

PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
March 17, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of March, 2011

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

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

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

Form 20-F Form 40-F

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

Yes No

Edgar Filing: PETROBRAS - PETROLEO BRASILEIRO SA - Form 6-K

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

**Petróleo Brasileiro S.A. -
Petrobras and subsidiaries**

**Consolidated Financial Statements
December 31, 2010, 2009 and 2008
with Report of Independent
Registered Public Accounting Firm**

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of PETRÓLEO BRASILEIRO S.A. - **PETROBRAS** and subsidiaries ("the Company") is responsible for establishing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's Audit Committee, Chief Executive Officer, Chief Financial Officer and effected by the Company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission COSO. Based on that assessment, management has concluded that as of December 31, 2010 the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010 has been audited by KPMG Auditores Independentes, the Company's independent registered public accounting firm, as stated in their report, dated March 15, 2011, included herein.

/s/ José Sergio Gabrielli de Azevedo
José Sergio Gabrielli de Azevedo
Chief Executive Officer
March 15, 2011

/s/ Almir Guilherme Barbassa
Almir Guilherme Barbassa
Chief Financial Officer
March 15, 2011

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

CONSOLIDATED FINANCIAL STATEMENTS

Contents

Report of Independent Registered Public Accounting Firm	4 - 5
Consolidated Balance Sheets	6 - 7
Consolidated Statements of Income	8 - 9
Consolidated Statements of Cash Flows	10 - 11
Consolidated Statements of Changes in Shareholders' Equity	12 - 14

Notes to the Consolidated Financial Statements

1. The Company and its Operations	15
2. Summary of Significant Accounting Policies	15
3. Income Taxes	30
4. Cash and Cash Equivalents	34
5. Marketable Securities	35
6. Accounts Receivable, Net	36
7. Inventories	37
8. Recoverable Taxes	38
9. Property, Plant and Equipment, Net	39
10. Investments in Non-Consolidated Companies and Other Investments	42
11. Petroleum and Alcohol Account - Receivable from Federal Government	43
12. Financing	43
13. Financial Income (Expenses), Net	50
14. Capital Lease Obligations	51
15. Employees' Postretirement Benefits and Other Benefits	52
16. Shareholders' Equity	64
17. Acquisition/Sales of Assets and Interests	71
18. Commitments and Contingencies	78
19. Derivative Instruments, Hedging and Risk Management Activities	94
20. Financial Instruments	105
21. Segment Information	107
22. Related Party Transactions	120
23. Accounting for Suspended Exploratory Wells	124
24. Subsequent Events	127

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Petróleo Brasileiro S.A. - Petrobras

We have audited the accompanying consolidated balance sheets of Petróleo Brasileiro S.A. -Petrobras and subsidiaries ("the Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. We also have audited the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statements presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petróleo Brasileiro S.A. - Petrobras and subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, Petróleo Brasileiro S.A. - Petrobras and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in COSO.

/s/ KPMG Auditores Independentes
KPMG Auditores Independentes

Rio de Janeiro, Brazil
March 15, 2011

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

Expressed in Millions of United States Dollars

	As of December 31,	
	2010	2009
Assets		
Current assets		
Cash and cash equivalents (Note 4)	17,633	16,169
Marketable securities (Note 5)	15,612	72
Accounts receivable, net (Note 6)	10,572	8,115
Inventories (Note 7)	11,834	11,117
Deferred income taxes (Note 3)	534	660
Recoverable taxes (Note 8)	5,260	3,940
Advances to suppliers	786	1,136
Other current assets	1,632	1,435
	63,863	42,644
Property, plant and equipment, net (Note 9)	218,567	136,167
Investments in non-consolidated companies and other investments (Note 10)	6,312	4,350
Non-current assets		
Accounts receivable, net (Note 6)	2,905	1,946
Advances to suppliers	3,077	3,267
Petroleum and alcohol account - receivable from Federal Government (Note 11)	493	469
Marketable securities (Note 5)	3,099	2,659
Restricted deposits for legal proceedings and guarantees (Note 18 (b))	1,674	1,158
Recoverable taxes (Note 8)	6,407	5,462
Goodwill (Note 17(a))	192	139

Edgar Filing: PETROBRAS - PETROLEO BRASILEIRO SA - Form 6-K

Prepaid expenses	516	618
Other assets	1,578	1,391
	19,941	17,109
Total assets	308,683	200,270

See the accompanying notes to the consolidated financial statements.

6

	As of December 31,	
	2010	2009
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	10,468	9,882
Current debt (Note 12)	8,960	8,431
Current portion of capital lease obligations (Note 14)	105	227
Income taxes payable	898	825
Taxes payable, other than income taxes	5,135	5,149
Payroll and related charges	2,617	2,118
Dividends and interest on capital payable (Note 16 (f))	2,158	1,340
Employees' postretirement benefits obligation Pension and Health Care (Note 15 (a))	782	694
Other payables and accruals	2,429	2,299
	33,552	30,965
Long-term liabilities		
Long-term debt (Note 12)	60,471	49,041
Capital lease obligations (Note 14)	117	203
Employees' postretirement benefits obligation - Pension and Health Care (Note 15 (a))	13,740	10,963
Deferred income taxes (Note 3)	12,704	9,844
Provision for abandonment (Note 9 (b))	3,194	2,812
Contingencies (Note 18 (b))	760	469
Other liabilities	748	553
	91,734	73,885
Shareholders' Equity		
Shares authorized and issued (Note 16 (a))		
Preferred share 2010 - 5,602,042,788 shares and 2009 - 3,700,729,396 shares	45,840	15,106
Common share 2010 - 7,442,454,142 shares and 2009 - 5,073,347,344 shares	63,906	21,088
Additional paid in capital	(86)	707
Retained earnings		
Appropriated	47,147	36,987
Unappropriated	13,758	15,062
Accumulated other comprehensive income		
Cumulative translation adjustments	13,539	6,743
Postretirement benefit reserves adjustments net of tax ((US\$1,401) and		

Edgar Filing: PETROBRAS - PETROLEO BRASILEIRO SA - Form 6-K

(US\$848) for December 31, 2010 and 2009, respectively) - Pension cost and Health Care cost (Note 15 (a))	(2,719)	(1,646)
Unrealized gains (losses) on available-for-sale securities, net of tax	124	24
Unrecognized loss on cash flow hedge, net of tax	(15)	(13)
Petrobras' Shareholders' Equity	181,494	94,058
Noncontrolling interest	1,903	1,362
Total Equity	183,397	95,420
Total liabilities and Shareholders' Equity	308,683	200,270

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

December 31, 2010, 2009 and 2008

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

	Year ended December 31,		
	2010	2009	2008
Sales of products and services	150,852	115,892	146,529
Less:			
Value-added and other taxes on sales and services	(26,459)	(20,909)	(25,046)
Contribution of Intervention in the Economic Domain Charge CIDE	(4,341)	(3,114)	(3,226)
Net operating revenues	120,052	91,869	118,257
Cost of sales	(70,694)	(49,251)	(72,865)
Depreciation, depletion and amortization	(8,507)	(7,188)	(5,928)
Exploration, including exploratory dry holes	(1,981)	(1,702)	(1,775)
Impairment (Note 9 (c) and Note 20(b))	(402)	(319)	(519)
Selling, general and administrative expenses	(8,977)	(7,020)	(7,429)
Research and development expenses	(993)	(681)	(941)
Employee benefit expenses for non-active participants	(752)	(719)	(841)
Other operating expenses	(3,588)	(3,120)	(2,665)
Total costs and expenses	(95,894)	(70,000)	(92,963)
Operating income	24,158	21,869	25,294
Equity in results of non-consolidated companies (Note 10)	413	157	(21)
Financial income (Note 13)	2,630	1,899	1,641
Financial expenses (Note 13)	(1,643)	(1,295)	(848)
Monetary and exchange variations (Note 13)	714	(175)	1,584
Other taxes	(523)	(333)	(433)

Edgar Filing: PETROBRAS - PETROLEO BRASILEIRO SA - Form 6-K

Other expenses, net	82	(61)	(225)
	1,673	192	1,698
Income before income taxes	25,831	22,061	26,992

See the accompanying notes to the consolidated financial statements.

8

	Year ended December 31,		
	2010	2009	2008
Income taxes expenses (Note 3)			
Current	(3,396)	(4,378)	(6,904)
Deferred	(2,960)	(860)	(2,355)
	(6,356)	(5,238)	(9,259)
Net income for the year	19,475	16,823	17,733
Plus/(Less): Net income attributable to the noncontrolling interests	(291)	(1,319)	1,146
Net income for the year attributable to Petrobras	19,184	15,504	18,879
Net income applicable to each class of shares			
Common	11,043	8,965	10,916
Preferred	8,141	6,539	7,963
Net income for the year attributable to Petrobras	19,184	15,504	18,879
Basic and diluted earnings per: (Note 16 (e))			
Common and preferred share	1.94	1.77	2.15
Common and preferred ADS	3.88	3.54	4.30
Weighted average number of shares outstanding			
Common	5,683,061,430	5,073,347,344	5,073,347,344
Preferred	4,189,764,635	3,700,729,396	3,700,729,396

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2010, 2009 and 2008

Expressed in Millions of United States Dollars

	Year ended December 31,		
	2010	2009	2008
Cash flows from operating activities			
Net income for the year	19,475	16,823	17,733
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	8,507	7,188	5,928
Dry hole costs	1,201	1,251	808
Equity in the results of non-consolidated companies	(413)	(157)	21
Foreign exchange (gain)/loss	(401)	(1,051)	2,211
Impairment	402	319	519
Deferred income taxes	2,960	860	2,355
Other	942	(9)	617
Working capital adjustments:			
Increase in accounts receivable, net	(2,347)	(777)	(1,098)
Increase in inventories	(427)	(672)	(568)
(Decrease) increase in advances to suppliers	454	(428)	(1,684)
Increase in recoverable taxes	(1,749)	(882)	(1,431)
Increase in trade accounts payable	251	206	2,246
(Decrease) increase in taxes payable	(668)	1,086	(207)
Increase in employees post-retirement benefits - Pension and health care	572	323	795
Increase in contingencies	226	42	114
Increase in payroll and related charges	387	244	282
Increase (decrease) in other working capital adjustments	(877)	554	(421)
Net cash provided by operating activities	28,495	24,920	28,220
Cash flows from investing activities			

Edgar Filing: PETROBRAS - PETROLEO BRASILEIRO SA - Form 6-K

Additions to property, plant and equipment	(45,078)	(35,134)	(29,874)
Investments in affiliated companies	(2,276)	(240)	452
Marketable securities and other investments activities	(15,666)	254	(44)
Net cash used in investing activities	(63,020)	(35,120)	(29,466)
Cash flows from financing activities			
Shares issuance costs	(279)	-	-
Acquisition of noncontrolling interest	(350)	-	-
Net borrowing under line-of-credit agreement	-	1,100	-
Short-term debt, net issuances and repayments	460	1,286	380
Proceeds from issuance and draw-down of long-term debt	20,189	27,345	15,049
Payments of long-term debt	(9,898)	(5,084)	(7,904)
Issuance of common and preferred shares	30,563	-	-
Dividends and interest on Shareholders' Equity paid to shareholders and minority interest	(5,299)	(7,712)	(4,747)
Net cash used in financing activities	35,386	16,935	2,778
Increase (Decrease) in cash and cash equivalents	861	6,735	1,532
Effect of exchange rate changes on cash and cash equivalents	603	2,935	(2,020)
Cash and cash equivalents at the beginning of the year	16,169	6,499	6,987
Cash and cash equivalents at the end of the year	17,633	16,169	6,499

See the accompanying notes to the consolidated financial statements.

	Year ended December 31,		
	2010	2009	2008
Supplemental cash flow information:			
Cash paid during the period for			
Interest, net of amount capitalized	3,700	3,059	2,304
Income taxes	2,816	4,929	6,271
Withholding income tax on financial investments	1,746	2,224	1,176
	8,262	10,212	9,751
Non-cash investment and financing transactions during the year			
Recognition of asset retirement obligation - ASC Topic 410-20	1,088	(423)	75
Acquisition of property, plant and equipment on credit	-	70	-
Acquisition of fixed assets on contract with transfer of benefits, risks and control of assets	-	63	6
Capital increase with Financial Treasury Bill used for payment of part of the Assignment Agreement	39,768	-	-
	40,856	(290)	81

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN Shareholders' Equity

December 31, 2010, 2009 and 2008

Expressed in Millions of United States Dollars (except per-share amounts)

	Year ended December 31,		
	2010	2009	2008
Preferred shares			
Balance at January 1,	15,106	15,106	8,620
Capital increase from capital reserve (Note 16 (a))	171	-	251
Capital increase from statutory reserve	300	-	-
Capital increase from undistributed earnings reserve (Note 16(a))	1,580	-	6,235
Capitalization	28,683	-	-
Balance at December 31,	45,840	15,106	15,106
Common shares			
Balance at January 1,	21,088	21,088	12,196
Capital increase from capital reserve (Note 16 (a))	125	-	345
Capital increase from statutory reserve	219	-	-
Capital increase from undistributed earnings reserve (Note 16 (a))	1,152	-	8,547
Capitalization	41,322	-	-
Balance at December 31,	63,906	21,088	21,088
Additional paid in capital			
Balance at January 1,	707	-	-
Change in the year	(514)	707	-
Shares issuance costs	(279)	-	-
Balance at December 31,	(86)	707	-
Accumulated other comprehensive loss			
Cumulative translation adjustments			
Balance at January 1,	6,743	(15,846)	4,155

Edgar Filing: PETROBRAS - PETROLEO BRASILEIRO SA - Form 6-K

Change in the year	6,796	22,589	(20,001)
Balance at December 31,	13,539	6,743	(15,846)
Postretirement benefit reserves adjustments net of tax -			
Pension cost and Health Care cost			
Balance at January 1,	(1,646)	37	(2,472)
Other decreases (increases)	(1,626)	(2,550)	3,801
Tax effect on above	553	867	(1,292)
Balance at December 31,	(2,719)	(1,646)	37

	Year ended December 31,		
	2010	2009	2008
Unrecognized gains (losses) on available-for-sale securities, net of tax			
Balance at January 1,	24	(144)	331
Unrealized gains (losses)	151	255	(490)
Realized gains	-	-	(229)
Tax effect on above	(51)	(87)	244
Balance at December 31,	124	24	(144)
Unrecognized loss on cash flow hedge, net of tax			
Balance at January 1	(13)	(39)	(9)
Change in the year	(2)	26	(30)
Balance at December 31,	(15)	(13)	(39)
Appropriated retained earnings			
Capital reserve - tax incentive			
Balance at January 1,	296	221	877
Capital increase	(296)	-	(596)
Transfer from unappropriated retained earnings	-	75	(60)
Balance at December 31,	-	296	221
Legal reserve			
Balance at January 1,	5,419	3,257	4,297
Transfer from unappropriated retained earnings, net of gain or loss on translation	1,124	2,162	(1,040)
Balance at December 31,	6,543	5,419	3,257
Undistributed earnings reserve			
Balance at January 1,	30,755	12,123	30,280
Capital increase	(2,732)	-	(14,782)
Transfer from unappropriated retained earnings, net of gain or loss on translation	12,344	18,632	(3,375)

Balance at December 31,