website specific for the Ombudsman's Office, which can be accessed both internally and externally and provides the channel's annual accounts, news and guidance, and an electronic form anyone can use to make suggestions, criticism or denunciations.

Transpetro, meanwhile, created the Relationship with Stakeholders Program to promote projects designed for surrounding

communities (pipeline and terminal ranges), for municipal and state agency representatives, and representatives of companies and of civil society organizations who are related with Transpetro's activities, relationship mediators with local populations and organizations, and with multipliers of knowledge working the areas of education and health, with employees and suppliers. 

#### COMMITMENT TO OUR STAKEHOLDERS

The major themes brought up at Petrobras Distribuidora were: actions to reduce water and energy consumption; use of renewable energy; waste disposal; wastewater treatment; community relations; engaging in social and environmental campaigns; and employee training.

At Transpetro, meanwhile, in the relationship work done with stakeholders, issues were raised regarding standards related to how to live safely around the pipelines and terminal ranges, on guidance and clarification on the company and its activities, educational and environmental awareness initiatives, disease prevention campaigns, and educational campaigns. The Relationship with Stakeholders Program addresses all of these issues and concerns through education and social and environmental guidance programs geared towards the various stakeholders involved.

Regarding critical issues for Petrobras Biocombustível, an Agricultural Supply Program was demanded mostly by the specialized and regional press. Incentives for family farmers to plant alternative crops and requests for oilseed not to be used in commercial biodiesel production were the main demands.

The company also received questions about tax reductions regarding Social Fuel Seal and reports of transfers of funds being made to federations or unions regarding bonuses paid to farmers and cooperatives. In the technological field, Petrobras Biocombustível was asked about the prospects for cellulosic ethanol entering into commercial production. Regarding biodiesel projects, the questions concerned the company's social and environmental

performance in the Amazon region and the prospects for the operation of the Guamaré experimental plant - which will be adapted to produce biodiesel on a commercial scale.

**Check these out in the online version of the Report **:

- main concerns raised by the stakeholders and measures adopted;
- actions taken by the company for customer satisfaction;
- measures to ensure product excellence and to develop quality throughout the production chain;
- treatment of possible concerns or questions regarding the quality of the products traded by Petrobras.

#### CUSTOMER SATISFACTION

Petrobras conducts satisfaction surveys among its customers in order to understand and evaluate their perception of the quality of the products and services. The results allow the Customer-Perceived Quality Index (CPQI) to be built.

Petrobras Distribuidora undertakes an image survey among men and women who drive cars and are responsible for selecting the service stations where they will refuel their cars. This tool helps the company assess both the public's preference of service station brands and the position of Petrobras and the competition taking into account image attributes and the importance of these characteristics to the consumer. It is also possible to measure the customer's level of satisfaction and loyalty in the use of products and services provided by the company.

Liquigás, in turn, seeks to identify, analyze and understand the demands of its network of customers, turning every need into features for its products, services, and processes. Since Petrobras took the enterprise over, satisfaction surveys have been carried out to analyze and understand customer and market expectations, to strengthen relationships, and to measure and enhance customer satisfaction and loyalty towards its products and brands.

 Learn more about other forms of relationship with our stakeholders in the online version of the Report



OPERATIONAL  
PERFORMANCE

OUR ACTIVITIES

# Record results

## EXPLORATION & PRODUCTION

In addition to setting an oil production record and getting commercial production underway in the Pre-Salt layer in both Santos (state of São Paulo) and Campos (state of Rio de Janeiro) Basins, Petrobras also made several discoveries in 2010. Important oil and gas accumulations were discovered in Post-Salt and Pre-Salt sections of sedimentary basins in Southern and Southeastern Brazil; furthermore oil was found offshore Sergipe (in the Sergipe-Alagoas Basin), opening a new exploratory frontier in Northeastern Brazil. The progress that Petrobras has made in exploration and production allows the company to maintain its growth in coming years, underpinning its position in the global oil industry.

Petrobras set three oil production records in 2010. The monthly average for December closed at about 2.122 million barrels per day (bpd). On 27 December, oil output reached 2.256 million bpd. In the year, the company attained a production level of upwards of 2 million bpd (2,004,000 bpd), an annual record in Brazil. Total production, meanwhile, including natural gas in Brazil and all overseas operations, closed 2010 at

2.583 million barrels of oil equivalent per day (boed), a historical record.

This performance was the outcome of the greater volumes lifted by existing platforms after they were interconnected with new wells (P-53, P-51, P-34, FPSO Cidade de Vitória, FPSO Espírito Santo, and FPSO Frade) and of operations going on stream at new units, operating both in the Post-Sal and in the Pre-Salt areas. These projects offset the natural production decline and afforded the company a 1.7% increase in the domestic production of oil and natural gas liquids (NGL)<sup>(2)</sup>.

All production units operate under the most advanced health and safety conditions in the industry. These are industrial complexes fitted with several protection systems designed to limit the effects of any possible untoward events in their daily routines. The operations take place pursuant to procedures that fully meet requirements imposed by regulatory bodies such as the Brazilian Navy, the National Petroleum Agency (ANP), the Brazilian Institute for the Environment and Renewable Resources (IBAMA), the Brazilian Institute of Oil, Gas, and Biofuels (IBP), and rating agencies.



### TOTAL OIL, NGL, AND NATURAL GAS PRODUCTION IN BRAZIL AND ABROAD

thousand boed

2008	2,176	224	2,400
2009	2,288	238	2,526
2010	2,338	245	2,583

■ Brazil ■ International

### OIL, NGL, AND CONDENSATE PRODUCTION IN BRAZIL (ONSHORE AND BY WATER DEPTH)



■ Onshore 11%  
 ■ 0-300 9%  
 ■ 300-1,500 61%  
 ■ Above 1,500 19%

### OIL, NGL AND CONDENSATE, AND NATURAL GAS PRODUCTION DEVELOPMENT IN BRAZIL thousand boed

2001	1,336	232	1,568	
2002	1,500	252	1,752	
2003	1,540	250	1,790	
2004	1,493	265	1,758	
2005	1,684	274	1,958	
2006	1,778	276	2,054	
2007	1,792	273	2,065	
2008	1,855	321	2,176	
2009	1,971	317	2,288	
2010	2,004	334	2,338	
2011	Target	2,110	433	2,543

2014	Forecast	2,980	623	3,603
2020	Forecast	3,950	1,109	5,059

■ Oil, LNG and Condensate ■ Natural Gas

<sup>(2)</sup> The portion of natural gas that is in its liquid state under a given pressure and temperature at the surface, obtained in field separation processes, in natural gas processing units or in gas pipeline transfer operations.

OIL AND NATURAL GAS PRODUCTION		
THOUSAND BOED	2010	2009
<b>Domestic Production</b>	<b>2,338</b>	<b>2,288</b>
Oil and NGL	2,004	1,971
Natural Gas <sup>(1)</sup>	334	317
<b>Consolidated International Production</b>	<b>237</b>	<b>228</b>
Oil and NGL	144	132
Natural Gas <sup>(1)</sup>	93	96
<b>Non-Consolidated International Production</b>	<b>8</b>	<b>10</b>
Total International Production	245	238
Total Production	2,583	2,526

(1) Does not include liquefied gas; includes re-injected gas

**COMMERCIAL PRODUCTION HIGHLIGHTS**

The extended well tests for the Tiro and Sidon areas started in March with the installation of the SS-11 Atlantic Zephyr semi-submersible platform, which can produce 20,000 bpd of oil and process 475,720 m<sup>3</sup>/day of gas. The fields are located in exploratory block BM-S-40 (100% Petrobras), in the southern portion of the Santos Basin, at about 210 km off the coast.

Production started at FPSO<sup>(3)</sup> Capixaba, in the field of Cachalote, in May. In July, a Pre-Salt area well nestled in the Baleia Franca field, off the southern coast of Espírito Santo, in the Campos Basin, was connected to this production module. With capacity to process 100,000 bpd of oil and 3.2 million m<sup>3</sup>/day of gas, the FPSO marked the beginning of commercial production in the Pre-Salt cluster off the coast of Espírito Santo.

In July, FPSO Cidade de Santos went into production to develop the Tambaú and Uruguá fields. This was the first module installed for the definitive development of oil and gas fields in the Santos Basin. The vessel is anchored 160 km off the coast of São Paulo, in a water depth of 1,300 m, and can produce 10 million m<sup>3</sup> of natural gas per day and 35,000 bpd of oil.

Vessel platform Cidade de Angra dos Reis was launched in October. The first unit scheduled to produce on the commercial scale in the Pre-Salt, it produces high commercial value light oil, leading the way for the definitive production system to be installed for the Lula field, the new name given to the accumulation previously known as Tupi. Basic technical information will be collected for the development of the large accumulations of oil discovered in this sedimentary basin. With capacity to produce 100,000 bpd, the pilot system will help grow the production curve in the coming years.

In December, through platform P-57, Petrobras started producing in the Jubarte field, in the Campos Basin, 80 km off the coast of Espírito Santo. The platform is anchored at water depths<sup>(4)</sup> of 1,260 m and can process 180,000 bpd of oil and 2,000,000 m<sup>3</sup> of gas per day.

Also in December 2010, Tupi and Iracema were declared commercial and were re-named, respectively, Lula and Cernambi, marking the beginning of commercial production from both fields. With a recoverable volume of 6.5 billion barrels of oil equivalent (boe), Lula is Brazil's first supergiant oil field,

while Cernambi, with 1.8 billion boe, ranks among the top five giant fields in the country. Also in December, the second Santos Basin Pre-Salt area extended well test was started at BM-S-9 (Guará).

The results obtained from deeper fields enabled the company to estimate, for 2017, daily production in excess of a million boe in the Pre-Salt areas it operates, a figure that includes the share of production belonging to its partners.

Several production systems are scheduled to go on stream in 2011. A fixed platform has been installed in the Mexilhão field, in the Santos Basin, in water depths of approximately 170 m and with a production capacity of 15 million m<sup>3</sup> of gas per day. A 139-km long pipeline has been laid to drain the gas to the shore of Caraguatatuba (coastal São Paulo).

In the Campos Basin, meanwhile, a semi-submersible platform (P-56) with capacity to process 100,000 bpd of oil and compress 6 million cubic meters of gas per day will be installed in water depths of approximately 1,700 m. Extended well tests for Lula Nordeste (BM-S-11), Carioca Nordeste (BM-S-09), and Cernambi (BM-S-11) area also scheduled for 2011.

**RESERVE GROWTH**

The exploratory success it achieved in the Pre-Salt layer helped Petrobras close 2010 with proved reserves of 15.283 billion boe (ANP/Society of Petroleum Engineers - SPE criterion), 8% more than in 2009. The increase is the result of the addition of 1.911 billion boe, including both the Pre-Salt and projects deployed in mature fields. The rate of reserve replacement soared 240%, meaning that for each barrel of oil equivalent produced, Petrobras added 1.4 barrels to its reserves.

The reserve-production ratio rose to 19.2 years, above the 18.1 years calculated in 2009. This will enable the company to continue growing in coming years. Petrobras has had positive reserve replacement rates for 18 years in a row. In 2010, the company also was granted the right to produce up to 5 billion boe in Pre-Salt areas by signing the Transfer of Rights Agreement<sup>(5)</sup> with the Federal Government.

The progress Petrobras has made in exploration and production in the Pre-Salt region occurs in a new global era of oil exploration, one which combines increasing demand and the depletion of provinces that are easy of access and low costs. 

 Learn more about oil production and demand in the online version of the Report

**PROVED OIL, NGL, CONDENSATE AND NATURAL GAS RESERVES ANP/SPE CRITERIA**  
billion boe



■ Oil, LNG and Condensate      ■ Natural Gas

\*Proved reserves in Brazil and abroad (total value)

(5) In 2010, the new oil exploration and production model was established for the Pre-Salt layer. Among other measures, the transfer of rights agreement grants Petrobras the right to produce and explore oil and natural gas in certain areas of the Pre-Salt up to a limit of 5 billion barrels. The company was also allowed to carry out the equity issuance. With the proceeds from the offer, Petrobras paid R\$74.8 billion to secure the right to explore and produce five billion barrels in six areas of the Santos Basin Pre-Salt layer for 40 years, extendable for another five.

(3) FPSO (Floating, Production, Storage & Offloading): Floating production, storage, and offloading unit built on a vessel.

(4) Distance between the surface of the water and the seabed. Expression established by use which means the water column.

## OUR ACTIVITIES

## DISCOVERIES

In 2010, 116 wells were drilled, 67 of which onshore and 49 offshore. Among the offshore wells, 31 were targeted at the Post-Salt section, while 18 at the Pre-Salt area. The exploratory success rate reached 57%, well above the 40% set a year earlier. The highlight of these activities was the discovery of a new deepwater oil province containing light oil in the Sergipe-Alagoas Basin. Known as Barra, the well is in 2,341-meter deep waters, at about 58 km away from the coast of the state of Sergipe (Brazil).

At the Urucu oil province, in the Amazon, excellent quality oil (46° API<sup>(6)</sup>) and associated gas were discovered nestled in Solimões Basin sandstone reservoirs. The discovery was called Igarapé Chibata. Kicked-off in September, the EWT points to a production capacity of 2,500 bpd.

Several discoveries were made in the Santos Basin. At the Franco prospect, 195 km off the coast of Rio de Janeiro, an accumulation of good quality oil (about 30° API) was found in 1889-m deep waters. The discovery was made through the drilling of well 2-ANP-1-RJS, and preliminary estimates based on the seismic response around the borehole show recoverable volumes of around 3 billion barrels of oil. Franco is one of the areas included in the Transfer of Rights agreement signed between Petrobras and the Federal Government. Light oil was also found in 2,200-m deep waters in well 1-SPS-76 (Marujá prospect), about 215 km off the coast of São Paulo.

In the Campos Basin, Petrobras discovered two good-quality oil accumulations (29 °API) in the area of the Caratinga field. The discovery was made with the drilling of well 6-CRT-43-RJS, known as the Carimbé prospect, which is 106 km off the Rio de Janeiro coast in water depths of 1,027 m. One of the accumulations found in Post-Salt reservoirs, is at a depth of 3,950 m. It is estimated there are recoverable volumes of approximately 105 million barrels

of oil there. The other, in Pre-Salt reservoirs, is at a depth of 4,275 m and may be related to the accumulation found in the area of the Barracuda field. If the two accumulations are indeed connected, the potential recoverable volume is estimated at 360 million boe. Evidence of hydrocarbon reservoirs was found in well 6-MLL-70-RJS (Tracajá). The well is in the Pre-Salt layer, at a total depth of 4,442 m and in a water depth of 1,366 m, 124 km away from the coast of Rio de Janeiro.

The ANP did not carry out any bidding rounds in 2010. With the acquisitions and returns made during the year, Petrobras' project portfolio now adds up to 198 blocks, covering a total area 130,000 km<sup>2</sup>. Additionally, discoveries are being assessed in 31 other areas. Petrobras' exploratory area totals 105,000 km<sup>2</sup>.

## PERFORMANCE ABROAD

In other countries, Petrobras' output reached the milestone of 245,000 boed, up 3% over the previous year, mainly due to increased production at the Apko field, in Nigeria. Total production was 151,000 bpd of oil and 16 million m<sup>3</sup>/day of natural gas. The company's target is to produce 257,000 boed in 2011.

In March, Petrobras announced an oil discovery in the Balay exploratory block, in Colombia, in which it holds a 45% stake. The formation test operations proved the existence of oil of about 28° API with an initial flow of 1,314 barrels of oil per day at the site. In October, the company made two discoveries in the Cabaça Sudeste-2 well, off the coast of Angola, in which it holds a 5% stake.

Petrobras' proved reserves overseas reached 0.703 billion boe in 2010, about 1% more than the previous year, and the reserve replacement ratio was 110%. The increase was due to the addition of wells located in Block 57, in Peru, and projects underway in the Gulf of Mexico. Foreign reserves represent about 4% of the total of accumulated reserves in 2010.

## INTERNATIONAL PRODUCTION OF OIL, NGL, CONDENSATE AND NATURAL GAS thousand boed

2004	168	94	262	
2005	163	96	259	
2006	142	101	243	
2007	127	109	236	
2008	124	100	224	
2009	141	97	238	
2010	151	94	245	
2011	Target	158	99	257
2014	Forecast	176	128	304
2020	Forecast	203	120	323

Oil, LNG and Condensate      Natural Gas

The year also marked an increasing presence of Petrobras abroad: by acquiring 50% stakes in an exploration block located in the Australian North Carnarvon basin, the company has begun operating in Oceania and is now present on the five continents.

Petrobras invested R\$4.8 billion abroad - 88% of the resources were earmarked for exploration and production, 60% of which allocated to production development.

Processing capacity at international refineries slumped to 230,500 bpd, down from 280,500 bpd in 2009, due to the sale of the San Lorenzo refinery, in Argentina, in 2010. The processing capacity utilization level at the international refineries reached 70% in 2010, up from 66% in 2009. In total, 206,800 bpd of oil were processed in four refineries (one in Japan, one in the U.S., and two in Argentina).

## NATURAL GAS

Petrobras' average natural gas production in Brazil and abroad, not including NGL, added up to 69 million m<sup>3</sup> per day, 53 million m<sup>3</sup>/day coming from fields in Brazil and 16 million m<sup>3</sup>/day from other countries. In Brazil, the average natural gas output rose 5.4% compared to the 2009 average.

The growth is mainly due to the start-up of new projects envisaged under the Gas Production Anticipation Plan (Plangás), such as gas production anticipation from the Canapu field and increased production from the Camarupim field, in Espírito Santo. Continuing the implementation of projects included in the Plangás, the Mexilhão field will go into production and gas will start flowing from the Tambaú and Uruguá fields in 2011. Natural gas produced from the Lula field will also begin to flow in 2011, maintaining the upward gas supply trend aimed to meet market demand.

## REFINING AND TRADE

Using an average of 93% of the rated capacity, one percentage point higher than in 2009, Petrobras' 12 refineries in Brazil processed 1.798 million bpd of feedstock and produced 1.832 million bpd of oil products in 2010. Of the total of oil processed, 82% came from Brazilian fields, up three percentage points over a year earlier.

Abroad, Petrobras refineries produced 220,000 bpd of oil in 2010, a 4% growth compared to the previous year's mark. The company's international refining facilities' rated capacity rose four percentage points in 2010, to 70%.

<sup>(6)</sup> Degrees API (American Petroleum Institute): a way to express the relative density of oil or of an oil product. The API scale, measured in degrees, varies inversely with the relative density, i.e. the higher the relative density, the lower the API degree. The API degree is higher when the oil is lighter. Oil with an API degree greater than 30° is considered light; between 22° and 30° API, medium; and below 22° API, heavy. Oil below 10° API is considered extra-heavy. The higher the API degree, the higher the market value.

OIL PRODUCT PRODUCTION		
THOUSAND BARRELS PER DAY	2010	2009
<b>Oil Products Production</b>	<b>2,052</b>	<b>2,034</b>
Domestic	1,832	1,823
International	220	211
<b>Rated Capacity Utilization (%)</b>		
Domestic	93	92
International	70	66
<b>Domestic Crude Oil Participation (%)</b>	<b>82</b>	<b>79</b>

To achieve this operational performance, the company invested in refining facility improvements and made adjustments to the processing capacity. During 2010, scheduled maintenance shutdowns were made at the Presidente Bernardes (RPBC), President Getúlio Vargas (Repar), Henrique Lage (Revap), and Paulínia (Replan) refineries. Replan, the largest refining unit of Petrobras and of Brazil, boosted its processing capacity from 360,000 bpd to 396,000 bpd in the second half of the year.

**OPERATING ADJUSTMENTS**

Through adjustments made to refinery operating conditions, the diesel and kerosene production maximization program generated an additional 17.1 million barrels, increasing the volume of these oil products from 42.2% to 44.8% with the same processed oil load.

With the expansion in domestic oil production in recent years, Petrobras has invested to convert crude oil into higher value-added oil products to supply both the domestic and the international markets. In 2010, a retarded coking unit, which converts heavy oils into lighter fractions of oil of higher value-added, and a coke naphtha hydrotreatment unit went on stream at Revap aiming to make cleaner fuel by lowering the sulfur content. It is worthy of note that these fuels always contain sulfur particles, present in millionths parts; therefore, is not possible to completely avoid air emissions, because there are other factors involved, such as engine specifications and traffic conditions.

Investments have also been made in other refineries in order to offer better quality products to market. Besides Revap, hydrotreatment

plants are being built at the RPBC, Reduc, Regap, RLAM, Repar, Recap, Replan, and Reman refineries to produce lower sulfur-content fuel.

In September, a gasoline unit went on stream at the Potiguar Clara Camarão Refinery (RPCC) with capacity to produce 5.2 thousand bpd of gasoline and 1.6 thousand bpd of petrochemical naphtha. RPCC expansion work is expected to be completed in 2011.

Due to the investments made in building these new refineries, domestic processed throughput is expected to be 2.26 million bpd in 2014. For the period after 2014, when the second stage of enhancement of Comperj and the two Premium refineries in Northeastern Brazil are expected to be completed, Brazil's refining capacity is slated to reach 3.2 million bpd of feedstock processed in 2020. This will allow Petrobras to not only meet domestic demand, but also to export oil products, adding value to the increased domestic production of crude oil.

**OIL PRODUCT TRADE**

The 7.5% growth in the Brazilian GDP in 2010, the highest since 1986 according to the Brazilian Institute of Geography and Statistics (IBGE), boosted demand for oil products in Brazil. In this scenario, Petrobras traded 2.378 million bpd on the domestic market, up 13% over a year earlier, with emphasis on diesel fuel, gasoline, natural gas, and aviation fuel sales.

With the recovery in the industrial activity, the larger investments in infrastructure, and grain harvest, diesel fuel sales rose 9% in 2010. The volume of gasoline sold was 17% higher than in the previous year due to the upward trend in the economy, the more expensive ethanol, and because of the Federal Government's decision,

in February, to reduce the amount of ethanol blended with gasoline (from 25% to 20%).

Demand for aviation fuel rose 19%, with the recovery of the Brazilian and global economies and the consequent increase in the number of domestic and international flights from Brazil. Inventory replenishment in the petrochemical industry caused naphtha sales to grow 2% in

2010. LPG sales, meanwhile, rose 4%.

The 33% surge in natural gas sales was due not only to the expansion of consumption in the industrial sector, but also to the larger share of gas used to fire thermoelectric plants. Because industrial plants are substituting fuel oil for natural gas and coal, oil product sales were down 1% in 2010. [a](#)

SALES VOLUME - DOMESTIC MARKET		
THOUSAND BARRELS PER DAY	2010	2009
<b>Oil Products</b>		
Diesel	809	740
Gasoline	394	338
Fuel oil	100	101
Naphtha	167	164
LPG	218	210
Jet Fuel	92	77
Others	180	140
<b>Total Oil Products</b>	<b>1,960</b>	<b>1,770</b>
Alcohols, nitrogenated products, renewable products and others	99	96
Natural Gas	319	240
<b>Total Domestic Market</b>	<b>2,378</b>	<b>2,106</b>

OIL AND OIL PRODUCTS EXPORTS AND IMPORTS		
THOUSAND BARRELS PER DAY	2010	2009
<b>Oil and Oil Products Imports</b>	<b>615</b>	<b>549</b>
Oil imports	316	397
Oil products imports	299	152
<b>Total Oil and Oil Products Exports<sup>(1)</sup></b>	<b>697</b>	<b>705</b>
Oil exports <sup>(2)</sup>	497	478
Oil products exports	200	227
<b>Net Oil and Oil Product Exports</b>	<b>82</b>	<b>156</b>

(1) Includes exports in transit.  
(2) Includes the oil export volumes from the Downstream and Exploration & Production areas.

FINANCIAL BALANCE OF THE TRADE BALANCE <sup>(1)</sup>		
	\$ MILLION	
	2010	2009
<b>Oil and Oil Products Imports</b>	<b>18,077</b>	<b>12,327</b>
Oil	9,118	8,929
Oil Products	8,959	3,398
<b>Total Oil and Oil Products Exports</b>	<b>19,610</b>	<b>15,201</b>
Oil	13,990	10,050
Oil Products	5,620	5,151
<b>Net Oil and Oil Products Exports</b>	<b>1,534</b>	<b>2,874</b>

(1) Does not include natural gas, liquefied natural gas (LNG), and nitrogenated products.

[a](#) Learn more about Petrobras' 2010 trade balance in the online version of the Report

## OUR ACTIVITIES

### PETROCHEMICALS AND FERTILIZERS

Integrated with its other businesses, petrochemicals allow Petrobras to diversify its product portfolio, adding more value to the oil and natural gas drilled from Brazilian fields. Operations in this segment take place preferably through equity investments in Brazil and abroad. The company's Business Plan provides for investments in the order of \$5.1 billion from 2010 to 2014, about 2% of the total slated to be invested.

In January 2010, Petrobras reinforced its position in the industry after striking a deal with the Odebrecht group conceived to merge the two companies' petrochemicals interests into a single company, which encompassed the assets of Quattor (association between Unipar and Petrobras). The agreement allowed Petrobras to consolidate its main petrochemical assets in Braskem, which remained a private, publicly traded company, underpinning its leading position in thermoplastic resin manufacturing in the Americas. [a](#)

The asset consolidation ranked Braskem as the biggest petrochemical company in the Americas in terms of production capacity of the three main thermoplastic resins - polypropylene, polyethylene, and PVC.

In January 2010, Petrobras, Odebrecht, and Braskem also signed a partnership agreement to regulate the participation of Braskem in Comperj and in the Suape Petrochemical Complex. Under the agreement, Braskem is expected to assume part of the companies that develop Comperj's first and second generation petrochemicals. The petrochemical units of the Complex, with start-up scheduled for 2017, will produce basic petrochemicals (ethylene, propylene, benzene, *p*-xylene, and butadiene) and associated products (styrene, ethylene, polyethylene, polypropylene, among others).

A raw material for which there is great demand in Brazil for the production of polypropylene - a plastic resin with a wide range of application in toys, household items and packaging -, Petrobras' propene capacity grew to 1.329 million tons/year, in 2010,

with new units starting up at the Repar and Replan refineries. [a](#)

### TRANSPORTATION

A Petrobras subsidiary for oil, oil products, ethanol, and natural gas transportation and storage, Petrobras Transporte S.A. (Transpetro) carried 48.9 million tons of oil products on 52 vessels in 2010, nearly 15% less than a year earlier.

A total of 704 million m<sup>3</sup> of liquids were moved through its 48 terminals (20 land and 28 water transportation terminals) - 4% more than in 2009 -, plus an average of 51.4 million m<sup>3</sup> per day of natural gas - 45% above the previous year's mark due to the surge in industrial demand and in thermoelectric generation. The natural gas movement record in the year was 69 million m<sup>3</sup> per day.

### PROMEUF

Created by Transpetro to revitalize the domestic shipbuilding industry on globally competitive bases, the Fleet Modernization and Expansion Program (Promef) progressed in 2010. The initiative, which involves building 49 vessels in two phases and will add 4 million deadweight tons (dwt) to the current fleet's capacity, launched the first oil tanker built under the program, the NT João Cândido, to sea. The second and third vessels - NT Celso Furtado and NT Sergio Buarque de Holanda, respectively, were launched in June and November, both in Rio de Janeiro. Four Promef vessels are scheduled for delivery in 2011.

Twenty-six vessels are expected to be built in the second phase of the program, 18 of which have already been commissioned. Seven of these ships are state-of-the-art relievers to be built for the first time in Brazil; three are to transport bunker (fuel oil for a ship); and eight are gas tankers to transport liquefied petroleum gas (LPG). The other eight are currently in the bidding phase. [a](#)

### TERMINALS

Transpetro also invested to expand its terminals. At the Guamaré Terminal (state of Rio Grande do Norte), the onshore infrastructure



was enhanced to receive oil products coming from the Potiguar Refinery. The offshore infrastructure will also be enhanced, with investments of R\$419 million. [a](#)

### GAS PIPELINE NETWORK

The gas pipeline network operated by Transpetro continued growing. In 2010, it reached 7,193 km, 1,771 km more than in 2009. The following pipeline sections went into operation: UTG-Sul Branch (9.3 km), Gasduc III/Section 2 (165 km), Gascac (946 km), Revap-PQU (97 km), Gasbel II (266 km), Pilar-Ipojuca (189 km), Variante do Nordeste (32 km), and Gastau (67 km).

Transpetro operates seven plants at the Cabiúnas Terminal (Tecab), with an added processing capacity of 19.7 million m<sup>3</sup>/day of natural gas from the Campos Basin. In 2010, the processed volume reached approximately 14.8 million m<sup>3</sup>/day, while LPG production 479 t/day.

### DISTRIBUTION

The 7.5% growth of the Brazilian economy in 2010 enabled Petrobras Distribuidora to sell 48.7 million m<sup>3</sup> of oil products, 8.2% more than 2009. The company surpassed the mark of 4 million m<sup>3</sup> of fuel traded in a single month for the first time ever, selling 4.058 million m<sup>3</sup> of oil.

Through this performance, the subsidiary maintained its leadership in the national fuel market, with a market share of 38.8% - 0.8 percentage points higher than calculated in the previous year and continuing the trend of consolidating its leadership. In 2009, Petrobras Distribuidora had grown its market share by 3.1 percentage points.

With a network of 7,306 service stations and about 11,000 direct customers, the company had a net operating income of R\$66 billion and net earnings of R\$1.41 billion in 2010, below the R\$1.5 billion of 2009.

[a](#) Learn more about the waterway network use in the online version of the Report

### EVOLUTION OF PETROBRAS DISTRIBUIDORA'S SALES VOLUME

million m<sup>3</sup>



### DIESEL FUEL IMPROVEMENTS

Petrobras made progress in its actions geared to implement the S-50 diesel - with 50 parts per million (ppm) of sulfur - in the Brazilian metropolitan regions. In 2010, the company started

[a](#) Learn more about the investment agreement between Petrobras' and Odebrecht in the online version of the Report

[a](#) Learn more about petrochemicals and fertilizer production operations in the online version of the Report

[a](#) Learn more about a few of the vessels that are being built in the online version of the Report

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supplying this fuel to all diesel vehicles running in the Fortaleza, Recife, and Belém metropolitan areas, as well as to the captive urban bus fleets in operation in Belo Horizonte, Salvador, Porto Alegre, Rio de Janeiro, Curitiba, and the São Paulo metropolitan region, reducing particulate matter emissions to the environment.

In 2011, all S-500 diesel fuel supplied to the captive urban bus fleets running in State of São Paulo (Baixada Santista, Campinas, and São José dos Campos) and State of Rio de Janeiro Metropolitan Regions will be substituted for S-50 diesel. A new commercial diesel fuel, with 10 ppm of sulfur, will be available for new vehicles from January 2013. To meet the demand for these new types of fuel, by 2013 Petrobras is slated to invest \$8.5 billion in improving automotive fuel quality.

**INVESTMENTS**

Petrobras Distribuidora invested R\$895 million in 2010 to expand its market leadership and increase logistics capacity to improve the services to its various customers nationwide. Of the total, 28.2% went to the logistics infrastructure, 27.6% to developing and modernizing the service station network, 20.4% to LPG distribution infrastructure maintenance, and 19% to support its trade and industrial customers.

In 2010, 336 stations acquired through the takeover of Companhia Brasileira de Petróleo Ipiranga were adjusted visually to Petrobras Distribuidora's standards. The remaining 141 service stations stanolardization will be completed in 2011. The Cachoeiro do Itapemirim Piped Natural Gas Distribution Network (in the state of Espírito Santo) was inaugurated in 2010. It is 60-km long and capable of carrying 600,000 m<sup>3</sup> of natural gas per day to Espírito Santo factories, service stations, and commercial establishments. Operations also started at the Duque de Caxias LPG Operation Center (state of Rio de Janeiro). The center is intended to increase the company's market share in the state and can store 480 tons of LPG and bottle 4,500 t of the product per month.

**LOGISTICS IMPROVEMENT**

The growing market for ethanol has helped Petrobras develop a program to expand the Brazilian pipeline and waterway infrastructure to take this renewable fuel from the producer region located in Brazilian Midwest and in the state of São Paulo to domestic and foreign consumer markets. In addition to reducing logistics costs, the initiative will have a positive environmental impact by substituting road transportation for pipelines and waterways and, thus, reducing greenhouse gas emissions.

The Multimodal Logistics System for Ethanol, which involved total investments of R\$6 billion, foresees adjustments and improvements to existing Petrobras facilities and the construction of new pipelines, terminals, barges/pushers, collecting centers and intermediate pumping stations. This system will be developed by an enterprise in which Petrobras will hold a 20% stake, while other companies, particularly operating in the sugarcane industry, will own the rest. Petrobras' pipeline system between Paulínia (state of São Paulo), the São Paulo Metropolitan Region, and Rio de Janeiro will start transporting ethanol in 2011. Meanwhile, transportation over the first section of the ethanol pipeline, connecting Ribeirão Preto to Paulínia (state of São Paulo), is scheduled for 2012.

**NATURAL GAS AND ENERGY**

The total supply of natural gas in Brazil added up to 62.4 million m<sup>3</sup>/day. Of this amount, 26.2 million m<sup>3</sup>/day reach the domestic market through the Bolivia-Brazil Pipeline (these figures do not include use gas in the system). The volume of imported regasified LNG, which had peaked at 18.9 million m<sup>3</sup>/day, reached 7.6 million m<sup>3</sup>/day. Increased consumption is an outcome of the heated economy and of the greater thermoelectrical demand, especially in the second half of the year.

Altogether, R\$6 billion were invested in the transportation infrastructure. Emphasis was placed on projects designed to expand gas pipeline capacity in Brazil and on electric



energy generation undertakings. In 2009, R\$9.6 billion were invested in these efforts.

**INTEGRATED NETWORK**

The domestic pipeline network grew by 1,696 km, to 9,506 km, and became even more integrated with the interconnection of pipelines in operation in Northeastern and Southeastern Brazil by means of the Cacimbas-Catu (Gascac) pipeline system. Ranging for 954 km and capable of carrying 20 million m<sup>3</sup>/day, Gascac is the longest section of the Gasene (Southeast-Northeast Gas Pipeline) and connects the Cacimbas Gas Treatment Station, in Linhares (state of Espírito Santo), to the Catu Gas Distribution Station (GDS), in Pojuca (state of Bahia).

Other gas pipelines went on stream in 2010. One of them was Cabiúnas-Reduc III (Gasduc III), the biggest gas pipeline in diameter in South America and the one with the largest transportation capacity (40 million m<sup>3</sup>/day) among all Brazilian gas pipelines. Totalling 181 km in length, it allows the flow of natural gas from the Campos and Espírito Santo basins. 

**LIQUEFIED NATURAL GAS**

In 2010, Petrobras consolidated its leading position in the liquefied natural gas sector, further diversifying its product portfolio. Thirty-six Master Sales Agreements (MSAs) were signed and 55 cargo purchases made, of which 46 for domestic consumption and nine to be resold on foreign markets.

In partnership with three other companies, Petrobras has implemented a competitive process to select, from among three engineering projects, the best technical and economic proposal to build an onboard liquefaction plant, which, from 2016, will allow for the flow of 14 million m<sup>3</sup>/day of natural gas lifted from the Pre-Salt area.

**NATURAL GAS AUCTIONS**

Since 2009, Petrobras has adopted a mechanism to market natural gas through electronic auctions for short-term procurement contracts. The goal is to develop a market for the input. In March, the company held the tenth electronic auction for natural gas, offering 22 million m<sup>3</sup>/day for a period of six months, later extended to eight months. Deliveries began in April 2010. The 11th auction was held in November. It was for a period of four months, with deliveries beginning in December 2010.

In these two auctions, it was the first time that distributors were not separated by sub-market, since Gasene was already in operation, allowing greater integration of the natural gas market in Brazil. A total of 9.18 million m<sup>3</sup>/day of natural gas was sold in the last auction, 34% more than the record sold in previous auctions and equivalent to 61% of the total of 15 million m<sup>3</sup>/day that was offered.

To expand the amount of contracts available on the domestic market, in 2010 Petrobras started a new type of marketing: weekly sales of natural gas. Since the beginning of the

 Learn more about gas pipelines in the online version of the Report

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operation, all 18 registered distributors have placed orders. The short-term auctions and weekly sales will continue in 2011.

The average volume of natural gas traded by the distributors nationwide, in 2010, was 49 million m<sup>3</sup>/day. About 17% of this volume was sold through short-term auctions and weekly sales.

**ELECTRIC ENERGY**

Through 15 owned or leased thermoelectric plants, Petrobras generated 1,835 average MW for the National Interconnected System in 2010, more than triple the 525 average MW of 2009. Due to unfavorable hydrological conditions, which lowered hydroelectric plant reservoir levels, thermoelectric generation was needed for short-term power supply.

In 2010, the company's investments in electricity exceeded R\$600 million. With new plants entering into operation, including projects in which Petrobras holds interests, the installed generating capacity reached 5,958 MW.

Petrobras sold the uncontracted capacity of its thermoelectric plants, taking advantage of growing demand, after the economic recovery. This was possible thanks to balance management optimization, done pursuant to the criteria established in the legislation for the sector. In 2010, the Gas & Power area's net income totaled R\$1.279 billion, 82% more than in the previous year. The performance resulted from the heated economy, from increased thermoelectric generation due to weather conditions, and from the higher fixed income afforded by the energy auctions (regulated hiring).

In March 2010, the Euzébio Rocha Thermoelectric Plant (TEP) started to operate. Located in Cubatão (state of São Paulo), its installed capacity is 223 MW, 168 MW of which generated by the gas turbine and 55 MW by the steam one, enough to supply a city of 800,000 inhabitants. One of the enterprise's remarkable features is its high energy efficiency, which reaches 85% because of its combined cycle operation, which allows it to provide up to 415 tons of steam per hour to the Presidente

Bernardes Refinery. The TEP signed an agreement in an auction to supply 141 MW of its availability until 2024.

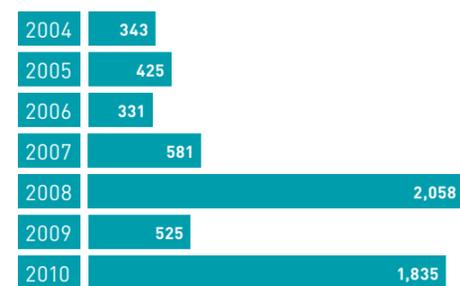
Five projects with the participation of Petrobras started being implemented in 2010: TEP Arembepe, in Camaçari (state of Bahia), powered by fuel oil and with 150 MW of installed capacity to meet the commitments taken on in Auction A-3, in 2006; the conversion of TEP Manauara (AM) to run on biofuel and the conversion of its fuel oil engines to run on biofuel and also natural gas; installation of a flex fuel engine at TEP Tambaqui (state of Amazonas); expansion of TEP Tambaqui to run on natural gas; conversion of TEP Jaraqui (state of Amazonas) to operate with natural gas.

**BIOFUELS AND RENEWABLE ENERGIES**

With its investments in biofuels, Petrobras seeks to develop technologies that ensure leadership in global production in this market segment, which has improved its participation in the energy matrix in many countries. As a fuel that can be made from vegetable oils and animal fat, biodiesel is a product the company is focusing on. It also seeks to develop production options for the fuel to be blended to diesel of fossil origin, benefiting both the transportation and electricity generation areas.

Petrobras Biocombustível operates three biodiesel plants: in Candeias (state of Bahia), Quixadá (state of Ceará), and in Montes Claros (state of Minas Gerais). After

**PETROBRAS THERMOELECTRIC GENERATION** average MW



the Candeias plant capacity was doubled to 216,000 m<sup>3</sup>/year, the three units' total production capacity reached 434,000 m<sup>3</sup>/year in 2010. The subsidiary also holds a 50% interest in the Marialva Biodiesel Plant (state of Paraná), which came into operation in May and can produce 127,000 m<sup>3</sup>/year of biodiesel. In Pará, a project is being developed for the construction of a new plant, which is expected to start operating in 2013 with an installed capacity of 120,000 m<sup>3</sup>/year.

In 2010, Petrobras and Galp consolidated their partnership to create the Belém Bioenergy BV joint venture. The venture will lead a project to produce palm oil in Pará and build a plant to produce 250,000 t/year of second generation biodiesel in Portugal. With these investments, Petrobras Biocombustível's total production capacity is expected to reach 750,000 m<sup>3</sup>/year in 2014.

All of Petrobras Biocombustível's plants have the Social Fuel Seal, in compliance with the guidelines set forth by the National Program for Biodiesel Production and Use (PNPB). The seal is a recognition awarded by the Ministry of Agrarian Development to bio-

diesel producers who foster social inclusion and regional development by creating jobs and income for family farmers working under the National Program for the Strengthening of Family Agricultural Production (Pronaf).

The company has contracts to purchase grain from 65,554 family farmers, who are working on 148,578 hectares (ha) of cropland, of which 122,024 ha planted with castor bean, 16,735 ha with sunflower, and 9,819 ha with soybean. For the 2009/2010 harvest, the subsidiary provided 1,032 tons of seeds: 788 tons of castor and 244 tons sunflower seed. In that same harvest, it procured 84,500 tons of grain from family farmers, at a cost of about R\$80.4 million.

In August, Petrobras Biocombustível acquired 50% of the capital of Bioóleo Industrial e Comercial S.A., a company located in Feira de Santana (state of Bahia), for R\$15.5 million. The company can process up to 130,000 tons of oilseed, store 30,000 tons of grain, and has tankage capacity for 10 million liters of oil. The shareholders agreement provides a contribution of R\$6 million for investments in operational improvements.

**ETHANOL**

Petrobras Biocombustível processed 23 million tons of sugarcane in 2010, producing 942,000 m<sup>3</sup> of ethanol and 1.55 million tons of sugar. Additionally, it sold of 517 GWh of surplus electricity through its holdings in power plants in the sector.

Petrobras will invest \$1.9 billion in the ethanol segment from 2010 to 2014. With these resources, it will expand its own ethanol production to 2.6 million m<sup>3</sup> in 2014, consolidating its position among the largest producers of ethanol, one of the most competitive biofuels in the world. The increased production will not only meet growing domestic demand, but also be exported.

**STRATEGIC PARTNERSHIP**

An agreement was signed with French group Tereos, in April 2010, to form a strategic partnership that envisages investments of R\$1.6 billion by Petrobras, through its Petrobras Biocombustível subsidiary, to acquire a 45.7% interest in Guarani, the third largest company operating in the sugar-ethanol industry in Brazil. The move boosted the company's biofuels operations. The partnership with Tereos also led to a signing contract for the supply of 2.2 million m<sup>3</sup> of ethanol by Guarani to Petrobras Distribuidora over four years. The contract is estimated to be worth a total of R\$2.1 billion.

After the investment made by Petrobras in May, Guarani acquired the Mandu plant, located in Guaíra (state of São Paulo). The move increased Guarani's total number of plants to eight – seven in Brazil, all in the state of São Paulo, and one in Africa, in Mozambique. Investments of R\$422 million were approved to increase Guarani's sugarcane crushing capacity to 22.5 million tons per year, up from the prior mark of 21.3 million t/year. This will boost ethanol production from 692,000 m<sup>3</sup>/year to 787,000 m<sup>3</sup>/year and surplus electricity sales from the current 350 GWh/year to 951 GWh/year.

**IMPROVED POSITION**

In November, Petrobras Biocombustível made progress in its strategy of increasing

its crushing and ethanol production capacity by underwriting 49% of the shares of Nova Fronteira Bioenergia S.A. (partnership between the subsidiary and the São Martinho Group). The operation took place with a contribution of R\$421 million, R\$258 million of which in 2010. Focused on developing ethanol production in the region of Goiás, with an appropriate market distribution logistics solution, Nova Fronteira plans to expand its annual sugarcane crushing capacity from 2 million tons to 7 million tons by 2014, which will grow its annual ethanol production capacity from the current 176,000 m<sup>3</sup> to 620,000 m<sup>3</sup>. Surplus electricity sales, meanwhile, should rise to 469 GWh/year, from 135 GWh/year.

Petrobras Biocombustível also invested R\$150 million in the capital of Total Agroindústria Canavieira S.A., an ethanol plant located in Bambuí (state of Minas Gerais), pursuant to the commitment made in December 2009. It now holds 43.58% equity interest in the plant. In 2010, Total invested upwards of R\$51 million to expand the sugarcane crops and to purchase trucks and harvesting machinery, enhancing harvest mechanization to 80%. The goal is to reach 100% mechanization in 2012. Investments of R\$124 million have also started aiming to build the second stage of the Bambuí plant, which will have its sugarcane crushing capacity escalated to 2.2 million tons in 2012, up from the current 1.2 million tons, by this doubling the plant's ethanol production capacity to 200,000 m<sup>3</sup>.

## ● RESEARCH AND TECHNOLOGICAL DEVELOPMENT/INNOVATION

**NEW TECHNOLOGICAL ROUTE**

On another front, Petrobras invests in researching and developing a new technological route: the production of so-called second-generation ethanol from biomass. With this technology, it will be possible to increase the manufacturing process yield by 40% without occupying a single additional hectare with

sugarcane, further reducing the environmental impact caused by the crop. In July, the company signed on a partnership agreement with Dutch outfit BIOeCON to develop a new process to convert lignocellulosic biomass, found in agricultural waste such as sugarcane bagasse, into products that can be used to produce "green plastics" or turned into advanced biofuels.

In October, Petrobras signed a technological cooperation agreement with Danish company Novozymes. The deal encompasses the development of enzymes and production processes for second generation cellulosic ethanol made from bagasse through an enzymatic process.

**INTERNATIONAL PERFORMANCE**

With the discovery of the reserves in the Pre-Salt layer, Petrobras revised its international operations and started to prioritize the alignment of the international portfolio to the Brazilian one. By doing so, it seeks greater profitability and synergy between them.

Businesses will be developed abroad based on three basic pillars. In exploration and production, the focus is on the use of the technical capacity and geoscientific knowledge that Petrobras has accumulated in E&P off the Brazilian coast. The goal is to concentrate particularly on areas that have similar characteristics and great reserve potential, especially off the Western Coast of Africa and in the Gulf of Mexico.

Investments in refining, petrochemicals, and distribution are aimed at meeting the complementarity strategy by integrating the production chain of the various investment projects. Finally, in the natural gas market, the company intends to expand its business in the segment in order to complement the Brazilian market, meeting its commitment of responsibility for Brazilian energy security.

**AMERICAS**

Besides Brazil, Petrobras has operations in 13 countries on the American continent: Argentina, Bolivia, Chile, Colombia, Cuba, Curacao, Ecuador, United States, Mexico, Paraguay,

Peru, Uruguay, and Venezuela. It operates through 1,171 service stations, in addition to having exploration and production assets in ten of these countries, whose production was 91,000 bpd of oil and 16 million m<sup>3</sup>/day of natural gas, for a total of 185,100 boed.

In Ecuador, where the company's production had reached 2,300 bpd, Petrobras did not accept the final proposal made by the local government to change the exploration contracts signed for block 18 to service contracts. Therefore, it will take the necessary steps to get the compensation provided for under the contract and determine the impact of not having made the migration. Petrobras will continue in Ecuador by means of the interest it holds in Oleoducto de Crudos Pesados (OCP).

In the Gulf of Mexico, Petrobras is developing production projects in Cascade and Chinook (where production is scheduled to begin in 2011), St. Malo, Tiber and Stones, as well as projects which are still in their exploratory stages. In the United States, Pasadena Refining Systems, Inc. (PRSI) set its highest average throughput record and also had its costs reduced, allowing for a better use of the business' operating margins.

**AFRICA**

In addition to the Gulf of Mexico, the Western Coast of Africa is one of the strategic areas of international operations for Petrobras. Production in Nigeria (Akpo and Agbami fields) and in Angola (Lot 2) amounted to 60,300 bpd of oil. The company has also exploration activities in Tanzania, Namibia, and Libya.

**ASIA AND OCEANIA**

Petrobras has a refinery on the island of Okinawa, Japan, and is developing exploratory projects in Turkey, India, Australia, and New Zealand.

**EUROPE**

In Portugal, Petrobras has exploration projects underway in the Peniche and Alentejo basins, in addition to those related to production, technology development, and biofuels trade, in partnership with local companies.



RESULTS AND  
CONTRIBUTIONS  
TO SOCIETY

## ECONOMIC AND FINANCIAL RESULTS

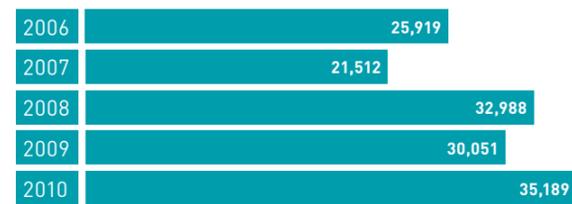
# An historical year

PETROBRAS ENDED 2010 WITH A profit of R\$35.2 billion, the highest in its history and the best result among publicly traded companies in Brazil. The performance - up 17% compared with the previous year's R\$30 billion - reflected the expansion of the Brazilian economy in 2010, which grew 7.5% according to the Brazilian Institute of Geography and Statistics (IBGE); the surge in oil and natural gas production; the higher oil product sales volumes on the Brazilian market; and the recovery of the international oil

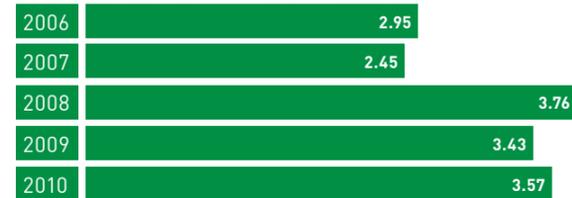
prices. Domestic sales rose 13% compared to 2009, especially of diesel, gasoline, jet fuel, and natural gas.

The greater participation of domestic oil in feedstock processed, rising from 79%, in 2009, to 82%, in 2010, and the increased use of the refineries' rated capacity, averaging 93% in 2010, also tipped the result up. The historical financial performance coincided with operating records: the company ended the year producing 2.583 million barrels per day (bpd), 2% more than a year earlier.

## CONSOLIDATED NET REVENUE R\$ million

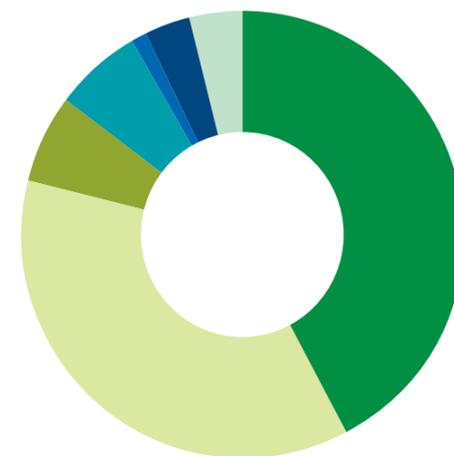


## CONSOLIDATED NET INCOME/SHARE (R\$/SHARE)



■ Net Revenue ■ Revenue/Share

## INVESTMENTS R\$ million



E&P	32,426
Downstream	28,007
Gas & Power	4,884
International	4,771
Distribution	895
Corporate	2,648
Others*	2,780
<b>Total</b>	<b>76,411</b>

\*Specific Purpose Corporations

In line with its strategy to attain sustainable integrated growth in the energy market, the company invested R\$76.4 billion in 2010, up 8% over 2009. Emphasis was on oil exploration and production and on the Downstream, Gas & Power, Distribution and International areas.

Operational cash generation, measured by the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), was a record R\$60.3 billion, 1% more than 2009 (R\$59.5 billion). The EBITDA margin (EBITDA/net sales ratio) was 28%, down five percentage points compared to a year earlier.

The equity issuance (learn more about it on page 22), which provided R\$120.2 billion in cash to Petrobras, contributed to reduce its level of leverage to 17% in 2010, down from 31% in the previous year. This has made the company even more robust to carry on with its investment program for the coming decade. The net debt/EBITDA ratio fell from 1.23, in 2009, to 1.03, in 2010. The net debt decreased to R\$62.1 billion in 2010, from R\$73.4 billion a year earlier.

Petrobras maintained its pricing policy, which seeks the long-term alignment of the domestic oil price to the international ones. On the domestic market, prices remained stable in 2010. In Reais, the oil products price on the domestic market stood at R\$158.43 per barrel. Rising oil prices on international markets were partially offset by the 12% appreciation of the Real against the Dollar in the period.

Petrobras' trade balance was affected by fuel imports increases caused by the heated domestic market, which grew the demand for oil products. Oil and oil products exports in 2010 amounted to 697,000 bpd, similar to the 2009 mark, while oil and oil product imports rose 12%, to 615,000 bpd, up from 549,000 bpd in 2009. Oil products procurement abroad alone soared 96%, to 299,000 bpd, on account of the high demand. In 2010, net oil and oil products exports dropped to 82,000 bpd, and the financial balance declined to \$1.534 billion as a result of the more expensive import prices. The financial balance calculation basis

does not include LNG, natural gas, and nitrogenated products.

Due to the increased number of interventions in wells, the average drilling cost, not including government take, climbed 14% in 2010, to \$10.03 per barrel of oil equivalent (boe). Excluding currency effects, the indicator plunges to 5%. Including government take, lifting costs were up 20% over 2009, closing the year at \$24.64/boe. Disregarding the exchange rate, the increase was 16%, driven mainly by the higher average reference price of domestic crude oil.

In Real, the average drilling cost was R\$17.58/boe, 2% more than in the previous year. Including government take, the cost was R\$43.48, up 10% over a year earlier, again influenced by the 17% surge in the average reference price for domestic crude oil, in Real.

## TRADE BALANCE

Thousand barrels/day

### EXPORTS



### IMPORTS



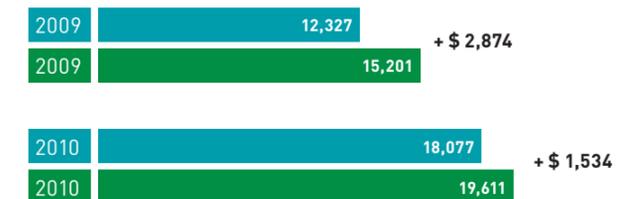
### NET EXPORTS



■ Oil ■ Oil Products

## FINANCIAL VOLUME

\$ million



■ Imports ■ Exports

## ECONOMIC AND FINANCIAL RESULTS

In 2010, the resumption of the economic activities around the world, after the effects of the crisis that began in late 2008, afforded another year of recovery to the oil market, with consumption returning to pre-crisis levels. Surging demand was led by emerging nations such as China and India, which once again stood out with market appetite for oil products rising above the average of the previous five years.

On the supply side, fears that the growth in oil production in countries that are not members of OPEC (Organization of Petroleum Exporting Countries) could be significantly affected by the 2008 economic crisis did not materialize. Russia kept its production level at around 10 million bpd, while Brazil, Canada, and China had increases in 2010. As in 2009, OPEC produced more than the target of 24.8 million bpd set in December 2008.

On the international scene, there were no major events with significant impacts on the

market. The accident in the Gulf of Mexico, on the Deepwater Horizon platform, spurred a U.S. moratorium on well drilling, which lasted a few months but did not have a significant impact on the volume produced there in 2010. In the geopolitical environment, neither the sanctions on Iran nor the guerrilla movements in Nigeria markedly affected oil prices.

In this context, the Brent crude price fluctuated less than in 2009, setting a low of \$69.55 and a high of \$94.75. The annual average, meanwhile, was \$79.47, 29% above the previous year's.

## VALUE ADDED DISTRIBUTION

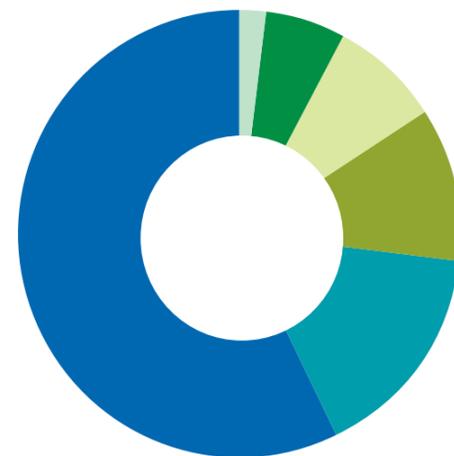
In 2010, Petrobras' distribution of value added topped out at R\$158.7 billion, a 14% increase over the previous year (R\$139.2 billion). Petrobras proposed a distribution of dividends and interest on equity capital amounting to R\$11.728 billion, of which R\$7.945 billion were anticipated in 2010. The following graphs show the segregation by segment:

VALUE ADDED DISTRIBUTED - 2010



Shareholders	7%
Third-parties	9%
Employees	12%
Amount retained	15%
Government	57%

VALUE ADDED DISTRIBUTED - 2009



Minority shareholders	2%
Shareholders	6%
Third-parties	8%
Employees	11%
Amount retained	16%
Government	57%

## STATEMENT OF VALUE ADDED - (THOUSAND REAIS)

	2010	2009	2008
<b>Revenues</b>	<b>340,198,426</b>	<b>291,424,513</b>	<b>315,933,330</b>
Goods, products and services sales	268,106,721	230,720,594	268,936,483
Other revenues	4,244,399	4,218,266	0
Construction of assets for use	68,073,327	56,555,744	47,163,873
Provisions /reversal for credits of doubtful liquidation	(226,021)	(70,091)	(167,026)
<b>Input purchased from third parties</b>	<b>(172,338,951)</b>	<b>(142,391,371)</b>	<b>(166,732,054)</b>
Cost of products, goods and services sold	(78,914,990)	(59,998,873)	(40,755,903)
Third-party materials, energy, services and others	(73,497,105)	(64,288,715)	(52,590,649)
Asset value loss/recovery	(690,087)	(1,144,312)	(2,658,224)
Others	(19,236,769)	(16,959,471)	(70,727,278)
<b>Gross value added</b>	<b>167,859,475</b>	<b>149,033,142</b>	<b>149,201,276</b>
<b>Deductions</b>	<b>(14,881,076)</b>	<b>(14,456,514)</b>	<b>(11,631,984)</b>
Depreciation, amortization, and depletion	(14,881,076)	(14,456,514)	(11,631,984)
<b>Net value added generated</b>	<b>152,978,399</b>	<b>134,576,628</b>	<b>137,569,292</b>
<b>Value added received in transfers</b>	<b>5,704,680</b>	<b>4,657,609</b>	<b>3,914,124</b>
Equity accounting results	208,386	(64,806)	(115,790)
Financial revenue	4,539,093	3,508,966	3,494,430
Others	957,201	1,213,449	535,484
<b>Total value added to distribute</b>	<b>158,683,079</b>	<b>139,234,237</b>	<b>141,483,416</b>
<b>Value added distribution</b>	<b>158,683,079</b>	<b>139,234,237</b>	<b>141,483,416</b>
<b>Employees</b>	<b>18,475,145</b>	<b>15,666,553</b>	<b>14,526,830</b>
Direct compensation	13,684,616	11,711,452	10,448,120
Benefits	4,043,233	3,282,161	3,478,036
Severance Fund (FGTS)	747,296	672,940	600,674
<b>Taxes, fees &amp; contributions</b>	<b>90,029,336</b>	<b>79,728,426</b>	<b>85,112,615</b>
Federal	61,265,764	54,355,598	62,625,920
State	28,581,502	25,216,933	22,338,990
Municipal	182,070	155,895	147,705
<b>Third party capital compensation</b>	<b>14,277,152</b>	<b>10,495,186</b>	<b>10,945,676</b>
Interest	6,611,973	4,481,464	1,891,069
Leases	7,665,179	6,013,722	9,054,607
<b>Equity capital compensation</b>	<b>35,901,446</b>	<b>33,344,072</b>	<b>30,898,295</b>
Interest on equity	10,162,324	7,194,743	7,019,261
Dividends	1,565,340	1,140,630	2,895,445
Retained profit/loss in the fiscal year	23,461,703	21,715,817	23,073,086
Non-controlling interest in retained earnings	712,079	3,292,882	(2,089,497)

# Focus on the surrounding communities



An ethical, transparent relationship with society is essential to our strategy of promoting development in regions where we operate. Before beginning an activity, we assess the possible operations impacts on the surrounding communities and create both mitigation and compensation actions for the negative impacts, as well as multiplication efforts for the positive ones to provide social, environmental, and economic benefits to these areas.

We seek to generate income and jobs for people living near our operations, and endeavor to strengthen relationships with local suppliers, promoting professional qualification initiatives and efforts to insert small and medium enterprises into the industry's production network.

Furthermore, we support programs and projects conceived to promote citizenship and foster the creation of Local Agenda 21s.

## LOCAL DEVELOPMENT

Reducing risks, avoiding negative environmental and social impacts, and generating positive results in the surrounding communities are goals of all of our initiatives. To reach such goals, we work on getting to know the reality that encompasses each operation, respecting human and cultural diversity and maintaining ongoing dialogue and a willingness to engage on local partnerships. Petrobras is committed to contribute to the development of the regions where it has operations, a goal that is even featured in its Code of Ethics.

## IMPACT ON LOCAL COMMUNITIES AND CONTRIBUTION LOCAL DEVELOPMENT

### PETROBRAS AGENDA 21 PROGRAM

Aware of the new set of challenges both the corporate world and society are up against, Petrobras works on combining the economic, social and environmental dimensions in alignment to the principles of the UN Global Compact.

In this context, the Petrobras Agenda 21 Program reflects the company's commitment to sustainable development, promoting and disseminating the principles of Agenda 21 actions in communities and municipalities located in the areas of influence of its operating units and subsidiaries in Brazil.

It will only be feasible to foster a culture of sustainability if all social players are aware of and committed to making qualitative changes in social and environmental, economic, and political issues that affect the communities and municipalities.

By encouraging systematic, ongoing dialogue among various sectors of society and, especially, by emphasizing consensus building and partnerships based on the current reality in order to attain the desired future, the Petrobras Agenda 21 Program helps promote citizenship and sustainability.

In 2010, the company supported the 14 municipalities located in the area of influence of Comperj by building Local Agenda 21s. The diagnostic procedures and the approaches used to prepare action plans carried out in previous years were compiled in the Local Plans for Sustainable Development publications and in the framework of the Local Agenda 21 Forums. Teresópolis was the first city to launch its Agenda 21. The others will be released in the first half of 2011.

### WHAT IS THE AGENDA 21

The development agenda for the 21st century was proposed during the United Nations Conference on Environment and Development (Rio 92), an event attended by leaders from 179 nations.

More than a document, Agenda 21 is a participatory action plan that presents the

situation of a country, state, municipality or region and guides the planning for its future based on sustainable development.

The Brazilian Agenda 21 was developed between 1996 and 2002 aiming to establish a sustainable development strategy for the country to be achieved through a process of cooperation and partnership between government and society. The Commission on Sustainable Development Policies and National Agenda 21 (CPDS) conducts and coordinates the drafting of the Brazilian Agenda 21.

The Petrobras Agenda 21 Program was created to promote sustainable development in the regions located in the areas that are influenced by its operating units and subsidiaries in Brazil. The process takes place through multi-sectoral dialogue that encourages consensus and partnership building and also strengthens citizenship.

## IMPACTS ASSESSMENT

Seeking to contribute to reduce social inequality, our investment projects are designed taking the involvement of all stakeholders into account. The planning, approval, and monitoring of these investments meet the guidelines set forth under the Corporate Investment Project Approach. The company also presents an economic feasibility analysis (EVTE) for these initiatives, which complies with the guidelines of the Business Analysis of Investment Projects Handbook and of the Business Analysis of Investment Projects Bulletin. This approach includes:

- creating mechanisms for stakeholders dialogue;
- generating new jobs using local labor;
- developing professional qualification programs;
- economic support;
- environmental protection and human rights (support for diversity and for the elimination of slave and child labor);
- eco-efficiency standards.

Before starting our activities in the communities - new projects, seismic surveys or drilling, installation and operation of oil facilities - we are submitted to a rigorous licensing process overseen by Brazilian government agencies. This procedure includes studying the possible environmental



## CONTRIBUTIONS TO SOCIETY AND INDIRECT IMPACTS

and socioeconomic impacts the action may have. The result of the analysis is presented to the communities in public hearings or informational technical meetings.

The environmental studies collect data through field interviews and meetings held with representatives of local government, community leaders and organizations representing fishermen communities, people involved in environmental education projects, and those that can be affected by the impacts of by oil and gas exploration and production activities. Bibliographic and documental reviews are also implemented.

Compensatory and mitigation actions may be determined by the environmental supervisory agencies as prerequisites for the permits that may be needed for any given activity, covering implementation, operation, and concession end.

Petrobras maps the stakeholders involved before it starts building an undertaking. With this information, it plans compensation activities for all stages - entry, execution, start, and start-up of the operation and the transfer of the asset to the Business Area. Annual evaluations are made to confirm compliance with these procedures.

EXAMPLES OF IMPACTS ASSESSMENT AND COMMUNITY DEMANDS	
PROCESS	DESCRIPTION
Environmental Assessment (EA)	Preliminary study designed to diagnose and assess the environmental and socioeconomic characteristics of the communities that surround future linear (pipelines) or specific (fixed facilities) developments to minimize any negative impact and address these interferences with the target population. In general, this study profiles the social organization of the communities and their dependency on natural resources, among other aspects, mainly based direct surveys (interviews and perception of the multidisciplinary technical team).
Relationship actions with the community	These actions include guided visits to units by stakeholders. The goal is to disseminate information about the operations and the Emergency Response Plans to the residents of areas of influence. The main focus is on coming into contact with the specific demands of the communities and showcasing the units' social responsibility actions. Relationship actions also include channels for information, complaints and grievances, such as toll-free telephone numbers (Transpetro and Comperj), the Petrobras Customer Service, and the Ombudsman Channel. <a href="#">Learn more about the actions on Petrobras' website.</a>
Social Communications and Regional Plans (SCRPP)	These plans aim to maintain a permanent communication channel with the communities living around maritime operations.
Pipeline Communication Plans (PCP)	The initiative aims to inform residents of communities neighboring the Operation Unit in Rio Grande do Norte (state of Ceará) about pipelines safety and emergency procedures. It has been conducted in 25 communities of the municipalities of Alto do Rodrigues, Assú, Carnaubais, Felipe Guerra, Governador Dix Sept Rosado, Mossoró, and Upanema.
Compensation Plan for the Fishing Activity (CPFA)	This plan is being implemented by the Campos Basin Operation Unit on account of the seismic activities.
Fish Landing Monitoring Plans (FLMPs)	These projects monitor the possible environmental and socioeconomic effects on fishing communities that surround our undertakings.
Participatory Action Program for Fisheries (PAPF)	Developed in the Santos Basin Operation Unit, the program addresses 22 communities living in the Northern coast of the state São Paulo and located in the area of influence of the Mexilhão Project.
Environmental Education Programs (EEP)	Built in partnership with IBAMA, these programs are developed in Petrobras' operations areas of influence. The initial project was created at the Campos Basin Operation Unit and involved participatory activities in communities of 14 municipalities.
Impacted Area Prevention Workshop	In Bahia, in October, engineers and environmental experts discussed degraded area prevention practices designed to avoid environmental damage in places where the company operates.
Workshops & lectures	Workshops and lectures are held on issues of communities interests, addressing mainly concepts regarding safety, environment, and health.

EXAMPLES OF CLAIMS RAISED BY THE COMMUNITIES	
CLAIMS RAISED BY THE COMMUNITY	ACTION IN RESPONSE
Socioeconomic development of the region	Support for the development of the supply chain, fostering new businesses initiatives and jobs and income creation. For more information, read page 60.
Infrastructure improvements (health facilities, schools, sanitation, etc.)	Addressing environmental licensing conditions involving improvements to infrastructure.
Job prospects	Investments in professional qualification for the oil and gas industry through training courses offered to the community. For more information, read page 61.
Road and sign maintenance	Outsourced companies are required to recondition the roads they use. From 2010, all of Petrobras' significant engineering contracts will include a contractual communications and social responsibility guideline that requires a Construction Work Communication and Signaling Plan.
Odor, noise	Technical visits to the site to assess the situation and propose solutions, which will be communicated to the interested parties. Complaints and manifestations are most often addressed during the Unit's management meetings.
Complaints about possible risks to people and facilities (fear of explosions, emergencies, etc.)	Meetings are held with the community to explain the nature of possible environmental impacts, the monitoring process (air and water quality, wastewater, etc.), and the mitigation measures taken. Regarding risks to people, emergency drills are carried out with the surrounding community.
Environmental impacts resulting from the deployment of new facilities and projects (fear of water pollution, wildlife being driven away, and vegetation removal)	Explanatory notices for the public selection process through printed and audiovisual materials, and special websites.
Transparency in the company's sponsorship procedures	Social, cultural, and environmental caravans to answer questions and provide guidance on how to prepare projects. <a href="#">Learn more about the caravans in the online version of the Report.</a>  Posting, on YouTube, of the "De Perto" (Closely) series. The first season addresses the company's cultural sponsorship with several interviews with people from the cultural industry.

Our dialogue with the residents of the communities living near our operations directs action and projects to mitigate possible negative effects our operations may have. The creation of the "Direção Legal" (Nice Directions) Project, for example, was a response to complaints related to changes in traffic in the regions surrounding the construction works, to the behavior of drivers working for Petrobras, and to the risk of accidents. The project, conceived to create a culture of education for traffic, has existed since 2004 and was systematized in 2007, allowing it to be applied in all Petrobras Project Implementation Units. In 2010, it was implemented in 19 municipalities in seven states, reaching an audience of 2,334 drivers.

In the event of finishing operations, Petrobras foresees holding public hearings with the communities - in compliance with an instruction issued by IBAMA. The existing concessions in the production area have terms of about 20 years. The company has not adopted the procedure yet because no operating unit has ended its activities. In the seismic exploration surveys, which are transient (held for periods ranging from 28 days to six months), the impacts on communities are mitigated through compensatory activities determined by the environmental inspection agencies.

The impact assessment and management practices are applied in all exploration, production and downstream activities, varying according to the environmental legislation applicable to the size of the projects. [Learn more about the relationships with the communities in the online version of the Report](#)

## CONTRIBUTIONS TO SOCIETY AND INDIRECT IMPACTS



### GENERATION OF INCOME AND JOB OPPORTUNITIES

We seek to act as a promoter of economic development through our projects. The actions designed to stimulate our supply chain contribute to foster new businesses initiatives and to increase jobs creation (see more information in Supplier Management).

#### ● CONTRIBUTION TO LOCAL DEVELOPMENT

The 2010-2014 Business Plan Investments will play an important role in generating employment and income. By requiring minimum

domestic content of 67%, orders worth \$28.4 billion are expected to be placed per year, on average, to local suppliers. The investment program will support approximately 1.456 million direct and indirect jobs in Brazil.

To make the agreed projects feasible by 2014, 212,638 people will be trained to work in the oil and gas supply chain in 185 professional categories, in 13 Brazilian states. This will be done through the National Professional Qualification Plan (NPQP). Additional resources in the order of R\$550 million are estimated.

### MACROECONOMIC EFFECT

Investments in Brazil (\$ billion)

BUSINESS AREA	DOMESTIC INVESTMENT 2010-2014	PLACEMENT ON THE DOMESTIC MARKET 2010-2014	DOMESTIC CONTENT (%)
E&P	108.2	57.8	53
Downstream	78.6	62.8	80
Gas & Power	17.6	14.4	82
Distribution	2.3	2.3	100
Biofuels	2.3	2.3	100
Corporate Areas	3.3	2.6	80
<b>TOTAL</b>	<b>212.3</b>	<b>142.2</b>	<b>67</b>

JOB IN BRAZIL (THOUSAND)	ANNUAL AVERAGE 2010-2014
Direct jobs	380
Indirect jobs (supply chain)	542
Indirect jobs (income effect)	534
<b>TOTAL</b>	<b>1,456</b>

Source: Strategic Planning and the 2010-2014 Business Plan.

**Indirect jobs (productive chain):** labor demanded by sectors supplying inputs of the sector the investment was allocated to.  
**Indirect jobs (income effect):** labor demanded by the income turned into consumption or directed and indirect benefited employees.

The Brazilian Shipping Companies Program alone, which foresees the construction of vessels in Brazilian shipyards and their subsequent chartering by Petrobras, will account not only for the creation of approximately 30,000 direct and indirect jobs during construction, but also for more than 2,000 permanent jobs throughout the life of the vessels, which are

slated to be operational by 2014.

The Brazilian naval industry figures prove the positive effect Petrobras has had in raising the industry's level of employment. In 2000, there were about 2,000 workers in the country's shipyards. In 2006, there were already more than 20,000 employees, and in 2009 this figure had reached 46,500 workers.

### INVESTMENTS IN TRAINING

The National Oil and Natural Gas Industry Mobilization Program (Prominp), has trained 78,000 people by the end of 2010. A survey carried out by the Ministry of Labor shows that 81% of the professionals trained under the Prominp are employed in the formal labor market. The company is the main funder of Prominp's National Professional Qualification Plan (NPQP). This investment is determined under the concession contracts issued by the National Petroleum Agency (ANP), and total disbursements have already reached R\$220 million. Created in 2006, the plan trains professionals in the Brazilian states for which oil and gas projects have been planned by offering free elementary, high school, technical, and college courses. The initiative has already involved about 80 schools in 17 states, and in addition to the training programmes, it provides scholarship to unemployed students. [a](#)

#### A FEW RESULTS ACHIEVED BY PROMINP

- Investment of R\$50 million made by Petrobras and domestic manufacturers to develop products not made in Brazil.
- In partnership with the Ministry of Social Development and Fight against Hunger (MDS) and state and local governments of some Brazilian states, Prominp provides academic support to beneficiaries of the "Bolsa Família" (Family Grant) Program. The goal is to enable them to take part in the selective processes for Prominp's professional training courses. About 30,000 people have participated in eight states.
- Eighty-one per cent of Prominp course graduates are now employed at formal labor market.
- Inclusion of more than 3,000 micro and small enterprises in the oil and gas chain through the agreement between Petrobras and Sebrae.

[a](#) Learn more about these programs in the online version of the Report

### SUPPLIER MANAGEMENT

Petrobras fosters the domestic industry development by requiring minimum local content in its projects. The company considers local suppliers the ones located at the same countries where it has activities. The data of this report refer only to Brazil, which concentrates the most important operations of Petrobras.

In 2010, the percentage of Brazilian companies hired to work in the company's oil and gas projects was 77.34%, a 400% increase compared to 2003 (57%). Since 2004, the result surpassed the target set for the year.

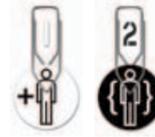
#### PARTNERSHIPS

Petrobras promotes actions designed to strengthen its supply chain. The initiatives include professional training, structured funding mechanisms and encouragement for partnerships between domestic and foreign companies, and the integration of small and medium enterprises to the industry's production network.

Among the actions intended to strengthen our local suppliers, the limelight is on the "Progredir" (Progress) Program, the "Participação" (Participation) Program, and the "Recebíveis" (Receivables) Program - all conceived to facilitate access to credit and improve financing conditions -, on driving the development of new products and services, and on the agreement with Sebrae to provide training to micro and small enterprises. [a](#)

#### DIALOGUE WITH SUPPLIERS

Petrobras maintains constant dialogue with its suppliers. Periodic meetings are held with consortia, outsourced companies and representatives of industry associations. On its website, the company provides the Supplier Channel with information on registration, requirements, handbooks, and about bidding procedures in progress. [a](#)



**IN 2010, THE COMPANY HAS ACHIEVED A 400% GROWTH IN HIRING LOCAL SUPPLIERS FOR OIL AND GAS PROJECTS AS COMPARED TO 2003**

## CONTRIBUTIONS TO SOCIETY AND INDIRECT IMPACTS

**IN 2010,  
PETROBRAS  
INVESTED  
R\$707.9 MILLION  
IN MORE THAN  
1,770 SOCIAL,  
ENVIRONMENTAL,  
SPORTS, AND  
CULTURAL  
PROJECTS**

**SOCIAL INVESTMENTS**

We endeavor for our social, environmental, sporting, and cultural support programs to make an effective contribution to sustainable development.

We hold public selections to make sure that there is equal access to and broader coverage of selected projects. Petrobras encourages the sponsoring projects to set goals to become economically and organizationally self-sustainable in order to ensure the continuity of the benefits they generate after the sponsorship contract expires.

All social investments and sponsorship projects or environmental agreements that Petrobras' organizational units sign on in


**INVESTMENTS IN SOCIAL, CULTURAL, ENVIRONMENTAL  
AND SPORTS PROJECTS** R\$ million

2006	591
2007	585.8
2008	554.5
2009	464.5
2010	707.9

Brazil are aligned to the guidelines and procedures set forth under the Petrobras Development and Citizenship Program and the Petrobras Environmental Program. The procedures required for the analysis, selection, approval, monitoring, and evaluation of these projects are described in specific mechanisms for social investments and environmental sponsorships and agreements.

In 2010, we invested R\$707.9 million in more than 1,770 social, environmental, sports, and cultural projects.

**CONTRIBUTION TO  
LOCAL DEVELOPMENT**
**SOCIAL SPONSORSHIPS**

We believe social investments have positive impacts on our business, enabling permanent, qualified, and dynamic interactions between the company and society capable of creating links that produce long-term shared value.

Our work in the social area consolidates a proposal that, in addition to transferring financial resources, also drives and strengthens the social leadership role of the communities involved. We offer our employees and

the social institutions we support training on best practices for project management. In 2010, 318 social institutions and 221 company employees attended those trainings at Petrobras University.

The Petrobras Development & Citizenship Program proposes a set of performance

indicators and targets that allow for the integrated, nationwide monitoring of the results obtained by the projects we invest in.

Over the year, Petrobras supported 788 initiatives in all Brazilian states through the program, with total investments of R\$194.5 million. [a](#)

INVESTMENTS IN SOCIAL PROJECTS*	
LINE OF ACTION	R\$ THOUSANDS
Generation of income and employment opportunities	43,905.1
Education for professional qualification	56,049.4
Guaranteeing of the rights of children and adolescents	79,413.1
Strengthening of social networks and organizations	8,160.1
Dissemination of information for citizenship	11,308.3
Others	439.3
<b>TOTAL</b>	<b>199,275.3</b>

\*Refers to the Petrobras System.

**ENVIRONMENTAL PROJECTS**

INVESTMENTS IN ENVIRONMENTAL PROJECTS*	
LINE OF ACTION	R\$ THOUSANDS
Management of surface and underground water bodies	20,486.7
Recovery or conservation of coastal, marine and freshwater species and environments	202,340.1
Carbon fixation and avoided emissions	13,158.7
Strengthening of environmental organizations and their networks	3,563.4
Dissemination of information for sustainable development:	9,610.9
Others	8,586.0
<b>TOTAL</b>	<b>257,745.7</b>

\*Refers to the Petrobras System.

The Petrobras Environmental Program invests in projects aimed at the conservation and preservation of environmental resources and at the consolidation of social and environmental awareness. The program's themes for the 2008-2012 period are "Water" and "Climate."

During the Public Selection held in 2010, 44 projects were selected in Brazil and will receive funds adding up to R\$78 million. To be approved, projects must meet evaluation criteria such as alignment to the program guidelines; transformation potential and

pioneering spirit; cooperation among agencies through networks; ability to mobilize the community, and social and environmental impact. All initiatives must foster environmental education actions, addressing issues such as conscientious consumption, energy efficiency, and natural resource conservation.

Since its creation, in 2003, the Petrobras Environmental Program has sponsored hundreds of projects and reached dozens of basins and ecosystems in six different Brazilian biomes: The Amazon, Atlantic Forest, Caatinga, the Cerrado, Pampa and the Pantanal.



**The company also has the Petrobras Volunteer Program. Learn more about this in the online version of the Report**

## CONTRIBUTIONS TO SOCIETY AND INDIRECT IMPACTS

Its actions have already involved 4 million people directly, and it has more than 820 established partnerships, 4,300 courses, and studied more than 5,000 native species.

From 2008 to 2012, R\$500 million will be

earmarked to be invested in the program's strategic actions, which include sponsorships, reinforcing environmental organizations and their networks, and disseminating information on sustainable development. [a](#)



## SPORTS PROJECTS

INVESTMENTS IN SPORTS PROJECTS*	
PERFORMANCE LINE	R\$ THOUSANDS
High-performance sports	36,689.6
Motor sports	17,520.9
Petrobras Sports & Citizenship Program	21,870.2
Others	4,465.8
<b>TOTAL</b>	<b>80,546.5</b>

\*Refers to the Petrobras System.

In 2010, the company rolled-out the most comprehensive initiative to support sports in Brazil: Petrobras Sports & Citizenship Program Through 2014, the program will allocate about R\$265 million

through direct investments and the Federal Law for the Encouragement of Sports to four different segments: High-Performance Sports, Sports Education, Participation Sports, and Sports Memory. [a](#)



## SUPPORT FOR CULTURE

CULTURAL PROJECTS*	
PERFORMANCE LINE	R\$ THOUSANDS
Music	39,285.7
Cinema	40,290.8
Performing arts	34,397.1
Visual arts	3,937.1
Immaterial heritage	1,744.2
Architecture and urbanism	374.0
Literary production	1,665.5
Literary events	2,154.2
Historic Monuments	23,526.9
Support for museums (collections)	985.9
Culture and society	20,724.6
Cultural venues	40.0
Archeology	1,181.7
<b>TOTAL</b>	<b>170,307.7</b>

\*Refers to the Petrobras System.

Petrobras manages the largest Brazilian cultural sponsorship program: the Petrobras Cultural Program. Our responsibility is to make sure this Program will be an instrument that will add value to the cultural identity and diversity of Brazil.

In February 2010, the Program announced the result of the 2008/2009 edition of its public selections, which involved total investments of R\$42 million. Among 2,712 projects submitted nationwide, 131 projects from 20 states were awarded in the music,



audiovisual, performing arts, literature, and digital culture areas.

Sponsorship intended to maintain cultural groups, circus companies and circus troops; to support the maintenance of cultural websites; to promote concerts tours; and to record and circulate music, including making it available on the Internet, stand out.

In total, 3,715 projects were submitted to the Cultural Program. They competed for a total budget of R\$61.9 million, distributed through a public selection to the 19 cultural areas in the program's three lines of performance: Education, Preservation and Memory, and Production and Dissemination. The results of the public selections held for three areas (music festivals, film festivals, and the distribution of feature films in theaters) were publicly announced

in March, and 52 projects were approved. The results of the second phase of the 2010 edition were announced in December, and included 149 projects selected from 18 states. The first phase got R\$9 million in total resources, while the second one R\$52.9 million.

We have already earmarked R\$311 million for the Cultural Program public selections since its first edition, in 2003. During this period, the project sponsored about 1,300 projects.

Another highlight is the Petrobras Distribuidora Culture Program, which, in 2010, rolled-out the largest public selection specific for the circulation of theater plays in Brazil. Focusing on the circulation of performances in different Brazilian cities, the subsidiary allocated a total of R\$12 million in funds for the 2011-2012 biennium.

Learn more about environmental projects sponsored by Petrobras in the online version of the Report [a](#)

Get to know the segments of the program and other sports support initiatives in the online version of the Report [a](#)



EMPLOYMENT  
PRACTICES AND  
HUMAN RIGHTS

# Our talents



MORE THAN 11,300 BRAZILIAN UNIVERSITY students heard in 2010 by international think tank Universum Global, the organizer of the Top 100 Ideal Employers survey, rated Petrobras as an “ideal employer”. Since 2005, the company has been part of the “Company of the dreams of young people” ranking, prepared by Brazilian consulting firm Cia. de Talentos.

Results of surveys such as those carried out by Universum Global and Cia. de Talentos show Petrobras is a benchmark for young people, who see the company as a model employer. This recognition is the outcome of the company’s policy designed to value its workforce. We believe that our employees’ dedication and commitment are essential for the results we have achieved.

That is why we make ongoing investments in personal and professional development, encourage continuous improvement through Petrobras University, and always seek to give our workforce the autonomy it needs to do its work with quality and safety.

In our relationships with employees, we comply with the Brazilian legislation and the conventions established by the International Labor Organization (ILO). We have a structured Corporate Human Resources Policy, and our Social Responsibility Policy includes the “Labor Principles” (drafted to support the eradication of child, slave and degrading labor in Petrobras’ supply chain) and the “Workforce Commitment” (commit

the workforce with Petrobras System’s Social Responsibility Policy) in its guidelines. [a](#)

The Human Resources Corporate Area, which is linked to the CEO’s Office of the President, is the executive management responsible for guiding and evaluating the company’s HR management at the strategic level. It is based on nine managements, the Petrobras University being a general management.

## PROUD TO BE PETROBRAS

Due to the expansion of its business, Petrobras increased its staff by 4.65% in 2010, ending the year with 80,492 employees. There were 4,353 admissions made via selection processes in Brazil, including the first held by Petrobras Biocombustível, and two public selections for Petrobras Holding, with the hiring of 2,687 employees during the year. In 2010, 1,402 interns worked for the company in Brazil and abroad.

Our ethical commitment with the employees begins upon admission. At the Petrobras System, hiring takes place by means of a public selection process, free of any type of discrimination in terms of origin, race, gender, color, age or of any other nature, in compliance with the Brazilian Federal Constitution. At the International Operating Units, meanwhile, se-

lection takes place through interviews and résumé analyses, pursuant to the current laws of each country. Our practice is to encourage the hiring of local workforce, including for management positions. However, we do not have a specific policy to hire professionals for management levels on a regional basis.

Petrobras’ Career Plan covers 56 middle- and upper-level professions. In Brazil, the working relationships with nearly 100% of the employees are governed by open-ended contracts, again in line with the Brazilian legislation and with ILO conventions ratified by Brazil. All Brazilian unit employees are covered by collective bargaining agreements. [a](#)

[a](#) Learn more about these policies in the online version of the Report

[a](#) Get to know more details on the distribution of Petrobras’ employees by type of contract and the evolution of the company’s staff in the online version of the Report

## NUMBER OF EMPLOYEES

2009	76,919
2010	80,492

## NUMBER EMPLOYEES OF SERVICE PROVIDERS

2009	295,260
2010	291,606

## NUMBER OF PETROBRAS SYSTEM EMPLOYEES

12/31/2010

COMPANY	TOTAL STAFF
Petrobras Holding	57,498
Petrobras Distribuidora	4,411
Liquigás	3,204
Transpetro	5,203
Refap	909
Petroquisa	99
Petrobras Biocombustível	50
International Area	7,893
TBG*	282
Thermoelectric Plants**	318
Other companies***	625
<b>TOTAL PETROBRAS SYSTEM</b>	<b>80,492</b>
<b>TOTAL STAFF IN BRAZIL</b>	<b>72,599</b>

\*TBG (Transportadora Brasileira Gasoduto Bolívia-Brasil S.A.).

\*\*Refers to: Termoçu S.A., Sociedade Fluminense de Energia Ltda, Termomacaé Ltda, Termorio S.A., Termoeará Ltda, Usina Termelétrica de Juiz de Fora S.A., Fafen Energia S.A., and UTE Bahia I – Camaçari Ltda.

\*\*\*Refers to: Companhia Petroquímica de Pernambuco, Companhia Integrada Têxtil de Pernambuco (Citepel), Ipiranga Asfaltos S.A., and Innova.

## PEOPLE MANAGEMENT

EMPLOYEES DISTRIBUTION PER BRAZILIAN REGION						
PETROBRAS SYSTEM	SOUTHEAST	SOUTH	NORTH	MIDWEST	NORTHEAST	TOTAL
Petrobras Holding	39,783	2,041	1,351	171	14,152	57,498
Petrobras Distribuidora	2,832	332	215	379	653	4,411
Liquigás	1,690	783	102	171	458	3,204
Transpetro	4,151	268	170	54	560	5,203
Refap	-	909	-	-	-	909
Petroquisa	94	-	-	2	3	99
Petrobras Biocombustível	19	-	-	-	31	50
TBG*	186	49	-	47	-	282
Thermoelectric Plants**	194	-	-	-	124	318
Other companies***	62	214	4	-	345	625
<b>TOTAL</b>	<b>49,011</b>	<b>4,596</b>	<b>1,842</b>	<b>824</b>	<b>16,326</b>	<b>72,599</b>

\* TBG (Transportadora Brasileira Gasoduto Bolívia-Brasil S.A.).

\*\*Refers to: Termoçu S.A., Sociedade Fluminense de Energia Ltda, Termomacacé Ltda, Termorio S.A., Termoceará Ltda, Usina Termelétrica de Juiz de Fora S.A., Fafen Energia S.A., and UTE Bahia I - Camaçari Ltda.

\*\*\*Refers to: Companhia Petroquímica de Pernambuco, Companhia Integrada Têxtil de Pernambuco (Citepe), Ipiranga Asfaltos S.A., and Innova.

EMPLOYEES DISTRIBUTION IN THE INTERNATIONAL AREA	
COUNTRY	TOTAL STAFF
Angola	65
Argentina	3,305
Bolivia	561
Chile	1,560
Colombia	331
Ecuador	188
USA	617
Japan	247
Libya	17
Mexico	37
Nigeria	33
Paraguay	233
Peru	263
Turkey	14
Uruguay	321
Venezuela	101
<b>TOTAL</b>	<b>7,893</b>



## PROFESSIONAL DEVELOPMENT

Developing new skills and providing refresher courses to the workforce is vital in order for Petrobras to be able to carry its 2010-2014 Business Plan through successfully. Therefore, we encourage ongoing learning opportunities for all System employees. For example, Petrobras University offers both on-site and distance classes under the Campus Virtual program, which is broadcast over the Digital TV and the University TV Channel. At Petrobras Holding, one of the nine individual corporate skills is precisely Lifelong Learning and Sharing of Knowledge, i.e., the ability to search, seize,

apply and disseminate knowledge for personal and organizational growth.

In 2010, Petrobras Holding invested R\$161.3 million - R\$142.3 million in Brazil alone - in the development of its professionals. This translated into an average of 86 hours of training per employee and in more than 218,000 participations in continuing education courses in Brazil and abroad, for a total of 3.2 million hours of training. Training courses targeted to newly hired employees reached the milestone of 1.8 million hours of training. [@](#)



[@](#) Learn more about labor practices training, about the Program of Preparation for Retirement, about the Organizational Environment Survey, and about the turnover rate in the online version of the Report

HOURS OF TRAINING	
	AVERAGE TMH*
<b>TOTAL**</b>	<b>72.63</b>
<b>Bonus function***</b>	
Employees with no bonus function	83.01
Employees with bonus function	45.67
<b>Level of schooling***</b>	
High School Graduates	50.99
College Graduates	128.14

\*TMH - Training Man Hour

\*\*Petrobras Holding; Petrobras Distribuidora; Petrobras Biocombustível; Liquigás; Transpetro; Refap; Petroquisa; Units abroad).

\*\*\*Petrobras Holding; Petrobras Distribuidora; Petrobras Biocombustível; Liquigás; Transpetro; Refap; Petroquisa.

## PEOPLE MANAGEMENT

## HEALTH AND SAFETY AT WORK

Petrobras' corporate values include respect for life in all forms, expressions, and situations and the pursuit of excellence in HSE issues. We pursue to incorporate these values in all of our activities through corporate policies and a comprehensive set of guidelines, standards, programs, and initiatives.

The potential impacts our activities have are evaluated and monitored aiming to minimize risks for the workforce, the surrounding communities, consumers, and for the society in general.

To build our professionals' capacity and commitment on topics related to health and safety, we offer courses covering these issues to all employees at Petrobras University. We also hold regular activities, such as Internal Accident Prevention Weeks (Sipats), emergency drills (local, regional or national), and campaigns designed to address not only corporate dates - such as the World Health Day -, but also periods such as Carnival, months that concentrate vacations, and long holidays.

To promote people's overall health, we also have specific programs that encourage healthier lifestyles and support the fight against smoking, alcohol abuse, and the misuse of alcohol and other drugs. The results attained by these initiatives are monitored through specific indicators, such as the employees' Coronary Risk indicator and the Physically Active Employees indicator. 

Petrobras is a world benchmark in maritime exploration. It fully complies with the decisions established by the agencies that control its platforms, and always applies the best international health, safety, and environment practices in its activities. All labor accidents must be reported, including to the trade union, investigated and treated so they do not recur. In addition, there is guidance in the sense that if someone perceives a risk

in his or her activity, this professional should stop it immediately and inform the fact to the person in charge of the unit. 

## CHALLENGES

Despite all of our preventive care initiatives, in 2010 we had ten fatalities in our workforce, three of which were employees and seven were outsourced. Of these ten professionals, five worked in construction and assembly activities, four were victims of accidents related to production processes, and one was the victim of a traffic accident.

The number of cases caused by accidents in the construction and assembly area can be attributed to the growing number of projects under implementation. An indicator of this growth is the increased participation of the workforce engaged in construction and assembly activities in Petrobras' total man-hours, which rose from 28% in 2008 to 39% in 2009 and 2010.

The Lost Time Injury Frequency Rate (LTIFR) was 0.52 in the year, 4% above the Maximum Admissible Limit (MAL) of 0.50 set for 2010. The 2010-2014 Business Plan foresees a MAL of 0.48 for 2014. One of the factors that influenced this performance was the growth in the shipbuilding activity, which had a high rate of accidents at the shipyards. In 2010, Petrobras implemented several actions to reverse this trend. These include the preparation of an action plan designed to improve the management system, audits, and even the restructuring of the professional staff at one of the yards.

The Occupational Disease Incidence Rate for 2010, meanwhile, was 0.36 per thousand employees, only considering Petrobras Holding employees. This corresponds to 20 new cases of occupational diseases in the period.

 Learn more about the health and safety policies and actions in the online version of the Report

 Get to know, in the online version of the Report, the measures taken to minimize the risk of specific illnesses

## FATAL ACCIDENT RATE

## NUMBER OF FATALITIES (EMPLOYEES + OUTSOURCED) BY 100 MILLION WORKING HOURS

2006	1.60
2007	2.42
2008	2.40
2009	0.81
2010	1.08
Average 2009 OGP*	2.80

\*OGP - International Association of Oil & Gas Producers.

## NUMBER OF FATALITIES

	OUTSOURCED	EMPLOYEES	TOTAL
2006	8	1	9
2007	15	1	16
2008	14	4	18
2009	6	1	7
2010	7	3	10

As of 2007, the indicator went on to include traffic accident fatalities in the distribution area.

## LOST TIME INJURY FREQUENCY RATE (LTIFR)

## NUMBER OF VICTIMS OF ACCIDENTS (EMPLOYEES + OUTSOURCED) BY 1 MILLION HOURS WORKED

2006	0.77
2007	0.76
2008	0.59
2009	0.48
2010	0.52
MAL* 2014	0.48
Average 2009 OGP**	0.45

\*MAL - Maximum Admissible Limit.

\*\*OGP - International Association of Oil & Gas Producers.

## PERCENTAGE OF LOST TIME

## ABSENTEEISM DUE TO ILLNESS OR ACCIDENT\*

2006	2.06
2007	2.19
2008	2.31
2009	2.36
2010	2.38
MAL**	2.41

\*Percentage relation between the number of working hours lost due to illness or accidents and the total hours of work planned for the period.

\*\*MAL - Maximum Admissible Limit.

## OCCUPATIONAL DISEASE INCIDENCE RATE\*

2009	0.18	10 cases
2010	0.36	20 cases

\*Rate per thousand employees. Only includes Petrobras Holding.

PEOPLE MANAGEMENT



**GENDER DIVERSITY AND EQUALITY**

Petrobras System policies, practices, and procedures offer equal employment opportunities to all of its employees. In 2010, Petrobras Distribuidora and Transpetro conducted censuses among their employees to get to

know details about staff diversity in each subsidiary. At Petrobras Holding, part of the 2008 census data has already been systematized, allowing each employee to self-report their race/color when filling their data.

**RACIAL DIVERSITY**

RACE/COLOR	NUMBER OF EMPLOYEES		
	HOLDING	DISTRIBUIDORA	TRANSPETRO
White	25,824	3,120	3,172
Pardos (brown)*	10,959	958	1,601
Black	2,340	227	362
Yellow (Asian)*	642	54	38
Indigenous	229	9	3
Not Informed	17,504	43	27
<b>TOTAL</b>	<b>57,498</b>	<b>4,411</b>	<b>5,203</b>

The information above was self-declared by each employee.  
 \*Based on the Brazilian Institute of Geography and Statistics (IBGE) classification of Brazilian population based on skin color or race.

Petrobras Holding's buildings in Rio de Janeiro hold the "Certificado de Acessibilidade Nota 10" ("Top Accessibility Certificate") granted by the Rio de Janeiro House of Representatives (Alerj). Facility adjustments, carried out under the Accessibility for All Project, involve making structural changes and recruiting receptionists trained in the sign language. Since 1985, Petrobras offers specialized

assistance for children of employees, retirees and disabled people through the Special Assistance Program (SAP), which in 2010 celebrated its 25th anniversary.

Petrobras Holding, Petrobras Distribuidora, and Transpetro are part of the Pro-Gender Equality Program, of the Presidency of the Republic's Special Secretariat for Women's Policies.

Get to know, in the online version of the Report, the distribution per gender of the members of the Board of Directors and of the Audit Committee

TOTAL NUMBER OF EMPLOYEES BY GENDER			
PETROBRAS SYSTEM			
	MALE	FEMALE	TOTAL
	67,084 (83.34%)	13,408 (16.66%)	80,492

DISTRIBUTION OF EMPLOYEES BY AGE			
Aged up to 30 years		16,783	20.85%
31 to 50		43,495	54.04%
Aged more than 51 years		20,214	25.11%
<b>TOTAL PETROBRAS SYSTEM</b>		<b>80,492</b>	<b>100%</b>

RATIO OF BASIC SALARY OR COMPENSATION AMONG MEN AND WOMEN BY EMPLOYEE CATEGORY		
FUNCTIONAL CATEGORY (TYPE OF EMPLOYEE)	HIGH SCHOOL GRADUATES RATIO	COLLEGE GRADUATES RATIO
Employees with no bonus function	1.01	0.92
Employees with bonus function	0.76	0.92
<b>OVERALL TOTAL</b>	<b>0.86</b>	<b>0.92</b>

\*Fixed and minimum amount paid to the employee for performing his or her tasks, not including any additional pay.

HUMAN RIGHTS

**Promoting citizenship**



DEFENDING HUMAN RIGHTS, BOTH INTERNALLY and externally, is part of Petrobras' corporate strategy and is one of the pillars of the company's performance. It is also expressed at the Corporate Social Responsibility Policy, in the Human Resources Policy, and in the Code of Ethics. Operational responsibility concerning human rights permeates all executive managements, especially the Social Responsibility, Human Resources, and Health, Safety, Environment, and Energy Efficiency ones.

Pacts and initiatives we have adhered to demonstrate of our commitment to uphold human rights and encourage reflection on the theme, both within Brazil and abroad. Petrobras has been a signatory of the UN Global Compact since 2003, and, since 2006, a member of the Brazilian government's Pro-Gender Equality Program. In 2010, we endorsed the Women's Empowerment Principles, sponsored by the UN Development Fund for Women and by the Global Compact, and the Declaration of Corporate Commitment to Confront Sexual Violence against Children and Adolescents, an initiative of the Presidency of the Republic's Secretariat for Human Rights, in partnership with FIRJAN (Federation of Industries of Rio de Janeiro) and the Brazilian Business Council for Sustainable Development (CEBDS). We are also signatories of the National Pact for the Eradication of Slave Labor in Brazil.

All of our significant contracts in terms of investment size or strategic importance include human rights clauses.

We also make sure our suppliers respect these rights. There is a standard that requires and ensures that the contracts include the Term of Commitment to Social Responsibility exhibit, which contains human rights clauses. These rules are featured, for example, in all nine main investment agreements signed in 2010 for the refining developments, which are worth about R\$2.7 billion. The refining contracts also count on the Engineering Supplier

Management Program (Progefe) to monitor five key criteria: Technical, Economic, Legal, Management, and HSE. The results provide information about the suppliers and assist in the selection process for bids.

In 2010, a Contractual Guideline for Communications and Social Responsibility was approved and must be complied with by the companies contracted to carry out construction works for Petrobras. The Guideline requires, for example, holding events for the workforce with a focus on citizenship and human rights. Fifty-seven agreements that follow this standard have already been signed.

Petrobras' service contracts also include clauses covering aspects of human rights and health, such as health, environment, safety, and social responsibility. Some organizational units undertake additional initiatives. For instance, the Bahia Operational Unit, the Presidente Bernardes Refinery-Cubatão (RBPC), and the Paulina Refinery (Replan), have their ombudsmen available to out-sourced employees in order to receive complaints, criticisms, and suggestions.

**SOCIAL ACTION ON THE ROADS**

Petrobras and Petrobras Distribuidora sponsor the biggest itinerant social action performed on Brazilian roads: the Caravana Siga Bem, which seeks to educate truck drivers on highway safety issues, on child prostitution eradication, environment protection, and domestic violence prevention. Since its inception, the Caravan has covered more than 120,000 kilometers, visited approximately 200 municipalities, and counted on the participation of about 1.2 million professional drivers in 457 events held over 828 days on the road. The fifth edition was rolled-out in 2010, covering the period of October 2010 to March 2011.

The action unfolds in the "Siga Bem Mulher", which instructs women about their rights, lists specialized public services to assist

Learn more about this issue in the online version of the Report

**PETROBRAS' COMMITMENT TO HUMAN RIGHTS IS EXPRESSED IN ITS CODE OF ETHICS AND IN ITS SOCIAL RESPONSIBILITY POLICY**

## HUMAN RIGHTS

women victims of violence and the “Dial 180” hotline for denunciations; and the “Siga Bem Criança”, which focuses on combating sexual exploitation of children and adolescents by divulging the “Dial 100” hotline for complaints.

On Brazilian roads, there are currently 1,820 points vulnerable to sexual exploitation of children and adolescents, according to a survey conducted by the Federal Highway

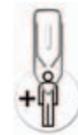
Police, with support from Childhood Brasil, of the Special Secretariat for Human Rights and the International Labor Organization (ILO). The exploitation points are often connected with the movement of truck drivers, some of whom act as facilitators or clients of the sexual exploitation of children and adolescents, drug trafficking, and adult prostitution.

#### MAXIMUM CAPACITY PROGRAM

In 2010, the Maximum Capacity Program, which trains professionals from Petrobras Distribuidora service stations, was enhanced to include specific issues related to combat violence against women. Pump attendants, store promoters and attendants working at Petrobras stations nationwide started to learn how to deal with issues related to gender equality, childhood and adolescence rights, and how to support social responsibility initiatives at local communities of their working surrounding areas.

Eight adapted buses - known as Mobile Training Units (MTUs) - increased the area covered by the program, serving municipalities in the countryside of Brazil. When the vehicles are not in use for training, they serve as stations to help women victims of violence.

For 2011, the MTU fleet is expected to be expanded from eight to 17 buses and to include specific issues related to racial equality. With the enhancement, 50,000 professionals should be trained at 3,000 service stations operating in 924 municipalities.



#### TRAINING

Issues related to human rights are transversally addressed in courses focused on company employees offered by Petrobras University. In 2010, at Petrobras Holding, these aspects were addressed in Social Responsibility courses, which had a total attendance of 2,709 participants and added up to 18,390 training man hours (TMHs). The Diversity and Inclusion of African Descents course, meanwhile, had 22 participants and totaled 176 TMHs.



#### RESPECT FOR FREEDOM OF ASSOCIATION

The employees' right to join trade unions is

guaranteed by Brazilian law. Petrobras respects this right, and has it included in its Code of Ethics. Employees can freely participate in the meetings, and the company does not interfere with union actions. The union that represents the employees has its participation in the CIPA and in the QHSE committee ensured. Furthermore, it is free to communicate with employees.

In addition, Petrobras has a policy of continuous negotiation with the unions, mainly reflected in the work done by the Negotiation Commissions established in the collective bargaining agreement. Such commissions address the various issues that permeate the company.

#### FIGHTING AGAINST DEGRADING WORK

Petrobras supports the eradication of all forms of child, forced, and slave labor from its operations and supply chain. The company complies with the legal requirements relating to working practices in all countries where it has operations and requires suppliers and outsourced companies to comply with contract clauses providing for human rights and the prohibition of degrading treatment. As signatory of the National Pact for the Eradication of Slave Labor in Brazil, the company does not purchase products from companies that have been fined for using slave labor.

In addition to repudiating the use of child labor by means of specific measures adopted in the goods and services procurement procedures, it supports organizations such as National, State, and Municipal Councils for the Rights of Children and Adolescents, to which it makes donations through the Fund for Childhood and Adolescents (FIA). It also sponsors non-government organization projects through the Petrobras Development and Citizenship Program.

There is no risk of child labor on Petrobras' operations. During 2010, activities with significant risk of forced or compulsory labor were also not identified at company headquarters or organizational units.

We also contribute to increase schooling levels of outsourced employees through the Access Project, designed for workers who have not completed elementary school or high school. In 2010, 22 people attended the basic education course, while 78 the high school one.

In compliance with Brazilian legislation, Petrobras System companies also undertake programs aimed at young apprentices in order to promote the social inclusion of young people in poverty and vulnerable situations through social and professional training. The initiative contributes to a better insertion in the labor market, established by the Act 10,097/2000, and operates in three areas: qualifying young

people for the labor world; training youth to face the job market with knowledge about the legislation that address labor and social issues, security, health and labor organization; and provide access to education, citizenship, and the full guarantee of rights, providing information on topics such as quality of life, environment, gender, ethnicity and human rights. 

#### CLAIMS AND COMPLAINTS

In 2010, 41 complaints were made about violations of human rights involving both internal and external stakeholders. Of these, two were found to be valid after an inquiry carried out by an internal committee, and appropriate punishment was applied. Six complaints were dismissed, and 32 cases were filed and considered impossible to judge due to a lack of relevant information. There are currently no situations under analysis. 

#### ● IMPACT ON LOCAL COMMUNITIES

Petrobras Ombudsman's Office received a protest from an indigenous Maori community in New Zealand, claiming that the country government did not consult it about the bidding for oil exploration in the Raukumara Basin (Petrobras International Braspetro acquired 100% of the exploration rights for Block 2). One of the concerns of the Maori people is that disasters such as the one in the Gulf of Mexico could happen there, damaging marine life and birds, and hindering the fishermen.

The matter is under consideration at the Executive Level of the International area, and there is dialogue between Petrobras undertaking representative and the indigenous community. In a first phase, the company outlined an Action Plan for the collection of preliminary information about socioenvironmental aspects concerning New Zealand and the Maori and for the identification of government institutions, legitimate leaderships, institutions/NGOs, and people of reference on the New Zealand and Maori culture, both in Brazil and abroad.



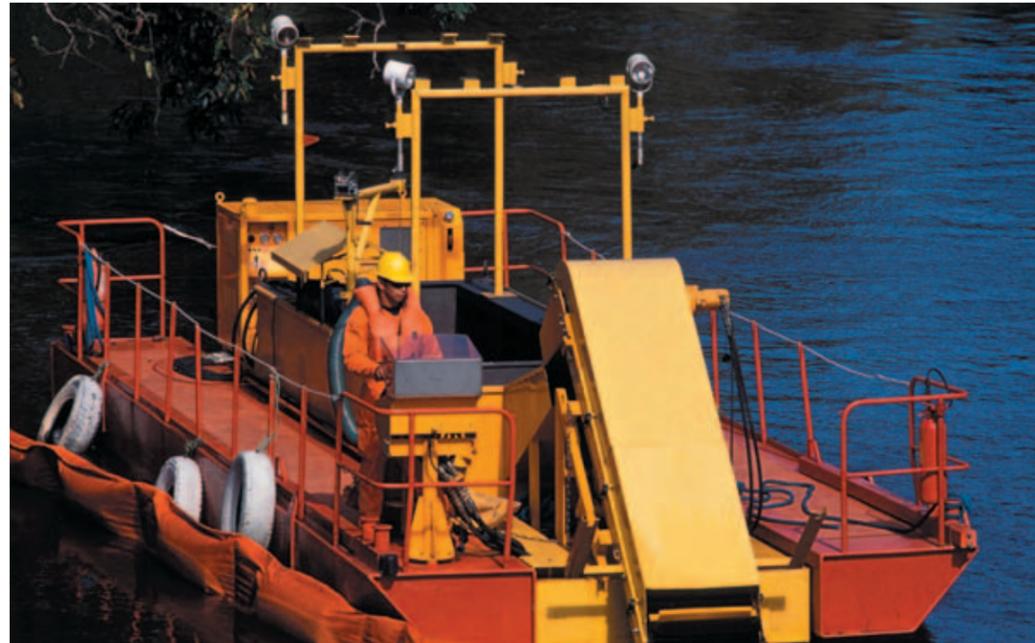
Some of this information can be found on the company's website



ENVIRONMENT



# Integrated actions



**PREVENTING AND MITIGATING THE ENVIRONMENTAL IMPACTS OF OUR OPERATIONS AND PRODUCTS ARE GUIDELINES ESTABLISHED BY THE BUSINESS PLAN**

PETROBRAS SEEKS TO MINIMIZE THE impacts of its operations and products on the environment. This concern is featured both in the company's Business Plan and in its Corporate Strategy. Managing potential environmental risks inherent to the oil and gas industry - such as the consumption of natural resources, air emissions, interference in the territories, impacts on biodiversity and pollution caused by waste - requires integrated actions in the environmental area and should involve all Petrobras System areas, units, and subsidiaries, from the strategic to the operational level.

The governance model established by Petrobras contributes to the integration of company actions and initiatives in the environmental area and calls for an Environment Committee, which is linked to the Board of Directors, a Business Committee, and four Integration Committees. The Committee for the

Integration of Technology, Engineering and Services brings together executives from various company areas, and its agenda includes discussing and evaluating Petrobras' environmental management and performance. An additional discussion forum is promoted by commissions connected to the Committee. Consisting of safety, health and environment managers, as well as energy efficiency managers from the Business Areas, services, and subsidiaries, these commissions allow a deeper understanding of and engagement with safety, health, and environment management issues, as well as environmental licensing and compensation, energy efficiency, emissions, and climate change.

In 2010, Petrobras' expenditures with the environment surpassed R\$2.4 billion, about R\$457 million more than in 2009.

At Petrobras, environmental management

## ENVIRONMENTAL PROTECTION TOTAL COSTS AND EXPENDITURES in thousands of Reais

EXPENSES	2010	2009
Environmental expenditures related to production/operations	1,750,644	1,575,492
Pollution control equipment and systems	172,343	197,527
Degraded area restoration	242,270	99,438
Investments in external programs and/or projects (including sponsorships)	257,746	93,873
<b>TOTAL</b>	<b>2,423,003</b>	<b>1,966,331</b>

\* Includes operating units in Brazil and abroad.

is also integrated to the operational safety, energy efficiency, and health management given the synergy between all of these issues. This integrated management model is identified by the acronym SEEH (Safety, Environment, Energy Efficiency and Health).

Fifteen corporate guidelines set out the requirements to be met by the HSE management system. Standards derived from these guidelines are applied in all of Petrobras' activities in Brazil and abroad.

The adherence of the units' management systems to these standards is checked regularly by internal audits. The integrated management process has ensured significant improvements in Petrobras' HSE performance, which currently approaches - and in some cases exceeds - global oil and gas industry benchmarks of excellence. 

### EMISSIONS REDUCTIONS AND MANAGEMENT

#### CLIMATE CHANGE

The Brazilian economic growth over the upcoming years may increase the energy sector greenhouse gas emissions. Given this perspective, the company included Strategic Climate Change and Energy Efficiency Projects in its Strategic Plan. These projects were designed to help Petrobras voluntarily reach levels of excellence in the oil and gas industry with regard both to processes and products intensity of greenhouse gas emission and to processes energy efficiency.

Petrobras set the following targets to be achieved by 2015:

- Reduce the energy intensity of refining and thermoelectric plant operations by 10% and 5%, respectively;
- Reduce natural gas flaring intensity in exploration and production operations by 65%;
- Reduce the intensity of greenhouse gas emission from exploration and production, refining, and thermoelectric plants operations by 15%, 8%, and 5% respectively.

Petrobras also considers essential to deeper analyze both the potential impact the possible worsening of weather phenomena may have on its operations, and also the effects of regulation and markets changes targeting the mitigation of global climate change. Petrobras' operations in the United States and in Japan are currently the ones that are most likely to have restrictions concerning greenhouse gas emissions, since these countries have already made commitments to mitigate global climate change.

Get to know the major climate change-related initiatives Petrobras has adopted:

- Air Emissions Management System (Sigea), which, since 2002, has assisted in the preparation of detailed inventories of greenhouse gas (GHG) emissions and other air pollutants, recording data from over 30,000 sources of emissions in all of the company's units in Brazil and abroad;
- Establishment of an internal governance system that allows the company to assess opportunities to reduce the intensity of GHG emissions associated with new investment projects;
- Investments in biofuels. Established in 2008, Petrobras Biocombustível has capacity to



 **Get to know the guidelines on Health, Safety, and Environment in the online version of the Report**

- produce 498,000 cubic meters of biodiesel per year. The 2010-2014 Business Plan foresees investments of \$3.5 billion in biofuels, of which \$530 million will be earmarked for research and development of new technology, including for second generation biofuels;
- Development of internal programs to increase operations energy efficiency;
  - Gas flaring reduction and use;
  - Power generation from renewable sources;
  - Encouraging rational fuel use through actions carried out under the National Program for Oil Products and Natural Gas Use Rationalization.
  - Investments in research and development (R&D) programs focused on energy efficiency, renewable energy, and on carbon capture and geological storage (CCGS);
  - Engagement with organizations in Brazil and abroad that are involved in efforts to mitigate global climate change, and adaptation to these changes;
  - Sponsorship for environmental projects of water conservation, carbon fixation, and emissions mitigation by recovering degraded areas or using such areas to establish sustainable production systems and natural areas and forests conservation. 

**RISKS & OPPORTUNITIES**

In its planning processes, Petrobras analyses the potential impacts climate change may have on its business. Based on the 2030 Corporate Scenarios, the company seeks to predict the macro-trends related to these issues. The scenarios involve aspects regarding production processes and energy consumption habits, international negotiations, nations climate and energy policies in force and their effects on the carbon market.

International agreements and national and regional legislation and regulatory measures designed to minimize greenhouse gas emissions are in different stages of discussion and implementation around the world. The National Policy on Climate Change was regulated in December 2010. As a result,

Brazil voluntarily set a limit for its GHG emissions.

The imposition of fiscal, taxation or other measures to discourage fossil fuel use or to promote low-carbon technologies may have negative impacts on the oil market, but can also create market opportunities for renewable fuels.

In the technology area, Petrobras' Research and Development Center (Cenpes) also assesses the risks associated with climate change, partnering with universities, government institutions, and other research centers. It also contributes to the development and operation of the Thematic Network on Climate Change, which is focused on technical cooperation and financial support for science and technology organizations nationwide. Created in 2008 by the National Institute for Space Research and the Ministry of Science and Technology, the network comprises 12 institutions and aims to develop national capacity in the carbon capture, transport, and storage areas. Between 2006 and 2009, the company invested \$30 million in climate change and carbon sequestration research technologies. Additional investments of \$200 million are expected for the 2010-2015 period.

The R&D programs to enable the capture, sequestration, transport, and geological storage of carbon dioxide are: Technological Program for Climate Change (Proclima), created in 2007, and Technological Program for CO<sub>2</sub> Management for the Pre-Salt Development (PRO-CO<sub>2</sub>), created in 2009, with a medium-term perspective and focused on CO<sub>2</sub> emissions in the development of the Santos Basin Pre-Salt Layer.

Since the 1970's, Petrobras has operated in several stages of the ethanol value chain through the National Ethanol Program (Proálcool). Additionally, it created the Biofuels Technology Program (technological development for first- and second-generation biofuels), which is expected to receive \$530 million in investments between 2010 and 2014.

Extreme weather events, which can be worsened by global warming, may potentially affect:

- Global operations in deep waters, which can be affected by sea level rise and by more intense and frequent hurricanes and storms;
- Road, maritime, inland waterway and pipeline transport activities, which carry large volumes of oil, oil products, gas, and biofuels;
- The availability of water, an essential resource for many of the company's operations;
- Biofuel production, in the event of a change in rainfall patterns that could affect the production of the agricultural inputs that are used as feedstock for these products.

Extreme weather events may cause facility insurance premiums to surge and demand

additional investments in order to ensure the security and integrity of such facilities.

**ENERGY EFFICIENCY AND EMISSION MANAGEMENT**

The strategic objective of maximizing energy efficiency and reducing the intensity of greenhouse gas emission requires the company to maintain a portfolio of projects, which will receive \$976 million in resources in the period ranging from 2010 to 2015.

**INVESTMENT X EMISSION REDUCTION RATIO**

Between 2006 and 2010, the company invested R\$404 million in projects directly related to energy efficiency, affording savings of up to 2,740 barrels of oil equivalent per day (boed).



Learn more about how Petrobras tackles climate change in the online version of the Report 



ENERGY CONSUMPTION BY THE PETROBRAS SYSTEM			
PERIOD	2010	2009	2008
<b>Direct energy</b>			
Diesel fuel	37,919	34,205	27,292
Fuel oil	65,844	81,670	129,539
Natural gas	423,183	298,603	429,622
Refinery gas	74,599	88,006	68,262
Residual gas	5,920	0	0
LPG	937	1,773	9,762
FCC Coke	67,962	70,841	78,413
Others	431	1,906	2,275
<b>Total direct energy</b>	<b>676,795</b>	<b>577,004</b>	<b>745,164</b>
<b>Indirect energy</b>			
Steam acquired	13,953	9,198	12,185
Electric energy acquired	25,925	17,868	33,411
<b>Total indirect energy</b>	<b>39,878</b>	<b>27,066</b>	<b>45,595</b>
<b>TOTAL</b>	<b>716,673</b>	<b>604,070</b>	<b>790,759</b>

• Does not include gas flaring or the gas used as input hydrogen generation at refineries and fertilizer plants; includes fuels used to generate electricity at the thermoelectric plants (natural gas, diesel, and fuel oil); does not include Petrobras Biocombustível data. Due to changes made to the fuel consumption analysis criteria, information on 2008 and 2009 were updated.  
 • In terajoules.

Due both to the increased dispatch of Petrobras' thermoelectric plants (TEP) and to the consumption of energy by the other activities, which kept pace with company's

growth, there was a 18.6% rise in the company's total energy consumption in 2010, 112,602 terajoules more than in 2009. 

 Get to know the Internal Energy Efficiency Program and the initiatives that are carried out in the online version of the Report

**● RESEARCH AND TECHNOLOGICAL DEVELOPMENT/INNOVATION**

The role played by research and development in the pursuit of excellence in energy efficiency, greenhouse gas emission management, and in global climate change mitigation is worthy of note. The expected investments in these areas, approved under the R&D Business Plan, amount to \$200 million for the 2010-2015 period, with emphasis on the Technological Program for Climate Change (Proclima) and on the Technological Program for CO<sub>2</sub> Management (PRO-CO<sub>2</sub>), focusing on projects intended for CO<sub>2</sub> capture and geological storage, energy efficiency, and other mitigation technologies.

Examples of energy efficiency R&D projects include the development of real time process optimization tools, more efficient combustion and heat transfer equipment, and assessment methodologies and tools to diagnose and identify energy efficiency improvement opportunities.

The company also takes part in the Ministry of Mines and Energy's National Program for Oil Products and Natural Gas Use Rationalization (Conpet), which in 2010 afforded savings of 72.3 million liters of diesel through the Economizar e Transportar (Save and Transport) projects, and of 524,000 m<sup>3</sup> of gas in the residential sector by implementing energy efficiency measures and equipment labeling. These results kept upwards of 1 million tons of CO<sub>2</sub> equivalent and of 4,000 tons of particulate matter from being released into the atmosphere.

**● ALTERNATIVE AND RENEWABLE ENERGY**

Initiatives geared to encourage the use of energy generated by renewable resources include biofuel production and marketing. In 2010, the consumption of biodiesel produced by Petrobras Biocombustível prevented nearly 1 million tons of CO<sub>2</sub> emissions. New projects were initiated aimed at producing biodiesel from palm oil in the state of Pará to supply both the demand in Northern Brazil and biodiesel production projects in Portugal.

The strategy in the ethanol segment is directed towards acquiring stakes and signing-on partnerships with companies operating in the industry, guaranteeing technological excellence in sustainable biofuel production. In consequence, the subsidiary now has interests in ten ethanol plants with a capacity to crush more than 24 million tons of sugarcane and to produce in excess of 900 million liters of ethanol per year, which could potentially prevent the emissions, by customers and consumers, of about 1.4 million tons of CO<sub>2</sub>, arising from avoided gasoline consumption.

In 2009, Petrobras started converting Juiz de Fora Thermoelectric Plant to run on ethanol and on natural gas. This could prevent about 100,000 tons of CO<sub>2</sub> emissions per year. Using ethanol in a gas-fired turbine is unprecedented in the world.

An important initiative is being implemented at the Duque de Caxias Refinery (Reduc) to use biogas generated at the Gramacho Landfill as a source of energy. Gas supply is planned to start in May 2011. It is estimated 160 million m<sup>3</sup> of biogas will be consumed per year, avoiding the emission of 75 million m<sup>3</sup> of methane into the atmosphere.

**● EMISSIONS REDUCTIONS AND MANAGEMENT**

**GHG EMISSIONS**

From 2006 to 2010, Petrobras prevented the emissions of approximately 6 million tons of CO<sub>2</sub> equivalent from its operations. This was achieved primarily by reducing flaring, by applying new technologies, and by using renewable energy.

In 2010, Petrobras' operations released 61 million tons of CO<sub>2</sub> equivalent into the atmosphere. The higher direct emissions figure, compared to the previous year, was due to the inclusion of data regarding the Pasadena Refinery, in the United States, and to the increased dispatch of electricity by thermoelectric plants; in contrast, there was significant reduction of gas flaring in the E&P area.

Petrobras discloses its greenhouse gas emissions inventory voluntarily, both in its

own reports and by taking part in initiatives such as the Brazil GHG Protocol, of which it is a founding member, and the Carbon Disclosure Project (CDP). It also collaborates with Federal Government and state government actions in this area. The company participated,

for example, in the preparation of the Second National Communication on Greenhouse Gas Emissions, the Brazilian emission inventory, and conducted an inventory of its GHG emissions in the state of São Paulo aiming to assist in the State Policy on Climate Change.

GREENHOUSE GAS EMISSIONS - 2008 TO 2010 (MILLION TONS OF CO <sub>2</sub> EQUIVALENT)			
	2010	2009	2008
Direct emissions	60	57	57
Indirect emissions	1.1	0.8	0.6
<b>TOTAL EMISSIONS</b>	<b>61.1</b>	<b>57.8</b>	<b>57.6</b>

- Results of the E&P, refining, fertilizer, petrochemical, power generation, ground (pipeline and road) and maritime transportation operations, as well as distribution activities in Brazil, Argentina, Bolivia, Colombia, Ecuador, Mexico, Peru, Paraguay, Uruguay, and the United States.
- Indirect emissions refer to the purchase of electricity and steam, supplied by third parties, in the mentioned countries.
- The air emissions inventory is prepared according to the guidelines of the GHG Protocol – a Corporate Standard (WRI/WBCSD). The scope of the inventory is the Operational Control and/or Financial Control. As such, it includes assets of which Petrobras is the operator and assets in which it holds 50% or more of the financial control. The approach used to prepare the inventory is based on the bottom-up, methodology, i.e., the total inventory is the sum of the emissions from each monitored source. The algorithms used to calculate greenhouse gas emissions are based on publicly accessible international benchmarks, such as the API Compendium (API) and the "AP-42" (US EPA). Emissions are calculated based on the input of specific data that consider the characteristics of the equipment, processes, and fuel consumption. All algorithms are executed in a computerized system, the Sigea, which allows for the monthly monitoring of the inventory of approximately 30,000 emission sources.
- In terms of greenhouse gas emissions, the inventory includes emissions of CO<sub>2</sub> (carbon dioxide), CH<sub>4</sub> (methane) and N<sub>2</sub>O (nitrous oxide). The results are shown in millions of metric tons of CO<sub>2</sub> equivalent, calculated according to the Second Assessment Report of the Intergovernmental Panel on Climate Change (IPCC).
- Petrobras submits its inventories, periodically, to a verification process carried out by the third party pursuant to the ISO 14064 standard. As a result, inventories from 2002 to 2007 were verified in two cycles. The first included the period ranging from 2002 to 2004, while the second from 2005 to 2007.
- The 2009 direct emissions were revised. The result of 62 million tons of CO<sub>2</sub> equivalent published in the 2009 Sustainability Report was revised during the critical assessment process carried out for the results.
- Other indirect greenhouse gas emissions had not been consolidated yet when this report was closed.

**CARBON DIOXIDE - CO<sub>2</sub> EMISSIONS** millions of tons



**METHANE EMISSIONS - CH<sub>4</sub>** thousand tons



Total emissions: direct + indirect. The result reflects the reduction in natural gas flaring at UO-RIO and UO-BC, of E&P.

**NITROUS OXIDE EMISSIONS - N<sub>2</sub>O** tons



Total emissions: direct + indirect.

OTHER SIGNIFICANT ATMOSPHERIC EMISSIONS (TONS)			
EMISSIONS	2010	2009	2008
Nitrogen oxides (NO <sub>x</sub> )	227,752	222,036	244,502
Sulfur oxides (SO <sub>x</sub> )	133,733	135,390	141,790
Particulate matter	17,505	19,299	16,707
Carbon monoxide (CO)	140,559	97,654	88,045
Volatile organic compounds (VOC)	258,046	386,585	298,586

**EMISSIONS REDUCTIONS AND MANAGEMENT**



**CARBON CREDITS**

Two projects developed voluntarily by Petrobras were registered by the Executive Committee of the UN Framework Convention on Climate Change (UNFCCC) as compliant with the requirements of the Kyoto Protocol Clean Development Mechanism, and, thus, are candidates for carbon offset crediting.

The first, registered in March 2007, was the Macau wind farm, which is installed in Rio Grande do Norte and is capable of producing 1.8 MW of electricity and of avoiding the emissions of approximately 1,300 tons of CO<sub>2</sub> equivalent per year.

The second, registered in October 2009, was the implementation of a project to offset N<sub>2</sub>O (nitrous oxide) emissions at Petrobras' nitrogen fertilizer plant in Bahia. This initiative prevents the release of approximately 57,000 tons of CO<sub>2</sub> equivalent per year into the atmosphere.



**PRE-SALT**

During 2010, media and websites reported that carbon dioxide rates of Pre-Salt wells were above average and that could cause more emissions. However, tests show that the concentrations vary: in some wells, they are above the Santos Basin average; in others, close to zero.

Although there are no specific limits on carbon dioxide emissions in oil production in Brazil, Petrobras is committed to preventing the release of carbon dioxide coming from the Pre-Salt region into the atmosphere. To achieve this, new technologies designed to

capture, transport, and geologically store the CO<sub>2</sub> associated with oil and gas flaring will be developed.

The main measure that is being studied is underground carbon dioxide reinjection, a process that is already carried out in countries such as Norway. Other options include carbon dioxide storage in reservoirs that have saline aquifers nestled under the seabed, reinjection it in depleted gas reservoirs, and storing CO<sub>2</sub> in caves in the salt layer.

The likely emissions originating from Pre-Salt exploration are featured in the Ten Year Plan for Energy Expansion (PDE 2019), prepared by the Energy Research Corporation, an agency of the Brazilian government.

**BIODIVERSITY**

The mapping of protected, sensitive and vulnerable areas that can be influenced by the company's operations, set out in corporate standards, is one of the priorities of the Excellence in Safety, Environment and Health Strategic Project, alongside the implementation of an assessment methodology for the impacts on the biodiversity, of the diagnosis of areas degraded by the operations, and of the definition of a recovery plan for such areas. The goal is to complete, by 2015, the mapping of areas that are protected and have relevant biodiversity surrounding all of Petrobras units' area of influence.

Information on protected and sensitive areas that have already been identified is currently compiled by each Petrobras System area and enterprise. These databases are being integrated into a corporate geographic information system called Geoportal. The system is



currently being tested and is expected to be available to users in 2011.

Petrobras has mapped protected and high rates of biodiversity areas located in the Downstream area's operation units. Conservation Units (CUs) located in adjacent areas to those units have been identified and studies are underway to map other areas where there is great biodiversity.

**STRATEGIC TOOLS:**

See, below, some programs, plans, and projects related to the management of risks and impacts on biodiversity in areas under the influence of Petrobras' activities:

- 15 HSE guidelines in E&P: this plan includes a set of actions geared to manage risks and impacts on biodiversity, including the mapping of protected, sensitive and vulnerable areas in the E&P activity area of influence, the standardization of the environmental impact assessment methodology, and impact diagnosis and monitoring.
- Downstream Biodiversity Action Plan: this Business Area implements an action plan that covers all of its facilities and activities and includes mapping the local biodiversity, preventing and mitigating impacts on biodiversity, degraded area recovery, monitoring, handling of biodiversity in internal facility areas, environmental

education, dissemination of information, and exchange of experiences.

- Action plan for the risks and impacts management on biodiversity associated with the operation of pipelines and terminals: in 2010, a Working Group was created at Transpetro aiming to develop the plan and a specific standard for biodiversity management for the subsidiary. The management standard has already been completed.

- Action Plan for the mapping of protected areas located within Petrobras Distribuidora facilities' area of influence.

The identification, characterization, and assessment of the potential operational impacts may have on the biodiversity is another line of action the company has developed focusing particularly on oil and oil products leaks damage prevention and on the need to remove vegetation and preserve the oil and gas pipeline network ranges. This analysis has been guiding the deforested or degraded area recovery actions that have been carried out at several refineries and oil exploration and production sites in Northeastern Brazil and in the Amazon.

Information on species threatened of extinction in Petrobras of influence areas is still partial, since the company has not compiled a major portion of the environmental information it has collected yet. However, a few units have already adopted actions to diagnose biodiversity in their areas of influence.

**Learn more about the list of protected areas on the Report's website. Also, get to know some of our projects intended to manage the risks and impacts on biodiversity**

This information comes both from flora and fauna inventories prepared to meet the environmental licensing requirements and from specific diagnostic and environmental characterization studies. These studies deepen the scientific knowledge on these locations' biodiversity and contribute to improving endangered species lists which either do not yet exist or are outdated for certain localities.

The Petrobras Biomaps website ([www.petrobras.com.br/biomapas](http://www.petrobras.com.br/biomapas)), was rolled out in April, presenting more than a hundred places where 16 different species of dolphins, whales, porpoises, and turtles occur. The data were collected by scientific expeditions the company made in partnership with research institutes. Initially, the website introduced species from the Urucu region, in the Amazon, where Petrobras has a production base and carries out unprecedented local fauna and flora recognition research.



**IMPACTS OF OUR OPERATIONS ON THE ENVIRONMENT**

Vegetation suppression is the most common direct impact Petrobras' onshore activities have on biodiversity. Vegetation removal aiming to install new ventures also has indirect impacts on wildlife related to changes in habitat and to demographic and genetic aspects of the animal populations. Impacts like that were seen, recently, in the process of implementing the Premium I Refinery, in the construction of natural gas compressing stations for the Urucu-Manaus gas pipeline, in the installation of the Rio Grande Naval Pole and, in general, in the installation of power lines, collecting stations, wells, and onshore pipelines.

Petrobras conducts several undertakings that involve pipeline deployment, such as gas pipeline and ducts. For operation and security reasons, in this type of work it is necessary to maintain a right-of-way - a 20-meter wide marked safety range that accompanies the underground course of the pipelines -, and vegetation height must be controlled in this zone. This condition has an irreversible impact as it

prevents plant recovery on the area. Activities that involve vegetation removal, such as the construction of access routes and pipeline installation, can damage habitats. This is an irreversible impact that can be mitigated with proper planning.

Temporary impacts are common in construction work and are related to dust emissions and noise caused by work on the land and machinery and large equipment operations, which may even cause wildlife to flee from the site. Water consumption, waste effluent discharges and spills during the construction and operation of the undertaking can also have a potential impact on the biodiversity of the surrounding areas.

**ACTIONS FOR MITIGATION**

Petrobras has created several habitat protection and restoration actions. Many involve commitments taken on in the environmental licensing process; others come from the environmental management of organizational units (e.g., environmental rehabilitation for mined areas). There is also sponsorship for civil society initiatives, primarily by means of the Petrobras Environmental Program.

Projects related to environmental permit requirements are checked by the environmental agencies. Voluntary projects, meanwhile, are monitored by duly trained Petrobras professionals.

Habitat conservation and restoration projects involve actions such as the recovery of non-vegetated areas inside the organizational units, reforestation - as compensation for vegetation removal -, formation of ecological corridors or belts, terrestrial ecosystem recovery, landscape improvements, riparian forest enhancement or restoration, mined area recovery, mangrove recovery, and the creation of seed banks, tree nurseries, orchards, and agro-forestry projects.

**Get to know other biodiversity management and risk mitigation actions in the online version of the Report**

**WATER USE**

Petrobras has taken action to make more efficient use of water at its facilities, pursuant to the two corporate documents that guide water resource management at the company - the Petrobras Standard for the Environmental Management of Water Resources and the Petrobras Technical Standard for Water Resource and Wastewater Management. In 2010, the total amount of water that was reused at the company reached 17.6 billion liters.

Throughout the year, 187.3 million m<sup>3</sup> of fresh water were withdrawn for use in operating and administrative activities - 7% more than the 176 million m<sup>3</sup> withdrawn in 2009. The total volume of water withdrawn consolidates data from the Downstream, Exploration & Production, Gas & Power, International, and Services (Engineering, Cenpes and Shared Services) areas and from the Transpetro, Petrobras Distribuidora, and Petrobras Biocombustível subsidiaries.



**WATER WITHDRAWAL SOURCES BY PETROBRAS**

SOURCE	VOLUME WITHDRAWN (MILLION M <sup>3</sup> )			VOLUME WITHDRAWN (%)		
	2010	2009	2008	2010	2009	2008
Surface water bodies	128.8	119.7	128.8	68.8	68	66
Underground water bodies	36.5	35.2	48.8	19.5	20	25
Municipal or third part supply	22	21.1	17.6	11.7	12	9
<b>TOTAL</b>	<b>187.3</b>	<b>176</b>	<b>195.2</b>	<b>100</b>	<b>100</b>	<b>100</b>

TOTAL VOLUME OF WATER RECYCLED AND REUSED		
YEAR	WATER RECYCLED AND REUSED (MILLION M)	VOLUME IN RELATION TO THE TOTAL AMOUNT OF WATER USED (%)
2009	17.3	9.9
2010	17.6	9.4

The total volume of reused water consolidates data from the Downstream, International, Gas & Power, and Engineering areas, in addition to Transpetro. The volumes do not include condensate recovered in thermal cycles, the recirculated cooling water, and produced water that is reinjected for secondary and tertiary oil production purposes.

To supply its operations in 2010, Petrobras used approximately 257 sources of water supply in Brazil and 197 in 60 other countries where it has operations. Of the total sources of supply used by Petrobras, 30% are surface water bodies, 36%, underground water bodies, and 34% public utilities or outsourced companies.

Petrobras invests continually in assessing the potential impact of its activities, particularly on protected areas and on sensitive or vulnerable areas located in its units area of influence. As in 2009, in 2010 there was no record of water sources having been qualitatively or quantitatively affected in a significant manner by water withdrawal or

by the direct discharge of effluents from production processes.

Since 2007, the company has produced the Annual Water Resource and Wastewater Report, through which it is possible to continuously monitor the volume of water used, the sources of supply, the volume of effluents released, and the pollutant load contained therein. With this information, effective measures can be adopted for optimizing the use of this input, such as the implementation of water reuse projects.

A significant portion of Petrobras' investments in water use rationalization at its units is directed to projects that enable natural resource

reuse. One of the highlights is the water and effluent treatment system in operation at the Capuava Refinery, in São Paulo, the first one in Latin America with zero effluent discharge levels. This was only possible because the treated effluent is reused for industrial purposes by other companies operating at the ABC Metropolitan region Petrochemical Complex. The refinery reduced its water withdrawal from the Tamanduatei River, which flows through the municipality where the plant is installed, by a billion liters of water per year; furthermore, it also eliminated the release of 700 million liters of wastewater per year into the same river.

Among the initiatives in course in this area, ten are related to the reuse of effluents, especially projects under implementation at the Vale do Paraíba Refinery (Revap, in São Jose dos Campos, state of São Paulo), the Presidente Getúlio Vargas Refinery (Repar, in Araucária, state of Paraná), the Leopoldo Américo Miguez de Mello Research and Development Center (Cenpes, in Rio de Janeiro), and the Refinaria do Nordeste (Rnest, state of Pernambuco). These projects, which will be completed from 2011 to 2013, afford an additional annual savings of about 13.5 million m<sup>3</sup> of water.

At the platforms, sea water is utilized to reduce uptake of freshwater from continental watersheds. Upwards of 1.3 billion liters of sea water were desalinated for use on the offshore units in 2010.

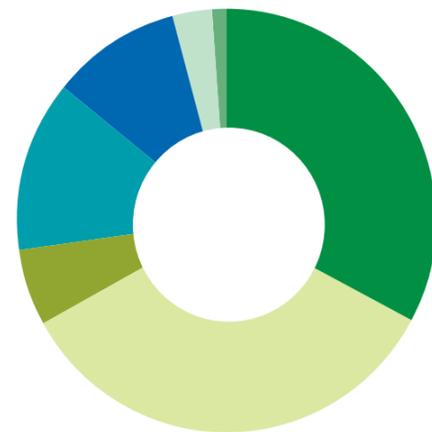


**SOLID WASTE**

The Petrobras System recycled 155,000 tons of hazardous solid waste in 2010, 37.6% of the total amount of waste disposal in the year. There was no international waste transportation in 2010.

The Waste Minimization Project seeks opportunities to reduce the amount of waste that is generated and tests cleaner or innovative treatment technologies that may be adopted after technical, economic, and environmental analyses are carried out for the entire process. The project prioritizes reductions in generation, but also addresses waste reuse and recycling.

PERCENTAGE DISTRIBUTION OF WASTE AMOUNT PER DESTINATION



Recovery	3.4%
Recycling	1.3%
Reuse as fuel	32.9%
Biological treatment	34%
Incineration	5.7%
Disposal in landfill	13%
Others	9.7%

Waste generation minimization opportunities have been mapped at refineries, thermoelectric plants, biodiesel production plants, distribution facilities, terminals, and production assets, including in the International area.

There is an audit process in place for specific waste transport, treatment, disposal, and chemical analysis service providers as a way to encourage improved standards of operation and the quality of these suppliers in order to protect the environment and minimize company risks.

These actions helped the total of 271,000 tons of hazardous solid waste generated by Petrobras' process in 2010 to remain 23% below the Maximum Admissible Limit (MAL) set for the period.

PRODUCTION X HAZARDOUS WASTE GENERATED		
YEAR	PRODUCTION (M <sup>3</sup> OIL / DAY)	HAZARDOUS WASTE GENERATED IN THE PRODUCTION PROCESSES (TONS)
2008	294,000	250,000*
2009	313,000	258,000*
2010	318,000	271,000

\* Data revised.

**EFFLUENTS**

In 2010, Petrobras discharged 169.1 million m<sup>3</sup> of wastewater from its operations, about 14% less than the 197.2 million discharged in 2009. The volume includes the discharge of water produced in the oil lifting process and encompasses data from the Downstream, Exploration & Production, Gas & Power, International, and Services (Engineering, Cenpes and Shared Services) areas and from the Transpetro, Petrobras Distribuidora, and Petrobras Biocombustível subsidiaries.

In 2010, Petrobras used 109 surface water bodies, 16 underground water bodies, and 46 public utilities or outsourced companies to assimilate its effluents.

All of the company's domestic and international operating units have effluent treatment systems, which undergo periodic improvements as new water and wastewater management practices are created and new legal requirements enacted.

In 2010, there were 35 projects in progress at the company related to the implementation and/or modernization of wastewater drainage and treatment systems.

**ACCIDENT PREVENTION**

**NUMBER OF SPILLS AMONG THE LOWEST IN THE INDUSTRY**

Oil and oil products spills in 2010 amounted to 668 m<sup>3</sup>, which is 7.9% above the limit of 619 m<sup>3</sup> set for the year. Still, the trend of spill

levels below a cubic meter per million barrels of oil produced, a benchmark of excellence for the global oil and gas industry, has been maintained.

Petrobras' Corporate Contingency Plan seeks to ensure quick and effective action in emergency situations, aiming to reduce incident effects to the highest extent. The undertaking of emergency drills meets a Petrobras Safety, Environment and Health guideline and allows the company not only to train the staff that works in emergency management, but also to review procedures and to prepare the workforce to address such situations. More information on emergency management at Petrobras can be found on pages 23 to 26.



TOTAL NUMBER AND VOLUME OF SIGNIFICANT SPILLS		
YEAR	NUMBER OF SPILLS	TOTAL VOLUME (M <sup>3</sup> )
2008	79	436
2009	56	254
2010	57	668
<b>MAL* 2010</b>		<b>619</b>
<b>MAL* 2014</b>		<b>600</b>

\* Maximum Admissible Limit.

**FINES**

In 2010, there were 21 environmental infraction notices, which added up to R\$80.75 million. These figures only include fines of amounts greater than or equal to R\$1 million.

Get to know other actions related to water resources in the online version of the Report

Learn more about product consumption and transportation in the online version of the Report

# Social Balance According to the IBASE Model

On December 31, 2010 and 2009  
(In millions of Reais, except when indicated)

1 - CALCULATION BASIS	2010	2009
Consolidated sales revenue (NI)	213,274	182,834
Earnings before interest and taxes, consolidated (OI)	49,828	45,770
Gross payroll	11,462	10,195

2 - INTERNAL SOCIAL INDICATORS (i)	AMOUNT	% ON FPB	% ON NI	AMOUNT	% ON FPB	% ON NI
Food	741	6.46%	0.35%	665	6.52%	0.36%
Compulsory social charges	5,475	47.77%	2.57%	4,585	44.97%	2.51%
Private pension	350	3.06%	0.16%	366	3.59%	0.20%
Health	2,064	18.01%	0.97%	1,885	18.49%	1.03%
Occupational safety and health at work	114	1.00%	0.05%	114	1.12%	0.06%
Education	118	1.03%	0.06%	107	1.05%	0.06%
Culture	10	0.09%	0.00%	7	0.07%	0.00%
Capacity building and professional development	366	3.20%	0.17%	264	2.59%	0.14%
Day care or day care assistance	6	0.06%	0.00%	3	0.03%	0.00%
Profit or income sharing	1,691	14.75%	0.79%	1,495	14.66%	0.82%
Others	71	0.62%	0.03%	55	0.54%	0.03%
<b>Total - Internal social indicators</b>	<b>11,006</b>	<b>96.05%</b>	<b>5.15%</b>	<b>9,546</b>	<b>93.63%</b>	<b>5.21%</b>

3 - EXTERNAL SOCIAL INDICATORS	AMOUNT	% ON OI	% ON NI	AMOUNT	% ON OI	% ON NI
Generation of Income and Job Opportunities	44	0.09%	0.02%	34	0.07%	0.02%
Education for Professional Qualification	56	0.11%	0.03%	54	0.12%	0.03%
Guarantee of Rights of Children and Adolescents (II)	79	0.16%	0.04%	74	0.16%	0.04%
Culture	170	0.34%	0.08%	155	0.34%	0.08%
Sports	81	0.16%	0.04%	42	0.09%	0.02%
Others	20	0.04%	0.00%	11	0.02%	0.01%
<b>Total contributions to society</b>	<b>450</b>	<b>0.90%</b>	<b>0.21%</b>	<b>370</b>	<b>0.80%</b>	<b>0.20%</b>
Taxation (excluding social charges)	84,235	169.05%	39.50%	77,969	170.35%	42.64%
<b>Total - External social indicators</b>	<b>84,685</b>	<b>169.95%</b>	<b>39.71%</b>	<b>78,339</b>	<b>171.15%</b>	<b>42.84%</b>

4 - ENVIRONMENTAL INDICATORS	AMOUNT	% ON OI	% ON NI	AMOUNT	% ON OI	% ON NI
Investments related to company production/operation	2,165	4.34%	1.02%	1,872	4.09%	1.02%
Investments in external programs and/or projects	258	0.52%	0.12%	94	0.21%	0.05%
<b>Total investments in the environment</b>	<b>2,423</b>	<b>4.86%</b>	<b>1.14%</b>	<b>1,966</b>	<b>4.30%</b>	<b>1.07%</b>
Concerning "annual goals" to minimize waste, general consumption in production/operation, and to increase efficiency in natural resource use, the company:	<input type="checkbox"/> does not have goals <input type="checkbox"/> complies 0-50% <input type="checkbox"/> complies 51-75% <input checked="" type="checkbox"/> complies 76-100%		<input type="checkbox"/> does not have goals <input type="checkbox"/> complies 51-75% <input type="checkbox"/> complies 0-50% <input checked="" type="checkbox"/> complies 76-100%			

5 - PERSONNEL INDICATORS	2010	2009
No. of employees at the end of period	80,492	76,919
No. of people hired during the period	4,353	2,519
No. of outsourced employees	291,606	295,260
No. of interns	1,402	1,197
No. of employees over 45 years old	34,504	30,928
No. of female employees	13,408	12,586
No. of management positions held by women	13.30%	13.63%
No. of African descent employees working at the company (III)	16,447	10,581
% of management positions held by Afro-descendants	25.30%	29.94%
No. of employees with disabilities or special needs (V)	1,093	1,077

6 - RELEVANT INFORMATION AS A CORPORATE CITIZEN	2010			GOALS FOR 2011		
Ratio between the highest and lowest remuneration at the company	22.41			22.41		
Total number of occupational accidents	485			482		
The social and environmental projects carried out by the company were defined by:	<input type="checkbox"/> directors	<input checked="" type="checkbox"/> directors and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> directors	<input checked="" type="checkbox"/> directors and managers	<input type="checkbox"/> all employees
The standards of safety and health in the workplace were defined by:	<input checked="" type="checkbox"/> directors and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> all + Cipa	<input checked="" type="checkbox"/> directors and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> all + Cipa
Concerning the employees' freedom of association, their right to collective bargaining and internal representation, the company:	<input type="checkbox"/> does not get involved	<input type="checkbox"/> adopts ILO standards	<input checked="" type="checkbox"/> encourages and complies with ILO	<input type="checkbox"/> will not get involved	<input type="checkbox"/> will adopt ILO standards	<input checked="" type="checkbox"/> will encourage and comply with the ILO
The private pension plan includes:	<input type="checkbox"/> directors	<input checked="" type="checkbox"/> directors and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> directors	<input checked="" type="checkbox"/> directors and managers	<input type="checkbox"/> all employees
Profit or income sharing includes:	<input type="checkbox"/> directors	<input checked="" type="checkbox"/> directors and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> directors	<input checked="" type="checkbox"/> directors and managers	<input type="checkbox"/> all employees
In selecting suppliers, the same ethical, social responsibility and environmental responsibility standards the company adopts:	<input type="checkbox"/> are not considered	<input type="checkbox"/> are suggested	<input checked="" type="checkbox"/> are required	<input type="checkbox"/> will not be considered	<input type="checkbox"/> will be suggested	<input checked="" type="checkbox"/> will be required
Regarding the participation of employees in voluntary work programs, the company:	<input type="checkbox"/> does not get involved	<input type="checkbox"/> supports	<input checked="" type="checkbox"/> organizes and encourages	<input type="checkbox"/> will not get involved	<input type="checkbox"/> will support	<input checked="" type="checkbox"/> will organize and encourage
Total number of consumer claims and criticism: (VI)	at the company 15,533	at Procon 16	in Court 49	at the company 6,684	at Procon 4	in Court 7
% of claims and criticism addressed or settled: (VI)	at the company 99.5%	at Procon 62.5%	in Court 0%	at the company 99.5%	at Procon 100%	in Court 100%
Total value added to distribute (consolidated) - amount:	In 2010: 158,683			In 2009: 139,234		
Value-Added Distribution (VAD)	57% government 12% employees 7% shareholders 9% third parties 15% withheld			58% government 11% employees 8% shareholders 7% third parties 16% withheld		

7 - OTHER INFORMATION
<p>1) This company does not use child or slave labor, it is not involved in prostitution or sexual exploitation of children or adolescents, and it is not involved in corruption.</p> <p>2) Our company values and respects diversity, both internally and externally.</p>
<p>I. Includes R\$26.6 million in transfers to the Fund for Childhood and Adolescence (FIA).</p> <p>II. Information of Petrobras System in Brazil concerning hiring by means of a public selection process.</p> <p>III. 2010 Information relating to Petrobras Holding, Petrobras Distribuidora, and Transpetro employees who declare themselves afro-descendants (brown and black).</p> <p>IV. Of all leadership positions of Petrobras Holding held by employees who reported race/color, 25.3% are held by people who declared themselves afro-descendants.</p> <p>V. Information on Petrobras Holding, Petrobras Distribuidora, and Transpetro, corresponding to 6.04% of the staff holding positions for which it is expected openings will be set aside for people with disabilities.</p> <p>VI. The information on the company includes the amount of claims and criticism received by Petrobras Holding and Petrobras Distribuidora. The targets for 2011 (company, Procon and the Courts) does not include estimates on Petrobras Distribuidora.</p>

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## **BARREL OF OIL EQUIVALENT (BOE)**

Unit that is normally used to express liquid and gas volumes in the same unit of measurement (barrels). A cubic meter of domestic natural gas is approximately 0.00629 barrel of oil equivalent. There are different rates for each natural gas and oil composition.

## **BIODIESEL**

A fuel that is an alternative to diesel fuel. It is renewable and biodegradable and is obtained from the chemical reaction of animal or vegetable oils with alcohol in the presence of a catalyst (a reaction known as transesterification). It can also be obtained through cracking and esterification processes.

## **BLOCK**

A small portion of a sedimentary basin where oil and natural gas exploration and production is carried out.

## **BRENT**

A blend of oils produced in the North Sea, from the Brent and Ninian oil systems, which has 39.4° API gravity and sulfur content of 0.34%.

## **CARBON FIXATION**

Storage of atmospheric CO<sub>2</sub> by biomass, by means of planting or reforestation, by absorbing the gas to perform photosynthesis. This compensates, during the plant's growth period, for part of the emissions.

## **CLEAN DEVELOPMENT MECHANISM (CDM)**

Projects certified under the Kyoto Protocol and carried out in developing countries (which have no targets in the protocol) to reduce greenhouse gas emissions. These projects allow developed countries to acquire carbon credits to meet their targets for reducing greenhouse gases.

## **CONVERSION**

Cubic meter: 1 m<sup>3</sup> = 1,000 liters = 6.28994113 barrels

Barrel: 1b = 0.158984 m<sup>3</sup> = 158.984 liters.

## **CORPORATE GOVERNANCE**

Relationship among economic agents (shareholders, executives, board members) with capacity to influence/determine the direction and the performance of a corporation. Good corporate governance assures the stockholders that there will be equitable treatment, transparency, and accountability.

## **CRUDE OIL**

Oil that enters a process plant for the first time.

## **DEEPWATER**

Ocean waters located in areas where water depths generally range between 300 m and 1,500 m. In general, the limits result from aspects related to the state of the art in the technology required for stationary drilling or production units, limits of human diving.

## **DERIVATIVE**

A contract or security whose value is related to the changes in the price of another security, hedge instrument.

## **DIRECT CARBON SEQUESTRATION**

Capturing and safe storage of carbon dioxide (CO<sub>2</sub>) before it reaches the atmosphere.

## **DOW JONES SUSTAINABILITY INDEX (DJSI)**

Reflects the return of a theoretical portfolio composed of stocks of companies listed on the New York Stock Exchange (NYSE) with the best performance in all dimensions of corporate sustainability. Considered the world's most important sustainability index, the DJSI is used as an analysis parameter by socially and environmentally responsible investors.

## **EXTENDED WELL TEST (EWT)**

Well tests with total flow time of more than 72 hours, performed during the exploration phase for the sole purpose of obtaining data and information in order to get to know the reservoirs. Hydrocarbons produced during the EWT are also subject to royalties.

## **FIELD**

An oil producing geographical area encompassing one or more underground oil or natural gas reservoirs, possibly at variable depths, including facilities and equipment destined for production.

## **FUEL OIL**

The heavier fractions from atmospheric distillation of petroleum. Widely used as an industrial fuel in boilers, furnaces, etc.

## **LIQUEFIED NATURAL GAS (LNG)**

Natural gas cooled to temperatures below -160°C to be transferred and stored in liquid form.

## **LIQUEFIED PETROLEUM GAS (LPG)**

A blend of hydrocarbons with high-pressure steam, obtained from natural gas in special refinery processors and kept in its liquid state under special surface storage conditions.

## **MARKET VALUE**

A company's value measured based on the price of its shares on the market, according to the following formula: (share price x number of shares).

## **NAPHTHA**

An oil product mainly used as feedstock by the petrochemical industry to produce ethylene and propylene, along with other liquid fractions such as benzene, toluene and xylene.

## **NATIONAL INTERCONNECTED SYSTEM (SIN)**

Formed by companies from Southern, South-eastern, Midwestern, Northeastern, and parts of Northern Brazil, the system comprises the entire structure of production and transmission of electricity in Brazil, operating in a coordinated, centralized manner to gain from the interaction between different agents. In Brazil, this system is hydrothermal, and has a predominance of hydroelectric generation.

## **NATURAL GAS**

Any hydrocarbon or mixture of hydrocarbons that remains in a gaseous state under normal

atmospheric conditions, extracted directly from oil or gas reservoirs, including moist, dry, residual and rare gases.

## **OPEC**

Organization of Petroleum Exporting Countries. Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

## **PROVEN RESERVES**

Oil and/or natural gas reserves that, based upon the analysis of geological and engineering data, are estimated to be profitably recoverable from reservoirs discovered and evaluated to a high degree of certainty, taking into account prevailing economic conditions, feasible operational methods, and Brazilian petroleum and tax regulations.

## **REGASIFICATION**

A physical process whereby, through temperature elevation, natural gas in the liquid phase (liquid natural gas) returns to its original gaseous state.

## **RESERVE**

Discovered oil or natural gas resources that are commercially recoverable from a specific date.

## **SEC**

Securities and Exchange Commission. Regulator and watchdog of the American capitals market.

## **SECOND GENERATION BIODIESEL**

Fuel made from residual biomass coming from other industrial processes, particularly sugarcane bagasse.

## **SWAP**

A contract to exchange payment flows between two parties. A traditional type of oil swap consists of a contract in which one party buys for a determined fixed price and sells at a future floating price.

## **ULTRA-DEEP WATER**

Ocean waters located in areas where water depths are generally greater than 1,500 m.

# Management

## EXECUTIVE BOARD



**CEO**  
José Sergio Gabrielli de Azevedo



**CFO AND INVESTOR  
RELATIONS DIRECTOR**  
Almir Guilherme Barbassa



**GAS & POWER  
DIRECTOR**  
Maria das Graças  
Silva Foster



**EXPLORATION AND  
PRODUCTION DIRECTOR**  
Guilherme de Oliveira Estrella



**DOWNSTREAM  
DIRECTOR**  
Paulo Roberto Costa



**INTERNATIONAL  
AREA DIRECTOR**  
Jorge Luiz Zelada



**SERVICE DIRECTOR**  
Renato de Souza Duque

## AUDIT COMMITTEE

### FULL MEMBERS

Marcus Pereira Aucélio  
Cesar Acosta Rech  
Túlio Luiz Zamin  
Nelson Rocha Augusto  
Maria Lúcia de Oliveira Falcón

## BOARD OF DIRECTORS

Guido Mantega  
**PRESIDENT**

Silas Rondeau Cavalcante Silva  
Márcio Pereira Zimmermann  
José Sergio Gabrielli de Azevedo  
Francisco Roberto de Albuquerque  
Fabio Colleti Barbosa  
Jorge Gedau Johannpeter  
Luciano Galvão Coutinho  
Sergio Franklin Quintella

# Independent Auditors' Limited Assurance Report

To  
The Board of Directors and Shareholders  
Petróleo Brasileiro S.A.  
Rio de Janeiro - RJ

## INTRODUCTION

We have been engaged for the purpose of applying Limited Assurance Procedures on the sustainability information contained in the Sustainability Report of Petróleo Brasileiro S.A - Petrobras (Company), related to the year ended December 31, 2010, which was prepared under Company's management responsibility. Our responsibility is to issue a Limited Assurance report on this sustainability information.

## PROCEDURES OF LIMITED ASSURANCE

The limited assurance procedures were performed in accordance with the standards NBC TO 3000 – Assurance Engagement Other than Audit and Review, issued by CFC – Accounting Federal Council and with ISAE 3000 - International Standard on Assurance Engagements, issued by International Auditing and Assurance Standards Board - IAASB., both related to “Assurance Engagements other than Audits or Reviews of Historical Financial Information”.

The procedures comprised: (a) the planning of the work, considering the relevance, coherence, volume of quantitative and qualitative information and operational and internal control systems that served as a basis for the preparation of the sustainability information contained in the Company's Sustainability Report; (b) the understanding of the calculation methodology and the consolidation of the performance indicators through interviews with the personnel responsible for the preparation of information; (c) the comparison, on a sample basis, of the quantitative and qualitative information with the sustainability information disclosed at the Sustainability Report; and (d) the comparison of the financial indicators with the financial statements and/or accounting records.

## REPORTING CRITERIA

The sustainability information contained in the Company's Sustainability Report was prepared according to the Global Reporting Initiative guidelines (GRI-G3) for sustainability reporting.

## SCOPE AND LIMITATIONS

The objective of our work was to apply limited assurance procedures on the sustainability information disclosed in the Company's Sustainability Report, on profile items (disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance), on management approach and on the sustainability performance indicators, not including the assessment of the application level declared by the Company in its Sustainability Report and the appropriateness of its policies, practices and sustainability performance.

The applied procedures do not represent an examination in accordance with the Brazilian and international audit rules for financial statements. In addition, we do not provide any assurance on the achievability of future information (such as targets, expectations and ambitions) nor on qualitative information that is under subjective evaluation.

## CONCLUSION

Based on the procedures we have not identified any relevant modification that should be performed on the sustainability information contained in the Sustainability Report of Petróleo Brasileiro S.A. - Petrobras, related to the year ended December 31, 2010, to agree with the GRI-G3 guidelines and with the records and files that subsidized its elaboration.

Rio de Janeiro, June 6, 2011.



KPMG Auditores Independentes  
CRC-SP-014428/O-6-F-RJ

Manuel Fernandes Rodrigues de Sousa  
Accountant CRC RJ-052428/O-2

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go to **[www.petrobras.com.br/rs2010](http://www.petrobras.com.br/rs2010)**.

# Acknowledgments, Awards, and Certifications

## Company of the Dreams of Young People

The ninth edition of the survey ranked Petrobras second among ten companies in which college students and recent graduates would prefer to start their careers. In the last five editions, sponsored by Cia de Talentos, a DMRH Group company, Petrobras topped the list.

## Top Ideal Employer Award

In a survey carried out by Consultoria Universum Global among 11,300 university students in Brazil, Petrobras was singled out as an "ideal employer," having been ranked first place in five of the seven areas of knowledge surveyed.

## 2010 Transparency Trophy

The Company was the winner, standing out among the publicly traded companies for the quality of its financial statements, in accordance with the technical criteria established by Fundação Instituto de Pesquisas Contábeis e Atuariais (FISCAFI).

## Latin America's Best in Investor Relations

The company was ranked first in Latin America in this award by the Institutional Investor's Survey.

## Best Managed Company in Latin America

For the second consecutive year, Petrobras was the winner of this prestigious award granted by British magazine Euromoney.

## 2010 Carbon Leadership Awards

Petrobras, represented by the Safety, Environment, Energy Efficiency, and Health Area, was one of the winners of the "Best Emissions Report" category, granted by British magazine The New Economy. Also, according to the magazine, the company was the best in the "Most Useful and Informative Website" and "Best-Managed Company in the Oil and Gas Industry" categories.

## Most Valuable Brand in Brazil

Petrobras was awarded first place in the ranking of the most valuable brands in Brazil by IstoÉ Dinheiro Magazine/Brand Analytics.

## Top of Mind Award/Folha de São Paulo Newspaper

For the sixth year in a row, Petrobras was the most recalled brand by Brazilian consumers in the "Fuel" category.

## 2010 Aberje Award

The documentary "The Conquest of the Pre-Salt" won the prize, in the national category, awarded by the Brazilian Association for Business Communications (Aberje).

## Special Mention of Appreciation of the National Council of Technological and Scientific Development (CNPq)

Petrobras' Leopoldo Américo Miguez de Mello Research and Development Center (Cenpes) was one of the institutions awarded at the ceremony held to celebrate CNPq's 59th anniversary. The Special Mention of Appreciation is given to institutions that have made a significant contribution to developing science and technology in Brazil.

## 100 Most Connected Companies of Brazil/Info Exame Magazine

In the fifteenth edition of the award, promoted by Editora Abril's Info Exame magazine and encompassing more than a thousand guest companies, Petrobras Distribuidora ranked tenth among the "100 Most Connected Companies in Brazil," the prior survey of which included questions about the number of computers, smartphones and cutting-edge technologies they use.

## Top of Mind/Brazilian Association of Advertisers (ABA)

Petrobras Distribuidora was voted "Top of Mind" in the "Service Station" category in the seventh edition of the survey conducted by the Brazilian Association of Advertisers.

## Brazil Brand Award

The award is considered one of the most important and significant for the Brazilian business sector by allowing, in a clear, objective manner, consumers of the markets directly elect their preferred brands. In this eleventh edition, the Petrobras brand was the most voted in the awards. It won in three categories, with the emphasis on the "Best Fuel Brand in the Heavy Transport Sector." The survey was carried out among readers of the "O Carreteiro" Magazine.

## Top Seven Brands Brazil

Petrobras was also honored in the "Fuel for the Heavy Transportation Sector" category, a tribute paid by Trio International Distinction to company and/or product brands that remained at the top of their categories for at least seven years.

## Intangibles Brazil Award/Consumidor Moderno Magazine

Petrobras Distribuidora ranked first in the Wholesale/Logistics segment of the "Stores" Category of the above-mentioned awards, sponsored by the Consumidor Moderno Magazine/Dom Strategy Partners, with the support of Grupo Padrão and E-Consulting.

## Rio Brands/O Globo Newspaper

In the first edition of the awards, organized by the O Globo Newspaper, Petrobras Distribuidora was chosen one of the "Brands of Rio" in the "Fuel Distribution" category.

## Pro-Gender Equality Seal

Petrobras, Transpetro, and Petrobras Distribuidora received this Seal, awarded by the Brazilian Government's Special Secretariat for Women's Policies, with the approval of the UNIFEM (UN Development Fund for Women) and of the ILO (International Labor Organization).

## Best Foreign Company in Bolivia

Petrobras, through UN-BOL, was awarded in the "Bolivian Business" Week, held in La Paz, as the Best Company to Work For and as the Best Foreign Company in Bolivia.

## REFAP

Was considered the best company in the Chemicals and Petrochemicals industry in the country in the 37th edition of Exame Magazine's Best and Biggest.

## Biggest and Best in Transportation and Logistics Awards

Transpetro has once again been voted the best maritime and inland waterway carrier by OTM Editora's Transporte Moderno and Technibus Magazines. Winners are selected through an accounting assessment, which sets a ranking of the top ten companies in net operating income.

## 2010 Top Marketing Award ADVB RJ

Transpetro was granted this award, by the Association of Sales and Marketing Directors of Brazil (ADVB-RJ), for the "Inauguration of the First Female Commander of the Brazilian Merchant Navy" case, which encompassed all communication actions carried out to divulge, internally and externally, the nomination of Hildelene Lobato Bahia.

## Global Personality in the Bioenergy Area

The award was granted to the President of Petrobras Biocombustível, Miguel Soldatelli Rossetto, who was highlighted as the fourth most important global personality in the bioenergy industry. The honor was given by Biofuel Digest, an important American specialized news agency in this area.

## Executive of the Year Award

Awarded to Petrobras' CEO, José Sergio Gabrielli de Avezedo, during World Oil Companies Congress.

## 2010 Executive of the Year

Almir Barbassa, Petrobras' CFO and Investor Relations Director, was elected the 2010 Executive of the Year by the Brazilian Institute of Finance Executives - IBEF/RJ and was also named Professional of the Year by the National Association of Executives in Finance, Administration, and Accounting (ANEFAC).

## Order of Scientific Merit in the Technological Sciences Category

During the Fourth National Conference on Science, Technology and Innovation, the Ministry of Science and Technology awarded the Medal of the Order of Scientific Merit in the Commander Class to engineer Marcos Assayag, in recognition of the results obtained by Petrobras in the development and application of deepwater and ultra-deep water technologies in Brazil.



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