

PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
August 25, 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 August, 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

June 30, 2011 and 2010

with Review Report of Independent

Registered Public Accounting Firm

PETRÓLEO BRASILEIRO S.A. - PETROBRAS
AND SUBSIDIARIES

Consolidated FINANCIAL STATEMENTS

Contents

| | |
|--|----|
| Review Report of Independent Registered Public Accounting Firm | 3 |
| Consolidated Balance Sheets | 4 |
| Consolidated Statements of Income | 6 |
| Consolidated Statements of Cash Flows | 8 |
| Consolidated Statements of Changes in Shareholders' Equity | 9 |
| Notes to the Consolidated Financial Statements | 12 |
| 1. Basis of Financial Statements Preparation | 12 |
| 2. Derivative Instruments, Hedging and Risk Management Activities | 13 |
| 3. Income Taxes | 24 |
| 4. Cash and Cash Equivalents | 27 |
| 5. Marketable Securities | 28 |
| 6. Inventories | 29 |
| 7. Recoverable Taxes | 30 |
| 8. Property, Plant and Equipment, Net | 31 |
| 9. Petroleum and Alcohol Account, Receivable from Federal Government | 32 |
| 10. Financing | 32 |
| 11. Financial Income (Expenses), Net | 38 |
| 12. Capital Lease Obligations | 39 |
| 13. Employees' Postretirement Benefits and Other Benefits | 40 |
| 14. Shareholders' Equity | 41 |
| 15. Commitments and Contingencies | 45 |
| 16. Fair Value Measurements | 52 |
| 17. Segment Information | 53 |

| | | |
|-----|---|----|
| 18. | Acquisition/Sales of Assets and Interests | 62 |
| 19. | Subsequent Events | 65 |

Review report of independent registered public accounting firm

To the Board of Directors and Shareholders of

Petróleo Brasileiro S.A. - Petrobras

Rio de Janeiro - Brazil

We have reviewed the accompanying condensed consolidated balance sheet of Petróleo Brasileiro S.A. - Petrobras and subsidiaries as of June 30, 2011, the related condensed consolidated statements of operations, cash flows and changes in shareholders' equity for the six-month periods ended June 30, 2011 and 2010. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil

August 24, 2011

PETRÓLEO BRASILEIRO S.A. - PETROBRAS**AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

June 30, 2011 and December 31, 2010

Expressed in Millions of United States Dollars

| | June 30, 2011 | December 31, 2010 |
|---|----------------------|--------------------------|
| | (unaudited) | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (Note 4) | 21,689 | 17,633 |
| Marketable securities (Note 5) | 15,995 | 15,612 |
| Accounts receivable, net | 12,197 | 10,572 |
| Inventories (Note 6) | 16,394 | 11,834 |
| Deferred income taxes (Note 3) | 657 | 534 |
| Recoverable taxes (Note 7) | 7,168 | 5,260 |
| Advances to suppliers | 689 | 786 |
| Other current assets | 1,936 | 1,632 |
| | 76,725 | 63,863 |
| Property, plant and equipment, net (Note 8) | 247,276 | 218,567 |
| Investments in non-consolidated companies and other investments | 6,259 | 6,312 |
| Non-current assets | | |
| Accounts receivable, net | 2,907 | 2,905 |
| Advances to suppliers | 3,027 | 3,077 |
| Petroleum and alcohol account – receivable from Federal Government (Note 9) | 529 | 493 |
| Marketable securities (Note 5) | 3,307 | 3,099 |
| Restricted deposits for legal proceedings and guarantees (Note 15 (a)) | 1,787 | 1,674 |
| Recoverable taxes (Note 7) | 6,235 | 6,407 |
| Goodwill | 198 | 192 |
| Prepaid expenses | 827 | 516 |
| Other assets | 1,584 | 1,578 |
| | 20,401 | 19,941 |
| Total assets | 350,661 | 308,683 |

See the accompanying notes to the consolidated financial statements.

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

CONSOLIDATED BALANCE SHEETS (Continued)

June 30, 2011 and December 31, 2010

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

| | June 30, 2011 | December 31, 2010 |
|---|----------------------|--------------------------|
| | (unaudited) | |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Trade accounts payable | 11,779 | 10,468 |
| Current debt (Note 10) | 10,232 | 8,960 |
| Current portion of capital lease obligations (Note 12) | 73 | 105 |
| Income taxes payable | 1,321 | 898 |
| Taxes payable, other than income taxes | 6,052 | 5,135 |
| Payroll and related charges | 2,561 | 2,617 |
| Dividends and interest on capital payable (Note 14) | 1,670 | 2,158 |
| Employees' postretirement benefits obligation – Pension and Health Care (Note 13) | 817 | 782 |
| Other payables and accruals | 3,577 | 2,429 |
| | 38,082 | 33,552 |
| Long-term liabilities | | |
| Long-term debt (Note 10) | 70,529 | 60,471 |
| Capital lease obligations (Note 12) | 116 | 117 |
| Employees' postretirement benefits obligation – Pension and Health Care (Note 13) | 15,223 | 13,740 |
| Deferred income taxes (Note 3) | 15,981 | 12,704 |
| Provision for abandonment | 3,369 | 3,194 |
| Contingencies (Note 15 (a)) | 735 | 760 |
| Other liabilities | 709 | 748 |
| | 106,662 | 91,734 |
| Shareholders' equity | | |
| Shares authorized and issued (Note 14 (a)) | | |
| Preferred share – 2011 and 2010 – 5,602,042,788 shares | 45,846 | 45,840 |
| Common share – 2011 and 2010 – 7,442,454,142 shares | 63,914 | 63,906 |
| Additional paid in capital | (53) | (86) |
| Retained earnings | | |
| Appropriated | 64,396 | 47,147 |
| Unappropriated | 6,393 | 13,758 |
| Accumulated other comprehensive income | | |

Cumulative translation adjustments

26,159

13,539

| | | |
|---|--------------------|-------------|
| Postretirement benefit reserves adjustments net of tax ((US\$1,495) and (US\$1,401) for June 30, 2011 and December 31, 2010, respectively) - Pension cost and Health Care (Note 13) | (2,901) | (2,719) |
| Unrealized gains on available-for-sale securities, net of tax | 41 | 124 |
| Unrecognized loss on cash flow hedge, net of tax | (12) | (15) |
| Petrobras' Shareholders' Equity | 203,783 | 181,494 |
| Noncontrolling interest | 2,134 | 1,903 |
| Total shareholders' equity | 205,917 | 183,397 |
| Total liabilities and shareholders' equity | 350,661 | 308,683 |
| See the accompanying notes to the consolidated financial statements. | | |

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

CONSOLIDATED STATEMENTS OF INCOME

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

| | Six-month periods ended June 30, | |
|---|---|-------------|
| | 2011 | 2010 |
| Sales of products and services | 89,056 | 71,548 |
| Less: | | |
| Value-added and other taxes on sales and services | (18,234) | (14,365) |
| Net operating revenues | 70,822 | 57,183 |
| Cost of sales | (43,038) | (32,713) |
| Depreciation, depletion and amortization | (4,732) | (4,130) |
| Exploration, including exploratory dry holes | (1,369) | (892) |
| Impairment | (2) | (94) |
| Selling, general and administrative expenses | (4,923) | (4,200) |
| Research and development expenses | (629) | (448) |
| Other operating expenses | (1,689) | (2,139) |
| Total costs and expenses | (56,382) | (44,616) |
| Operating income | 14,440 | 12,567 |
| Equity in results of non-consolidated companies | 343 | (28) |
| Financial income (Note 11) | 2,147 | 924 |
| Financial expenses (Note 11) | (418) | (822) |
| Monetary and exchange variations (Note 11) | 1,460 | (781) |
| Other taxes | (215) | (211) |
| | 3,317 | (918) |
| Income before income taxes | 17,757 | 11,649 |

See the accompanying notes to the consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF INCOME (Continued)

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

| | Six-month periods ended June 30, | |
|--|---|----------------|
| | 2011 | 2010 |
| Income taxes expenses (Note 3) | | |
| Current | (1,921) | (2,621) |
| Deferred | (2,260) | (426) |
| | (4,181) | (3,047) |
| Net income for the period | 13,576 | 8,602 |
| Less: Net income attributable to the noncontrolling interests | (404) | (39) |
| Net income attributable to Petrobras | 13,172 | 8,563 |
| Net income applicable to each Petrobras class of shares | | |
| Common | 7,515 | 4,951 |
| Preferred | 5,657 | 3,612 |
| | 13,172 | 8,563 |
| Basic and diluted earnings per: (Note 14) | | |
| Common and Preferred share | 1.01 | 0.98 |
| Common and Preferred ADS | 2.02 | 1.96 |
| Weighted average number of shares outstanding | | |
| Common | 7,442,454,142 | 5,073,347,344 |
| Preferred | 5,602,042,788 | 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**

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(Unaudited)

| | Six-month periods ended | |
|---|--------------------------------|--------------------------|
| | 2011 | June 30, 2010 |
| Cash flows from operating activities | | |
| Net income for the period | 13,576 | 8,602 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 4,732 | 4,130 |
| Dry hole costs | 772 | 547 |
| Equity in the results of non-consolidated companies | (343) | 28 |
| Exchange variation, monetary and financial charges | 445 | 993 |
| Deferred income taxes | 2,260 | 426 |
| Other | 430 | 725 |
| Working capital adjustments: Decrease (increase) in assets | | |
| Increase in accounts receivable, net | (1,381) | (1,334) |
| Increase in inventories | (3,708) | (346) |
| Decrease in advances to suppliers | 173 | 99 |
| Increase (decrease) in liabilities | | |
| Increase (decrease) in suppliers | 1,222 | (759) |
| Increase (decrease) in contingencies | (64) | 446 |
| Decrease in taxes payable, net of recoverable taxes | (261) | (1,512) |
| Other | 538 | 1,196 |
| Net cash provided by operating activities | 18,391 | 13,241 |
| Cash flows from investing activities | | |
| Additions to property, plant and equipment | (19,715) | (19,387) |
| Marketable securities and other investments activities | 797 | (2,048) |
| Net cash used in investing activities | (18,918) | (21,435) |

Cash flows from financing activities

| | | |
|---|----------------|---------|
| Proceeds from issuance and draw-down of short and long-term debt | 13,390 | 12,485 |
| Payments of short-term and long-term debt | (5,894) | (4,635) |
| Dividends and interest on shareholders' equity paid to shareholders and minority interest | (3,603) | (2,397) |

Net cash provided by (used in) financing activities **3,893** 5,453

| | | |
|--|---------------|---------|
| Increase (decrease) in cash and cash equivalents | 3,366 | (2,741) |
| Effect of exchange rate changes on cash and cash equivalents | 690 | (456) |
| Cash and cash equivalents at the beginning of the period | 17,633 | 16,169 |
| Cash and cash equivalents at the end of the period | 21,689 | 12,972 |

Supplemental cash flow information:**Cash paid during the period for:**

| | | |
|---|--------------|-------|
| Interest, net of amount capitalized | 2,043 | 470 |
| Income taxes | 654 | 1,806 |
| Withholding income tax on financial investments | 1,192 | 729 |
| | 3,889 | 3,005 |

Non-cash investing and financing transactions during the year

| | | |
|---|-----------|----|
| Recognition of asset retirement obligation – ASC Topic 410-20 | 3 | 43 |
| Acquisition of property, plant and equipment on credit | 7 | 4 |
| | 10 | 47 |

See the accompanying notes to the consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(Unaudited)

| | Six-month periods ended June 30, | |
|---|---|-------------|
| | 2011 | 2010 |
| Preferred shares | | |
| Balance at January 1, | 45,840 | 15,106 |
| Capital increase from capital reserve | - | 171 |
| Capital increase from statutory reserve | - | 300 |
| Capital increase from undistributed earnings reserve | 6 | 1,580 |
| Balance at June 30, | 45,846 | 17,157 |
| Common shares | | |
| Balance at January 1, | 63,906 | 21,088 |
| Capital increase from capital reserve | - | 125 |
| Capital increase from statutory reserve | - | 219 |
| Capital increase from undistributed earnings reserve | 8 | 1,152 |
| Balance at June 30, | 63,914 | 22,584 |
| Additional paid in capital | | |
| Balance at January 1, | (86) | 707 |
| Change in the period | 33 | 10 |
| Balance at June 30, | (53) | 717 |
| Accumulated other comprehensive income | | |
| Cumulative translation adjustments | | |
| Balance at January 1, | 13,539 | 6,743 |
| Change in the period | 12,620 | (3,201) |
| Balance at June 30, | 26,159 | 3,542 |
| Postretirement benefit reserves adjustments, net of tax - Pension Cost and Health Care | | |
| Balance at January 1, | (2,719) | (1,646) |

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

| | | |
|--|----------------|----------------|
| Change in the period | (276) | 99 |
| Tax effect on above | 94 | (34) |
| Balance at June 30, | (2,901) | (1,581) |
| Unrecognized gains on available-for-sale securities, net of tax | | |
| Balance at January 1, | 124 | 24 |
| Unrealized losses | (125) | (23) |
| Tax effect on above | 42 | 8 |
| Balance at June 30, | 41 | 9 |

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Continued)

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(Unaudited)

| | Six-month periods ended June 30, | |
|---|---|---------------|
| | 2011 | 2010 |
| Unrecognized loss on cash flow hedge, net of tax | | |
| Balance at January 1, | (15) | (13) |
| Change in the period | 3 | (9) |
| Balance at June 30, | (12) | (22) |
| Appropriated retained earnings | | |
| Capital reserve – fiscal incentive | | |
| Balance at January 1, | - | 296 |
| Transfer to unappropriated retained earnings | - | (296) |
| Balance at June 30, | - | - |
| Legal reserve | | |
| Balance at January 1, | 6,543 | 5,419 |
| Transfer from unappropriated retained earnings | 1,563 | 632 |
| Balance at June 30, | 8,106 | 6,051 |
| Undistributed earnings reserve | | |
| Balance at January 1, | 40,367 | 30,755 |
| Capital increase | (14) | (2,732) |
| Other change in the period | 15,027 | 9,396 |
| Balance at June 30, | 55,380 | 37,419 |
| Statutory reserve | | |
| Balance at January 1, | 237 | 517 |
| Capital increase | - | (520) |
| Transfer from unappropriated retained earnings | 673 | 221 |
| Balance at June 30, | 910 | 218 |
| Total appropriated retained earnings | 64,396 | 43,688 |

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Continued)

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(Unaudited)

| | Six-month periods ended June 30, | |
|--|---|---------------|
| | 2011 | 2010 |
| Unappropriated retained earnings | | |
| Balance at January 1, | 13,758 | 15,062 |
| Net income attributable to Petrobras | 13,172 | 8,563 |
| Dividends and interest on shareholders' equity | (3,273) | (1,948) |
| Appropriation to reserves | (17,264) | (10,250) |
| Balance at June 30, | 6,393 | 11,427 |
| Petrobras' shareholders' equity | 203,783 | 97,521 |
| Noncontrolling interests | | |
| Balance at January 1, | 1,903 | 1,362 |
| Net income for the period | 404 | 39 |
| Other changes in the period | (173) | 22 |
| Balance at June 30, | 2,134 | 1,423 |
| Total shareholders' equity | 205,917 | 98,944 |
| Comprehensive income is comprised as follows: | | |
| Net income for the period | 13,576 | 8,602 |
| Cumulative translation adjustments | 12,620 | (3,201) |
| Postretirement benefit reserves adjustments, net of tax - pension and health care cost | (182) | 65 |
| Unrealized loss on available-for-sale securities | (83) | (15) |
| Unrecognized loss on cash flow hedge | 3 | (9) |
| Comprehensive income | 25,934 | 5,442 |
| Less: Net comprehensive income attributable to noncontrolling interests | (404) | (39) |
| Comprehensive income attributable to Petrobras | 25,530 | 5,403 |

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

1. Basis of Financial Statements Preparation

The accompanying unaudited consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras and its subsidiaries (together referred as “the Company”) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Accordingly they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These unaudited consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and the notes thereto.

The balance sheet at December 31, 2010, presented for comparison purpose, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The consolidated financial statements as of June 30, 2011 and for the six-month periods ended June 30, 2011 and 2010, included in this report, are unaudited. However, in management's opinion, such consolidated financial statements reflect all normal recurring adjustments that are necessary for a fair presentation. The results for the interim periods are not necessarily indicative of trends or of results expected for the full year ending December 31, 2011.

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

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

The Company is currently working on discontinuing U.S. GAAP and adopting IFRS, as issued by the IASB, as the basis to prepare and disclose its financial statements for SEC filings purposes for the year ending December 31, 2011, as previously mentioned in its Form 20-F of 2010, filed on May 25, 2011.

Events subsequent to June 30, 2011, were evaluated until the time of the Form 6-K filing with the Securities and Exchange Commission.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

1. Basis of Financial Statements Preparation (Continued)

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

2. Derivative Instruments, Hedging and Risk Management Activities

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

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

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

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

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

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

a) Commodity price risk management

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

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

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

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

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

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

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

a) Commodity price risk management (Continued)

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

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

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

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

As of June 30, 2011, the Company had the following outstanding commodity derivative contracts:

Commodity Contracts

**Notional amount in thousands of bbl*
As of June 30, 2011**

Maturity in 2011

| | |
|-------------------------------|---------|
| Futures and Forward contracts | (9,674) |
| Option contracts | 400 |

* A negative notional value represents a sale position.

Embedded derivatives

Derivatives embedded within other financial instruments or other host contracts are treated as separate derivatives when they have a price based on an underlying that is not clearly and closely related to the asset being sold or purchased. The assessment is made only at the inception of the contracts. Such derivatives are separated from the host contract and recognized at fair value with changes in fair value recognized in earnings.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

2. Derivative Instruments, Hedging and Risk Management Activities (Continued)**a) Commodity price risk management** (Continued)**Sale of ethanol**

Petrobras through its subsidiary, Petrobras International Finance (PifCo), entered into a sales contract of 143,000 m³ per year of ethanol, with Toyota Tsusho Corporation, for ten years subject to renegotiation of prices and termination after the first five years. The sales price formula is based on both quotations: ethanol and naphtha.

Naphtha is an extraneous underlying to the cost and fair value of the asset being sold. The embedded derivative was bifurcated from the host contract and recognized at fair value through earnings.

The Company determined the fair value based on the difference between the spreads for naphtha and ethanol. The market quotations used in the measurement were obtained from the CBOT (Chicago Board of Trade) future market. In accordance with ASC 820, fair value was classified at level 3.

| | Notional amount in thousand of m³ | Fair Value | Maturity |
|-------------------------|---|-------------------|-----------------|
| Forward Contract | | | |
| Long position | 715 | US\$31 | 2016 |
| | 16 | | |

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

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

b) Foreign currency risk management

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

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

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

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

The volume of hedge executed for the exports occurring between January and June 2011 represented 55.84% of the total exported by BR Distribuidora. The settlements of the operations that matured between January 1 and June 30, 2011 generated a positive result for the Company of US\$10.

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

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

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

b) Foreign currency risk management (Continued)

As of June 30, 2011, the Company had the following foreign currency derivative contracts, not qualified as hedging accounting:

| Foreign Currency | Notional Amount US\$ million |
|-------------------------|---|
| Sell USD / Pay BRL | (90) |

Cash flow hedge

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

2. Derivative Instruments, Hedging and Risk Management Activities (Continued)**b) Foreign currency risk management (Continued)****Cash flow hedge (Continued)**

As of June 30, 2011, the Company had the following cross currency swaps:

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

c) Interest rate risk management

The Company's interest rate risk is a function of the Company's long-term debt and to a lesser extent, its short-term debt. The Company's foreign currency floating rate debt is principally subject to fluctuations in LIBOR and the Company's floating rate debt denominated in Reais is principally subject to fluctuations in the Brazilian long-term interest rate (TJLP) as fixed by the Central Bank of Brazil. The Company currently does not use derivative financial instruments to manage its exposure to fluctuations in interest rates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

2. Derivative Instruments, Hedging and Risk Management Activities (Continued)**d) Tabular presentation of the location and amounts of derivative fair values**

The effect of derivative instruments on the balance sheets for the six-month period ended June 30, 2011, is presented as follows:

| In millions of dollars As of June 30, | Asset 2011 Balance Sheet Location | Derivatives | | Fair Value |
|--|--|---|---------------|---------------|
| | | Liability 2011 Balance Sheet Location | Fair Value | |
| Derivatives qualified as hedging instruments under Codification Topic 815 | | | | |
| Foreign exchange contracts | Other current assets | | 122 | - |
| Total | | | 122 | - |
| Derivatives not qualified as hedging instruments under Codification Topic 815 | | | | |
| Foreign exchange contracts | Other current assets | | 4 | - |
| Commodity contracts | Other current assets | | 96 | (54) |
| Total | | | 100 | (54) |

| | | |
|--------------------------|------------|-------------|
| Total Derivatives | 222 | (54) |
|--------------------------|------------|-------------|

20

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

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

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

The effect of derivative instruments on the balance sheets for the year ended December 31, 2010 is presented as follows:

| In millions of dollars As of December 31, | Asset Derivatives 2010 Balance Sheet Location | Fair Value | L Balanc |
|--|--|---------------|-------------|
| Derivatives qualified as hedging instruments under Codification Topic 815 | | | |
| Foreign exchange contracts | Other current assets | 115 | |
| Total | | 115 | |
| Derivatives not qualified as hedging instruments under Codification Topic 815 | | | |
| Foreign exchange contracts | Other current assets | 2 | Other pay |
| Commodity contracts | Other current assets | 48 | Other pay |
| Total | | 50 | |

Total Derivatives

165

21

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

2. Derivative Instruments, Hedging and Risk Management Activities (Continued)**d) Tabular presentation of the location and amounts of derivative fair values (Continued)**

The effect of derivative instruments on the statement of financial position for the six-month period ended June 30, 2011, is reflected as follows:

| | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) June 30, 2011 | Location of Gain or (Loss) reclassified from Accumulated OCI into Income (Effective portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) June 30, 2011 | Amount of Gain or (Loss) Recognized in income on derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) June 30, 2011 |
|--|---|--|---|---|
| Derivatives in Codification Topic 815 Cash Flow Hedging Relationship | | 3 Financial Expenses | - | 1 |
| | 3 | | - | 1 |

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

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

| Derivatives in Codification Topic 815 Cash Flow Hedging Relationship | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | Location of Gain or (Loss) reclassified from Accumulated OCI into Income (Effective portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Recognized in income on derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) June 30, 2010 |
|--|--|--|--|---|
| | June 30, 2010 | | June 30, 2010 | June 30, 2010 |
| Foreign exchange contracts | 3 | Financial Expenses | (14) | - |
| | 3 | | (14) | - |
| | | 22 | | |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

2. Derivative Instruments, Hedging and Risk Management Activities (Continued)**d) Tabular presentation of the location and amounts of derivative fair values (Continued)**

| Derivatives Not Qualified as Hedging Instruments under Codification Topic 815 | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative June 30, 2011 |
|---|---|--|
| Foreign exchange contracts | Financial income/(expenses) net | 13 |
| Commodity contracts | Financial income/(expenses) net | (122) |
| Total | | (109) |

| Derivatives Not Qualified as Hedging Instruments under Codification Topic 815 | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative June 30, 2010 |
|---|---|--|
| Foreign exchange contracts | Financial income/(expenses) net | 1 |
| Commodity contracts | Financial income/(expenses) net | 37 |
| Total | | 38 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

3. Income Taxes

Income taxes in Brazil comprise federal income tax and social contribution tax. The statutory enacted tax rates for income tax and social contribution have been 25% and 9%, respectively, for the six-month periods ended June 30, 2011 and 2010.

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

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

| | Six-month periods | |
|---|--------------------------|--------------------------------|
| | 2011 | ended June 30, 2010 |
| Income before income taxes and noncontrolling interests | | |
| Brazil | 17,919 | 10,599 |
| International | (162) | 1,050 |
| | 17,757 | 11,649 |
| Tax expense at statutory rates - (34%) | (6,037) | (3,961) |
| Adjustments to derive effective tax rate: | | |
| Non-deductible post-retirement and health-benefits | (116) | (101) |
| Tax benefits on interests on shareholders' equity | 1,113 | 674 |

| | | |
|--|----------------|---------|
| Foreign income subject to different tax rates | 693 | 244 |
| Tax incentive (1) | 51 | 82 |
| Other | 115 | 15 |
| Income taxes expenses per consolidated statement of income | (4,181) | (3,047) |

(1) On May 10, 2007, the Brazilian Federal Revenue Office recognized Petrobras' right to deduct certain tax incentives from income tax payable, covering the tax years of 2006 until 2015. During the six-month period ended June 30, 2011, Petrobras recognized a tax benefit in the amount of US\$51 (US\$82 on June 30, 2010) primarily related to these incentives in the Northeast, within the region covered by the Northeast Development Agency (ADENE), granting a 75% reduction in income tax payable, calculated on the profits of the exploration of the incentive activities, which have been accounted for under the flow through method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

3. Income Taxes (Continued)

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

| | Six-month periods ended June 30, | |
|---|---|-------------|
| | 2011 | 2010 |
| Income taxes expenses per consolidated statement of income: | | |
| Brazil | | |
| Current | (2,067) | (2,487) |
| Deferred | (2,186) | (432) |
| | (4,253) | (2,919) |
| International | | |
| Current | 146 | (134) |
| Deferred | (74) | 6 |
| | 72 | (128) |
| Income taxes expenses | (4,181) | (3,047) |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

3. Income Taxes (Continued)

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

| | June 30, 2011 | December 31, 2010 |
|--|----------------------|--------------------------|
| Current assets | 657 | |
| Valuation allowance | - | |
| Current liabilities | - | |
| Net current deferred tax assets | 657 | |
| Non-current assets | | |
| Employees' postretirement benefits, net of Accumulated postretirement benefit reserves adjustments | 1,487 | 1,487 |
| Tax loss carryforwards | 2,703 | 2,703 |
| Other temporary differences, not significant individually | 2,399 | 2,399 |
| Valuation allowance | (1,911) | (1,911) |
| | 4,678 | 4,678 |
| Non-current liabilities | | |
| Capitalized exploration and development costs | (14,196) | (14,196) |
| Property, plant and equipment | (1,273) | (1,273) |
| Exchange variation | (3,081) | (3,081) |
| Other temporary differences, not significant individually | (1,744) | (1,744) |
| | (20,294) | (20,294) |
| Net non-current deferred tax liabilities | (15,616) | (15,616) |
| Non-current deferred tax assets | 365 | 365 |

| | |
|--------------------------------------|----------|
| Non-current deferred tax liabilities | (15,981) |
| Net deferred tax liabilities | (14,959) |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

3. Income Taxes (Continued)

The Company and its subsidiaries file income tax returns in Brazil and in many foreign jurisdictions. These tax returns are open to examination by the respective tax authorities in accordance with each local legislation. In Brazil, the main jurisdiction, this period is set for five subsequent fiscal years.

As of and for the six-month period ended June 30, 2011, the Company did not have any material unrecognized tax benefits. Additionally, the Company does not expect that the amount of the unrecognized tax benefits will change significantly within the next twelve months.

4. Cash and Cash Equivalents

| | June 30, 2011 | December 31, 2010 |
|--|----------------------|--------------------------|
| Cash | 1,925 | 1,974 |
| Investments – Brazilian Reais (1) | 12,226 | 7,819 |
| Investments - U.S. dollars (2) | 7,538 | 7,840 |
| | 21,689 | 17,633 |

(1) Comprised primarily federal public bonds with immediate liquidity and the securities are tied to the American dollar quotation or to the remuneration of the Interbank Deposits - DI.

(2) Comprised primarily by Time Deposit and securities with fixed income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

5. Marketable Securities

| | June 30, 2011 | December 31, 2010 |
|--|----------------------|--------------------------|
| Marketable securities classification: | | |
| Available-for-sale | 3,239 | 3,162 |
| Trading | 15,885 | 15,395 |
| Held-to-maturity | 178 | 154 |
| | 19,302 | 18,711 |
| Less: Current portion of marketable securities | (15,995) | (15,612) |
| Long-term portion of marketable securities | 3,307 | 3,099 |

Available-for-sale securities are presented as “Non-current assets”, as they are not expected to be sold or liquidated within the next twelve months. As of June 30, 2011, Petrobras had a balance of US\$3,106 linked to B Series National Treasury Notes, which are accounted for as available-for-sale securities in accordance with Codification Topic 320.

On October 23, 2008, the B Series National Treasury Notes were used as a guarantee after the confirmation of the agreements into with Petros, Petrobras’ pension plan (see Note 13). The nominal value of the NTN-Bs is based on variations in the Amplified Consumer Price Index (IPCA). The maturities of these notes are 2024 and 2035 and they

bear interest coupons of 6% p.a., which is paid semi-annually. At June 30, 2011, the balances of the National Treasury Notes - Series B (NTN-B) are measured in accordance to their market value, based on the average prices disclosed by the National Association of Open Market Institutions (ANDIMA).

During the first half of 2011, Petrobras invested a portion of the resources raised from the Global Offering primarily in Brazilian Treasury Securities with original maturity of more than three months. These securities were classified as trading, in accordance with Codification Topic 320, due to the purpose of selling them in the near term.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

6. Inventories

| | June 30, 2011 | December 31, 2010 |
|---------------------------------|----------------------|--------------------------|
| Products | | |
| Oil products | 5,379 | 3,799 |
| Fuel alcohol | 342 | 286 |
| | 5,721 | 4,085 |
| Raw materials, crude oil mainly | 8,387 | 5,690 |
| Materials and supplies | 2,084 | 2,044 |
| Other | 247 | 69 |
| | 16,439 | 11,888 |
| Current inventories | 16,394 | 11,834 |
| Long-term inventories | 45 | 54 |

Inventories are stated at the lower of cost or net realizable value. As a result of the decline in the market prices of oil products, the Company recognized a loss of US\$162 for the six-month period ended June 30, 2011 (US\$173 for the six-month period ended June 30, 2010), which was classified as other operating expenses in the consolidated income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

7. Recoverable Taxes

Recoverable taxes consisted of the following:

| | June 30, 2011 | December 31, 2010 |
|-------------------------------------|----------------------|------------------------------|
| Local: | | |
| Domestic value-added tax (ICMS) (1) | 3,288 | 3,022 |
| PASEP/COFINS (2) | 8,037 | 6,885 |
| Income tax and social contribution | 1,460 | 1,265 |
| Foreign value-added tax (IVA) | 32 | 42 |
| Other recoverable taxes | 586 | 453 |
| | 13,403 | 11,667 |
| Less: Long-term recoverable taxes | (6,235) | (6,407) |
| Current recoverable taxes | 7,168 | 5,260 |

(1) Domestic value-added sales tax (ICMS) is composed of credits generated by commercial operations and by the acquisition of property, plant and equipment and can be offset against taxes of the same nature.

(2) Composed of credits arising from non-cumulative collection of PASEP and COFINS, which can be compensated with other federal taxes payable.

The recoverable income tax and social contribution will be offset against future income taxes payable.

Petrobras plans to fully recover these taxes, and as such, no allowance has been provided.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

8. Property, Plant and Equipment, Net

a) Accounting treatment of Assignment Agreement (“Cessão Onerosa”)

On September 3, 2010, Petrobras entered into an agreement with the Brazilian federal government (Assignment Agreement), under which the government assigned to the Company the right to conduct research activities and the exploration and production of fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent up to 40 years renewable for more five years upon certain conditions.

The Assignment Agreement provides for a subsequent revision of the volume and the price, based on an independent third party assessment. If the contract parties determine that the value of the rights acquired is higher than the initial purchase price, the Company may either pay the difference to the Brazilian federal government, in which case is expected the recognition of the difference as Property Plant & Equipment (long-term asset), or reduce the total volume acquired under the contract, in which case there would be no impact on the balance sheet. If the contract parties determine that the value of the rights acquired is lower than the initial purchase price, the Brazilian federal government will pay for the difference in cash and/or bonds, dependent of Government Budget conditions and it is expected a reduction of the amount originally recorded as Property Plant & Equipment (long-term asset) by the amount received from the Brazilian federal government.

The agreement also establishes minimum commitments with respect to local acquisition of goods and services from Brazilian suppliers in the exploration stage and in the development stage of production, which will be subject to proof with ANP. In the event of non-compliance, ANP will be able to apply administrative and pecuniary sanctions established in the contract.

The Company will record any adjustment to the acquisition cost, when it is probable and determinable it will pay or receive in the future, amounts as a result of the subsequent revision.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

9. Petroleum and Alcohol Account - Receivable from Federal Government

At June 30, 2011, the balance of the Petroleum and Alcohol Account was US\$529, which may be paid as follows: (1) National Treasury Bonds issued at the same amount as the final balance of the Petroleum and Alcohol account, pursuant to Provisional Measure n° 2,181, of August 24, 2001; (2) offset of the balance of the Petroleum and Alcohol account, with any other amount owed by Petrobras to the Federal Government, including taxes; or (3) by a combination of the above options.

In order to conclude the settlement of accounts with the Federal Government, Petrobras provided all the information required by the National Treasury Office - STN, seeking to settle all the remaining disputes between the parties.

As Petrobras considers the negotiation process between the parties at administrative level has been exhausted, the Company's Management decided on judicial collection of the aforementioned credit for settlement of the balance of the Petroleum and Alcohol Account, and in order to do so, it filed a lawsuit in July 2011.

10. Financing

The Company has utilized project financing to continue its development of exploration, production and related projects.

The VIE's associated with the project financing projects are consolidated based on ASC Topic 810-10-25 ("Variable Interest Entities").

The weighted average annual interest rates on outstanding short-term borrowings were 3.00% and 2.31% at June 30, 2011 and December 31, 2010, respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

10. Financing (Continued)

The Company's short-term borrowings are principally sourced from commercial banks and include import and export financing denominated in United States dollars, as follows:

| | Current | | Non- current | |
|---|----------------|---------------------|---------------------|---------------------|
| | June | | June | |
| | 30, | December 31, | 30, | December 31, |
| | 2011 | 2010 | 2011 | 2010 |
| Foreign | | | | |
| Financial institutions | 6,942 | 6,381 | 19,681 | 17,460 |
| Bearer bonds - Notes | 1,382 | 587 | 17,836 | 11,573 |
| Trust Certificates – Senior/Junior | 69 | 71 | 159 | 194 |
| Other | 3 | 2 | 107 | 307 |
| | 8,396 | 7,041 | 37,783 | 29,534 |
| In Brazil | | | | |
| BNDES | 966 | 1,269 | 20,110 | 19,384 |
| Debentures | 236 | 189 | 1,592 | 1,427 |
| FINAME – Earmarked for construction of Bolívia –Brazil gas pipeline | 69 | 42 | 332 | 233 |
| Export credit notes | 81 | 66 | 6,711 | 6,295 |
| Bank credit certificate | 36 | 32 | 2,310 | 2,164 |
| Other | 448 | 321 | 1,691 | 1,434 |
| | 1,836 | 1,919 | 32,746 | 30,937 |
| | 10,232 | 8,960 | 70,529 | 60,471 |

| | | |
|-----------------------------------|---------------|-------|
| Interest on debt | 1,150 | 869 |
| Current portion of long-term debt | 4,022 | 2,883 |
| Current debt | 5,060 | 5,208 |
| Total debt | 10,232 | 8,960 |

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

10. Financing (Continued)

a) Long-term debt

- Composition of foreign currency denominated debt by currency

| | June 30, | |
|-----------------------|-----------------|--------------------------|
| | 2011 | December 31, 2010 |
| Currency | | |
| United States dollars | 35,988 | 27,583 |
| Japanese Yen | 1,583 | 1,651 |
| Euro | 147 | 131 |
| Other | 65 | 169 |
| | 37,783 | 29,534 |

- Maturities of the principal of long-term debt

The long-term portion at June 30, 2011, becomes due in the following years:

| | |
|------|--------------|
| 2012 | 3,036 |
| 2013 | 3,706 |
| 2014 | 4,407 |

| | |
|---------------------|---------------|
| 2015 | 4,982 |
| 2016 and thereafter | 54,398 |
| | 70,529 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

10. Financing (Continued)**a) Long-term debt** (Continued)

The composition of annual interest rates on long-term debt is as follows:

| | June 30, 2011 | December 31, 2010 |
|------------------|----------------------|--------------------------|
| Foreign currency | | |
| 6% or less | 28,993 | 21,900 |
| Over 6% to 8% | 7,198 | 6,285 |
| Over 8% to 10% | 1,200 | 1,219 |
| Over 10% to 12% | 33 | 33 |
| Over 12% | 359 | 97 |
| | 37,783 | 29,534 |
| Local currency | | |
| 6% or less | 4,923 | 2,426 |
| Over 6% to 8% | 16,360 | 17,932 |
| Over 8% to 10% | 699 | 592 |
| Over 10% to 12% | 1,602 | 9,759 |
| Over 12% | 9,162 | 228 |
| | 32,746 | 30,937 |
| | 70,529 | 60,471 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

10. Financing (Continued)**a) Long-term debt** (Continued)**Issuance of long-term debt**

The main long-term funding carried out in the period from January to June 2011 is shown in the following table:

a.1) Foreign

| Company | Date | US\$ | Maturity | Description |
|----------------|-------------|-------------|---------------------|--|
| PifCo | Jan/2011 | 6,000 | 2016, 2021 and 2041 | Global Notes in the amounts of US\$2,500, US\$ 2,500 and US\$1,000 at rates of 3.875%; 5.375% and 6.75% p.a., respectively. |
| Charter | Jan/2011 | 750 | 2018 | Financing obtained from the Standard Shatered, Libor plus 1.5% p.a. |
| PNBV | Mar/2011 | 650 | 2015 and 2021 | Financing obtained from the Bank of Tokyo-Mitsubish - Libor plus 1.25% p.a. and financing from the Bank Santander S.A., HSBC Bank PLC, HSBC Bank USA, N.A. and SACE S.P.A. - Libor plus 1.10% p.a., in the |

amounts of US\$150 and US\$500, respectively.

| | | | | |
|------|----------|-------|------|--|
| PNBV | Jun/2011 | 2,000 | 2018 | Financing obtained from the Bank Santander S.A. Grand Cayman Branch - Libor plus 1.4760% p.a. and financing from the Bank of Tokyo-Mitsubish - Libor plus 1.30% p.a. in the amounts of US\$1,500 and US\$500 respectively. |
| | | 9,400 | | |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

10. Financing (Continued)**a) Long-term debt** (Continued)**Issuance of long-term debt** (Continued)**a.2) In Brazil**

| Company | Date | US\$ | Maturity | Description |
|-------------------------------------|--------------------------|-------------|-----------------|---|
| CITEPE and Petroquímica Suape | Apr/2011 and Jun/2011 | 487 | 2022 and 2023 | Financing obtained from BNDES in the amounts of US\$319 (CITEPE) and US\$ 168 (Petroquímica Suape) - TJLP plus 1.36% p.a. and 4.5% p.a., respectively |

b) Outstanding lines of credit with official credit agencies**b.1) Foreign**

| Company | Agency | Contracted | US\$ Used | Balance | Description |
|----------------|----------------------|-------------------|----------------------|----------------|--------------------|
| Petrobras | China Development | 10,000 | 7,000 | 3,000 | Libor +2.8% p.a. |

Bank

b.2) In Brazil

| Company | Agency | Contracted | US\$ Used | Balance | Description |
|-------------------|---------------------------------|------------|--------------|---------|---|
| Transpetro (*) | BNDES and Banco do Brasil | 5,768 | 344 | 5,424 | Program for Modernization and Expansion of the FLEET (PROMEF) - TJLP+2.5% p.a. to national equipment and 3% p.a. to imported equipment. |
| Petrobras | Banco do Brasil | 320 | 244 | 76 | Commercial Credit Certificate (FINAME) - 4.5% p.a. |
| Petrobras | Caixa Econômica Federal | 192 | - | 192 | Bank Credit Certificate - Revolving Credit – 110% p.a. of average CDI |

(*) Agreements for conditioned purchase and sale of 41 ships and 20 convoys were entered into with 6 Brazilian shipyards in the amount of US\$6,410, where 90% is financed by BNDES and Banco do Brasil.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

11. Financial Income (Expenses), Net

Financial expenses, financial income, monetary and exchange variations, allocated to income for the six-month periods ended June 30, 2011 and 2010 are as follows:

| | Six-month periods ended June 30, | |
|---|---|-------------|
| | 2011 | 2010 |
| Financial expenses | | |
| Loans and financing | (2,356) | (1,708) |
| Losses on derivative instruments (Note 2) | (160) | (68) |
| Repurchased securities losses | (12) | (14) |
| Other | (240) | (270) |
| | (2,768) | (2,060) |
| Capitalized interest | 2,350 | 1,238 |
| | (418) | (822) |
| Financial income | | |
| Investments | 969 | 344 |
| Marketable securities | 869 | 152 |
| Gains on derivative instruments (Note 2) | 51 | 106 |
| Clients | 148 | 61 |
| Other | 110 | 261 |
| | 2,147 | 924 |
| Monetary and exchange variations | 1,460 | (781) |
| | 3,189 | (679) |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

12. Capital Lease Obligations

The Company leases certain offshore platforms and vessels, which are accounted for as capital leases. As of June 30, 2011, assets under capital leases had a net book value of US\$2,045.

The following is a schedule by year of the future minimum lease payments as of June 30, 2011:

| | |
|---|-------------|
| 2011 | 51 |
| 2012 | 54 |
| 2013 | 20 |
| 2014 | 20 |
| 2015 | 19 |
| 2016 and thereafter | 69 |
| Estimated future lease payments | 233 |
| Less amount representing interest at 6.2% to 12.0% annual | (44) |
| Present value of minimum lease payments | 189 |
| Less current portion of capital lease obligations | (73) |
| Long-term portion of capital lease obligations | 116 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

13. Employees' Postretirement Benefits and Other Benefits

The Company sponsors a defined contribution benefit pension plan covering substantially all of its employees and provides certain health care benefits for a number of active and retired employees. For the six-month periods ended June 30, 2011, the Company made contributions of US\$143 to the defined contribution portion of the variable contribution plan.

The balances related to Employees' Postretirement Benefits are represented as follows:

| | June 30, 2011 | | Total | As of December 31, 2010 | | Total |
|--|------------------|----------------------|--------|----------------------------|----------------------|--------|
| | Pension Benefits | Health Care Benefits | | Pension Benefits | Health Care Benefits | |
| Current liabilities | | | | | | |
| Defined-benefit plan | 376 | 400 | 776 | 369 | 374 | 743 |
| Variable Contribution plan | 41 | - | 41 | 39 | - | 39 |
| Employees' postretirement projected benefits obligation | 417 | 400 | 817 | 408 | 374 | 782 |
| Long-term liabilities | | | | | | |
| Defined-benefit plan | 6,137 | 8,830 | 14,967 | 5,719 | 7,889 | 13,608 |
| Variable Contribution plan | 256 | - | 256 | 132 | - | 132 |
| Employees' postretirement projected benefits obligation | 6,393 | 8,830 | 15,223 | 5,851 | 7,889 | 13,740 |
| | 6,810 | 9,230 | 16,040 | 6,259 | 8,263 | 14,522 |
| Shareholders' equity - Accumulated other comprehensive income | | | | | | |
| Defined-benefit plan | 3,554 | 653 | 4,207 | 3,322 | 609 | 3,931 |

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

| | | | | | | |
|--|----------------|--------------|----------------|---------|-------|---------|
| Variable Contribution plan | 189 | - | 189 | 189 | - | 189 |
| Tax effect | (1,272) | (223) | (1,495) | (1,194) | (207) | (1,401) |
| Net balance recorded in shareholders' equity | 2,471 | 430 | 2,901 | 2,317 | 402 | 2,719 |

40

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

13. Employees' Postretirement Benefits and Other Benefits (Continued)

Net periodic benefit cost includes the following components:

| | 2011 | | As of June 30, | | 2010 | |
|--|------------------|-----------------------|----------------|------------------|-----------------------|--|
| | Pension Plans | | Health | Pension Plans | | |
| | Defined-Benefits | Variable Contribution | Care Benefits | Defined-Benefits | Variable Contribution | |
| Service cost-benefits earned during the period | 124 | 99 | 79 | 118 | 42 | |
| Interest cost on projected benefit obligation | 1,983 | 27 | 497 | 1,456 | 16 | |
| Expected return on plan assets | (1,772) | (12) | - | (1,237) | (8) | |
| Amortization of net actuarial loss | 34 | 6 | 16 | 30 | 4 | |
| | 369 | 120 | 592 | 367 | 54 | |
| Employees' contributions | (127) | (1) | - | (109) | (12) | |
| Net periodic benefit cost | 242 | 119 | 592 | 258 | 42 | |

At June 30, 2011, the balances of the Financial Commitment Agreements, signed in 2008 by the Company and Petros, totaled US\$3,195, on which US\$31 in interest falls due in 2011.

14. Shareholders' Equity

a) Capital

The Company's subscribed and fully paid-in capital at June 30, 2011 and at December 31, 2010 consisted of 7,442,454,142 common shares and 5,602,042,788 preferred shares. The preferred shares do not have any voting rights and are not convertible into common shares or vice-versa. Preferred shares have priority in the receipt of dividends and return of capital.

The relation between the ADS and shares of each class is of 2 (two) shares for one ADS.

Current Brazilian law requires that the Federal Government retains ownership of 50% plus one share of the Company's voting shares.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

14. Shareholders' Equity (Continued)

a) Capital (Continued)

a.1) Capital increase with reserves in 2011

The Special General Shareholders' Meeting held jointly with the General Shareholders' Meeting on April 28, 2011 approved the capital increase for the Company from US\$109,746 (R\$205,357) to US\$109,760 (R\$ 205,380), through capitalization of part of undistributed earnings reserve established in 2010 in the amount of US\$14 (R\$23), in compliance with article 35, paragraph 1, of Ordinance 2091/07 of the Government Minister for National Integration. This capitalization was made without issuing new shares, pursuant to article 169, paragraph 1, of Law 6.404/76.

b) Dividends and interest on shareholders' equity related to 2010 results

b.1) Dividends and interest on shareholders' equity – fiscal year 2010

The Annual General Shareholders' Meeting of April 28, 2011 approved dividends referring to 2010 in the amount of US\$6,780, which includes interest on shareholders' equity in the total amount of US\$5,857, as follows:

| Portion | Date of board of directors approval | Shareholders' positions | Payment date | US\$ million |
|----------------|--|--------------------------------|---------------------|---------------------|
|----------------|--|--------------------------------|---------------------|---------------------|

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

| | | | | |
|---|------------|------------|------------|--------------|
| 1 st Portion of Interest on shareholders' equity | 05.14.2010 | 05.21.2010 | 05.31.2010 | 982 |
| 2 nd Portion of Interest on shareholders' equity | 07.16.2010 | 07.30.2010 | 08.31.2010 | 966 |
| 3 rd Portion of Interest on shareholders' equity | 10.22.2010 | 11.01.2010 | 11.30.2010 | 1,062 |
| 4 th Portion of Interest on shareholders' equity | 12.10.2010 | 12.21.2010 | 12.30.2010 | 1,539 |
| 5 th Portion of Interest on shareholders' equity | 02.25.2011 | 03.21.2011 | 03.31.2011 | 1,308 |
| Dividends | 02.25.2011 | 04.28.2011 | 06.27.2011 | 923 |
| | | | | 6,780 |

The portions of the interest on shareholders' equity distributed in advance in 2010 and 2011 were discounted from the proposed dividends for this year and restated by the SELIC rate from the date of their payment up to December 31, 2010. The dividend was monetarily restated from December 31, 2010 until the date of payment, in accordance with the variation of the SELIC rate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

14. Shareholders' Equity (Continued)**b) Dividends and interest on shareholders' equity related to 2010 results (Continued)****b.2) Interest on shareholders' equity – fiscal year 2011**

The Company's Board of Directors approved distribution in advance of remuneration to shareholders in the form of interest on shareholders' equity, as established in article 9 of Law 9249/95 and Decrees 2673/98 and 3381/00, as follows:

| Portion | Date of board of directors approval | Shareholders' positions | Payment date | US\$ million |
|---|--|--------------------------------|---------------------|---------------------|
| 1 st Portion of Interest on shareholders' equity | 04.29.2011 | 05.11.2011 | 05.31.2011 | 1,645 |
| 2 nd Portion of Interest on shareholders' equity | 07.22.2011 | 08.02.2011 | Up to 10.31.2011 | 1,668 |
| | | | | 3,313 |

This interest on shareholders' equity will be deducted from the dividends to be distributed on the closing of fiscal year 2011. The amount of interest on shareholders' equity will be monetarily restated, according to the variation of the SELIC rate from the date of effective payment until the end of 2011.

The interest on shareholders' capital is subject to the levy of income tax at the rate of 15%, except for shareholders that are declared immune or exempt.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

14. Shareholders' Equity (Continued)**c) Basic and diluted earnings per share**

Basic and diluted earnings per share amounts have been calculated as follows:

| | Six-month periods ended | |
|--|--------------------------------|----------------------|
| | 2011 | June 30, 2010 |
| Net income for the period attributable to Petrobras | 13,172 | 8,347 |
| Less priority preferred share dividends | (2,663) | (1,000) |
| Less common shares dividends, up to the priority preferred shares dividends on a per-share basis | (3,538) | (1,000) |
| Remaining net income to be equally allocated to common and preferred shares | 6,971 | 5,347 |
| Weighted average number of shares outstanding: | | |
| Common | 7,442,454,142 | 5,073,347,000 |
| Preferred | 5,602,042,788 | 3,700,729,000 |
| Basic and diluted earnings per: | | |
| Common and preferred share | 1.01 | 1.01 |
| Common and preferred ADS | 2.02 | 2.02 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

15. Commitments and Contingencies

Petrobras is subject to a number of commitments and contingencies arising from its normal course of business. Additionally, the operations and earnings of the Company have been, and may be in the future, affected from time to time in varying degrees by political developments and laws and regulations, such as the Federal Government's continuing role as the controlling shareholder of the Company, the status of the Brazilian economy, forced divestiture of assets, tax increases and retroactive tax claims, or environmental regulations. The likelihood of such occurrences and their overall effect upon the Company are not readily predictable.

a) Litigation – Legal proceedings provisioned

The Company is a defendant in numerous legal actions involving civil, tax, labor, corporate and environment issues arising from its normal course of business. Based on the advice of its internal legal counsel and management's best judgment, the Company has recorded accruals to provide sufficiently for losses that are considered probable and reasonably estimable.

At June 30, 2011 and December 31, 2010, the respective amounts accrued by type of claims are as follows:

| | June 30, 2011 | December 31, 2010 |
|--|----------------------|--------------------------|
| Labor claims | 121 | 119 |
| Tax claims | 408 | 361 |
| Civil claims | 183 | 214 |
| Commercials claims and other contingencies | 23 | 66 |

Total long-term contingencies

735

760

As of June 30, 2011 and December 31, 2010, in accordance with Brazilian law, the Company had US\$1,787 and US\$1,674 respectively, into federal deposit accounts to provide for certain claims until they are settled. These amounts are reflected in the balance sheet as restricted deposits for legal proceedings and guarantees.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

15. Commitments and Contingencies (Continued)

b) Proceedings classified as possible losses

The relevant changes in contingent liabilities related to principal proceedings, disclosed in the Company's consolidated financial statements as of December 31, 2010, are described below:

b.1) Processes included in the period

- **Plaintiff: State Revenue Service of São Paulo**

São Paulo state finance authorities filed a Tax Assessment against the Company in connection with the withdrawal of collection of ICMS and fine on imports (Temporary Admission - Drilling Rig - Admission in São Paulo - Clearance in Rio de Janeiro). The lower court considered the assessment to have grounds and this decision was maintained in the second instance. Special appeal by the Company was not recognized. An annulment action of tax debt was filed, where advance relief was granted to suspend the demandability of the tax credit, without an offer of collateral. The maximum exposure for the Company, including monetary restatement, as June 30, 2011 is US\$956.

- **Special participation in the Albacora, Carapeba, Cherne, Espadarte, Marimbá, Marlim, Marlim Sul, Namorado, Pampo and Roncador Fields- Campos Basin**

This special participation was established by Brazilian Petroleum Law 9478/97 and is paid as a form of compensation for oil production activities and is levied on high volume production fields. The method used by Petrobras to calculate the special participation due for the abovementioned fields is based on a legally legitimate interpretation of Ordinance 10 of January 14, 1999, approved by the National Petroleum Agency (ANP).

On February 7, 2011, Petrobras received notice from ANP, which instituted an administrative process and established payment of new sums of money considered to be owed for the period between the first quarter of 2005 and the first quarter of 2010, referring to amounts that had been underpaid by the concessionaire.

On February 22, 2011, Petrobras presented a defense for the administrative process, requesting that the notice of infraction be considered invalid, since the facts which ANP used as a basis for concluding on the irregularity of the payment of the Special Participation do not correspond to the reality.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

15. Commitments and Contingencies (Continued)

b) Proceedings classified as possible losses (Continued)

b.1) Processes included in the period (Continued)

- **Special participation in the Albacora, Carapeba, Cherne, Espadarte, Marimbá, Marlim, Marlim Sul, Namorado, Pampo and Roncador Fields- Campos Basin (Continued)**

If ANP's administrative decision is maintained, Petrobras shall assess the possibility of a court suit to suspend and annul the collection of the differences of the Special Participation.

The maximum updated exposure for Petrobras as at June 30, 2011 is US\$368.

b.2) Processes disclosed previously and updated to June 30, 2011

- **Plaintiff: State Revenue Service of Rio de Janeiro**

Rio de Janeiro state finance authorities filed a Tax Assessment against the Company in connection with the exclusion of the LNG transfer operations in the ambit of the centralizing establishment from the ICMS taxation. Unfavorable

decision for Petrobras. Spontaneous appeal filed in the Taxpayers' Council, which denied approval of the appeal. The Company filed a tax debt annulment action with a petition for advance relief which, through the presentation of guarantee insurance, was granted with suspension of demandability of the tax credit. The maximum exposure for the Company, including monetary restatement, as June 30, 2011 is US\$1,455.

- **Plaintiff: National Agency for Petroleum, Natural Gas and Biofuel – ANP**

Fine for non-compliance with minimum exploration programs – “Rodada Zero”. The execution of the fines is suspended through an injunction, pursuant to records of the suit lodged by Petrobras. Through a civil suit, the Company is claiming recognition of its credit resulting from article 22, paragraph 2 of the Petroleum Law, requesting the offsetting of the eventual debt that Petrobras may have with ANP. Both the legal processes, which are being handled jointly, are in the evidentiary stage.

The maximum exposure including monetary restatement for Petrobras as of June 30, 2011 is US\$380.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

15. Commitments and Contingencies (Continued)

b) Proceedings classified as possible losses (Continued)

b.2) Processes disclosed previously and updated to June 30, 2011 (Continued)

• **Plaintiff: Internal Revenue Service of Rio de Janeiro - Withholding Income Tax related to charter of vessels**

The Internal Revenue Service of Rio de Janeiro filed two Tax Assessments against the Company in connection with Withholding Income Tax on foreign remittances of payments related to charter of vessels of movable platform types for the years 1999 through 2002.

The Internal Revenue Service, based on Law No. 9,537/97, Article 2, considers that drilling and production platforms cannot be classified as sea-going vessels and therefore should not be chartered but leased. Based on this interpretation, overseas remittances for servicing chartering agreements would be subject to withholding tax at the rate of 15% or 25%.

Petrobras submitted new administrative appeals to the Higher Chamber of Tax Appeals, which denied approval. The Company considers that it applied the prevailing tax legislation correctly, which is why it will resort to judicial means to pursue its defense. The maximum exposure including monetary restatement for Petrobras as of June 30, 2011 is US\$2,948.

- **Plaintiff: Rio de Janeiro state finance authorities - II and IPI Tax related to Termorio equipments**

Rio de Janeiro state finance authorities filed a Tax Assessment against the Company in connection with II (Import Tax) and IPI (Federal VAT) contesting the tax classification as Other Electricity Generation Groups for the import of the equipment belonging to the thermoelectric power station Termorio S.A.

On August 15, 2006, Termorio filed in the inspector's department of the Federal Revenue Department of Rio de Janeiro a refutation against this tax deficiency notice, considering that the tax classifications that were made were based on a technical report of a renowned institute. On October 11, 2007, the 1st Panel of Judgment dismissed the assessment. The Federal Revenue Department filed an ex-officio appeal to the Taxpayers' Council of Porto Alegre – in the state of Rio Grande do Sul. Notices heard on June 2, 2011, when the appeal was partially approved by majority and only the fine of administrative control was reduced. Awaiting publication of the court decision. The maximum exposure including monetary restatement for Petrobras as of June 30, 2011, is US\$356.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

15. Commitments and Contingencies (Continued)

b) Proceedings classified as possible losses (Continued)

b.2) Processes disclosed previously and updated to June 30, 2011 (Continued)

- **Plaintiff: Federal Revenue Service - Contribution of Intervention in the Economic Domain - CIDE**

The Federal Revenue service filed a Tax Assessment against the Company due to non-payment in the period of March 2002 to October 2003 of the Contribution of Intervention in the Economic Domain - CIDE, the per-transaction tax payable to the Brazilian government, required to be paid by producers, blenders and importers upon sales and purchases of specified oil and fuel products at a set amount for different products based on the unit of measurement typically used for such products, pursuant to court orders obtained by Distributors and Fuel Stations, protecting them from levying of this charge. The lower court considered the assessment to have grounds. The Company filed a spontaneous appeal which was denied approval. As soon as it is summoned, Petrobras will examine the possibility of filing motions to stay the execution of the respective court decision, with requests for filing of a special appeal to the Superior Chamber of Tax Appeals. The maximum exposure for Petrobras, including monetary restatement, as of June 30, 2011 is US\$776.

- **Plaintiff: Municipal governments of Anchieta, Aracruz, Guarapari, Itapemirim, Jaguaré, Marataízes, Serra, Vila Velha and Vitória**

Some municipalities located in the State of Espírito Santo have filed notices of infraction against Petrobras for the supposed failure to withhold service tax of any nature on offshore services. Petrobras withheld the service tax of any nature; however, it paid the tax to the municipalities where the respective service providers are established, in

accordance with Complementary Law 116/03. The Company presented administrative defenses with the aim of canceling the assessments and the majority are in the process of being heard. Of the municipalities with respect to those that have already exhausted the discussion, only the municipality of Itapemirim has filed tax collection proceedings. In this judicial case, the Company has offered a guarantee and filed an appeal. In the municipality of Linhares it was considered to have grounds in the first instance. Petrobras filed a spontaneous appeal, which was denied, thus upholding the official notification. The Company is evaluating the judicialization. The maximum exposure for the Company, including monetary restatement, as of June 30, 2011 is US\$990.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

15. Commitments and Contingencies (Continued)

b) Proceedings classified as possible losses (Continued)

b.2) Processes disclosed previously and updated to June 30, 2011 (Continued)

- **Plaintiff: State Revenue Service of São Paulo**

São Paulo state finance authorities filed a Tax Assessment against the Company in connection with termination of collection of ICMS and a fine for importing and non-compliance with an accessory obligation. Temporary admission – Drilling rig - Admission in Sao Paulo - Customs clearance in Rio de Janeiro (ICMS agreement 58/99). The lower court considered the assessment to have grounds. The decision was upheld at the second instance. Awaiting a hearing at the second administrative level of the ordinary appeal filed by the Company. The maximum exposure for the Company, including monetary restatement, as of June 30, 2011 is US\$1,254.

- **Plaintiff: Finance and Planning Department of the Federal District**

Federal District finance authorities filed a Tax Assessment against the Company in connection with payment of ICMS due to omission on exit (Inventories). The lower court considered the assessment to have grounds. Petrobras filed a spontaneous appeal, which was considered void. The Company is awaiting the publication of the decision in order to assess eventual judicialization. The maximum exposure for the Company, including monetary restatement, as of June 30, 2011 is US\$97.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

15. Commitments and Contingencies (Continued)

b) Proceedings classified as possible losses (Continued)

b.2) Processes disclosed previously and updated to June 30, 2011 (Continued)

- **Presidente Getúlio Vargas refinery oil spill**

On July 16, 2000, an oil spill occurred at the Presidente Getúlio Vargas refinery releasing crude oil in the surrounding area. The Federal and State of Paraná Prosecutors have filed a civil lawsuit against the Company seeking US\$1,176 in damages, which have already been contested by the Company. Additionally, there are two other actions pending, one by the Instituto Ambiental do Paraná (Paraná Environmental Institute) and by another civil association called AMAR that have already been contested by the Company. Awaiting initiation of the expert investigation to quantify the amount. The court determined that the suits brought by AMAR and the Federal and State Prosecutors be tried as one. The maximum exposure including monetary restatement for Petrobras as of June 30, 2011 is US\$106 related to AMAR and US\$4,051 to the Federal and State of Paraná Prosecutors.

b.3) Processes for small amounts

The Company is involved in a number of legal and administrative proceedings with expectations of possible losses, whose total as at June 30, 2011 is broken down as follows: US\$89 for civil actions, US\$587 for labor actions, US\$898 for tax actions and US\$120 for environmental actions.

c) Environmental matters

The Company is subject to various environmental laws and regulations. These laws regulate the discharge of oil, gas or other materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of such materials at various sites.

The Company's management considers that any expenses incurred to correct or mitigate possible environmental impacts should not have a significant effect on its operations or cash flows.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

16. Fair value Measurements

The Company's debt including project financing obligations, resulting from Codification Topic 810 consolidation amounted to US\$70,529 at June 30, 2011, and had an estimated fair value of US\$72,098.

The fair value hierarchy for the Company's financial assets and liabilities accounted for at fair value on a recurring basis, at June 30, 2011, was:

| | Fair Value | | | Total |
|---|------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Marketable securities | 19,124 | - | - | 19,124 |
| Foreign exchange derivatives (Note 2) | - | 126 | - | 126 |
| Commodity derivatives (Note 2) | 57 | 9 | 30 | 96 |
| Total assets as of June 30, 2011 | 19,181 | 135 | 30 | 19,346 |
| Total assets as of December 31, 2010 | 18,572 | 118 | 32 | 18,722 |
| Liabilities | | | | |
| Commodity derivatives (Note 2) | (52) | (2) | - | (54) |
| Total liabilities as of June 30, 2011 | (52) | (2) | - | (54) |
| Total liabilities as of December 31, 2010 | (40) | (2) | - | (42) |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information

The following presents the Company's assets by segment:

| | As of June 30, 2011 | | | | | | | |
|--|----------------------------------|--|-------------------|--------------|---|--------------|---------------|-----------|
| | Exploration and Production | Refining, Transportation & Marketing | Gas & Power | Biofuel (1) | International (see separate disclosure) | Distribution | Corporate (1) | Eliminati |
| Current assets | 6,159 | 23,466 | 2,793 | 138 | 3,481 | 4,684 | 43,434 | (7,4 |
| Cash and cash equivalents | - | - | - | - | - | - | 21,689 | |
| Other current assets | 6,159 | 23,466 | 2,793 | 138 | 3,481 | 4,684 | 21,745 | (7,4 |
| Investments in non-consolidated companies and other investments | - | 3,282 | 724 | 892 | 931 | 294 | 136 | |
| Property, plant and equipment, net | 145,508 | 56,827 | 26,841 | 362 | 9,772 | 3,051 | 4,915 | |
| Non-current assets | 3,653 | 3,668 | 1,638 | 9 | 2,537 | 765 | 8,583 | (4 |
| Total assets | 155,320 | 87,243 | 31,996 | 1,401 | 16,721 | 8,794 | 57,068 | (7,8 |

(1) As of 2011 Biofuel's assets are presented separately. This information was previously included in the Corporate Segment. For comparative purposes, the 2010 information was reclassified.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information (Continued)

| | As of June 30, 2011 | | | | | | |
|--|---|---|----------------------------|---------------------|------------------|---------------------|---------------|
| | International | | | | | | |
| | Exploration and Production | Refining, Transportation & Marketing | Gas & Power | Distribution | Corporate | Eliminations | Total |
| Current assets | 1,094 | 2,087 | 270 | 447 | 47 | (464) | 3,481 |
| Investments in non-consolidated companies and other investments | 633 | 30 | 174 | 13 | (36) | 117 | 931 |
| Property, plant and equipment, net | 8,538 | 871 | 256 | 454 | 206 | (553) | 9,772 |
| Non-current assets | 2,581 | 313 | 65 | 70 | 1,396 | (1,888) | 2,537 |
| Total assets | 12,846 | 3,301 | 765 | 984 | 1,613 | (2,788) | 16,721 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information (Continued)

| | Exploration | | As of December 31, 2010 | | | | | Corporate (1) | Eliminations | T |
|---|-------------------|--|-------------------------|----------------|------------------------------|--------------|--------|------------------|--------------|---|
| | and Production | Refining, Transportation & Marketing | Gas & Power | Biofuel (1) | (see separate Disclosure) | Distribution | | | | |
| Current assets | 3,473 | 16,305 | 2,904 | 121 | 3,279 | 4,196 | 38,895 | (5,310) | 6 | |
| Cash and cash equivalents | - | - | - | - | - | - | 17,633 | - | 1 | |
| Other current assets | 3,473 | 16,305 | 2,904 | 121 | 3,279 | 4,196 | 21,262 | (5,310) | 4 | |
| Investments in non-consolidated companies and other investments | 296 | 3,056 | 813 | 688 | 1,078 | 257 | 124 | - | - | |
| Property, plant and equipment, net | 129,913 | 46,844 | 24,725 | 356 | 9,519 | 2,730 | 4,480 | - | 21 | |
| Non-current assets | 3,511 | 3,282 | 1,465 | 10 | 2,294 | 346 | 9,033 | - | 1 | |
| Total assets | 137,193 | 69,487 | 29,907 | 1,175 | 16,170 | 7,529 | 52,532 | (5,310) | 30 | |

⁽¹⁾ As of 2011 Biofuel's assets are presented separately. This information was previously included in the Corporate Segment. For comparative purposes, the 2010 information was reclassified.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information (Continued)

| | As of December 31, 2010 | | | | | | Total |
|--|----------------------------------|---|-------------------|-------------------------------|-----------|--------------|--------|
| | Exploration and Production | Refining Transportation & Marketing | Gas & Power | International Distribution | Corporate | Eliminations | |
| Current assets | 1,132 | 1,778 | 250 | 443 | 68 | (392) | 3,279 |
| Investments in non-consolidated companies and other investments | 713 | 31 | 152 | 41 | 141 | - | 1,078 |
| Property, plant and equipment, net | 8,067 | 1,036 | 256 | 425 | 136 | (401) | 9,519 |
| Non-current assets | 2,336 | 292 | 105 | 65 | 1,309 | (1,813) | 2,294 |
| Total assets | 12,248 | 3,137 | 763 | 974 | 1,654 | (2,606) | 16,170 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information (Continued)

Revenues and net income by segment are as follows:

| | Six-month period ended June 30, 2011 | | | | | | | |
|---|--------------------------------------|--|-------------------|----------------|---|--------------|------------------|--------------|
| | Exploration and Production | Refining, Transportation & Marketing | Gas & Power | Biofuel (1) | International (see separate disclosure) | Distribution | Corporate (1) | Eliminations |
| Net operating revenues derived from third parties | 157 | 39,375 | 4,012 | 25 | 6,215 | 21,038 | - | - |
| Inter-segment net operating revenues | 36,144 | 18,693 | 623 | 123 | 2,022 | 384 | - | (57,989) |
| Net operating revenues | 36,301 | 58,068 | 4,635 | 148 | 8,237 | 21,422 | - | (57,989) |
| Cost of sales | (13,139) | (58,418) | (2,557) | (167) | (6,052) | (19,712) | - | 57,007 |
| Depreciation, depletion and amortization | (3,047) | (556) | (417) | (17) | (411) | (115) | (169) | - |
| Exploration, including exploratory dry holes | (1,212) | - | - | - | (157) | - | - | - |
| Impairment | - | - | - | - | (2) | - | - | - |
| Selling, general and | (238) | (1,531) | (417) | (34) | (438) | (1,065) | (1,251) | 51 |

| | | | | | | | | |
|--|----------|----------|---------|-------|---------|----------|---------|--------|
| administrative expenses | | | | | | | | |
| Research and development expenses | (332) | (108) | (32) | (5) | - | (3) | (149) | - |
| Other operating expenses | (241) | (194) | (94) | (19) | (250) | 20 | (944) | 33 |
| Costs and expenses | (18,209) | (60,807) | (3,517) | (242) | (7,310) | (20,875) | (2,513) | 57,091 |
| Operating income (loss) | 18,092 | (2,739) | 1,118 | (94) | 927 | 547 | (2,513) | (898) |
| Equity in results of non-consolidated companies | - | 223 | 117 | 26 | (22) | 1 | (2) | - |
| Financial income (expenses), net | - | - | - | - | - | - | 3,189 | - |
| Other taxes | (21) | (24) | (20) | - | (52) | (14) | (84) | - |
| Income (loss) before income taxes | 18,071 | (2,540) | 1,215 | (68) | 853 | 534 | 590 | (898) |
| Income tax benefits (expense) | (6,144) | 940 | (373) | 32 | 9 | (181) | 1,230 | 306 |
| Net income (loss) for the period | 11,927 | (1,600) | 842 | (36) | 862 | 353 | 1,820 | (592) |
| Less: Net income (loss) attributable to the noncontrolling interests | 9 | 9 | (3) | - | 1 | - | (420) | - |
| Net income (loss) attributable to Petrobras | 11,936 | (1,591) | 839 | (36) | 863 | 353 | 1,400 | (592) |

(1) As of 2011 Biofuel's results are presented separately. This information was previously included in the Corporate Segment. For comparative purposes, the 2010 information was reclassified.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information (Continued)

| | Six-month period ended June 30, 2011 | | | | | | Total |
|---|---|--|--------------------------------|---------------------------------------|------------------|---------------------|--------------|
| | Exploration and Production | Refining Transportation & Marketing | Gas & Power | International Distribution | Corporate | Eliminations | |
| Net operating revenues derived from third parties | 453 | 3,072 | 250 | 2,433 | - | 7 | 6,215 |
| Inter-segment net operating revenues | 1,927 | 1,212 | 19 | 17 | - | (1,153) | 2,022 |
| Net operating revenues | 2,380 | 4,284 | 269 | 2,450 | - | (1,146) | 8,237 |
| Cost of sales | (632) | (4,066) | (224) | (2,285) | - | 1,155 | (6,052) |
| Depreciation, depletion and amortization | (351) | (30) | (8) | (13) | (9) | - | (411) |
| Exploration, including exploratory dry holes | (157) | - | - | - | - | - | (157) |
| Impairment | (2) | - | - | - | - | - | (2) |
| Selling, general and administrative expenses | (88) | (68) | (5) | (134) | (145) | 2 | (438) |
| | - | - | - | - | - | - | - |

| | | | | | | | |
|--|---------|---------|-------|---------|-------|-------|---------|
| Research and development expenses | | | | | | | |
| Other operating expenses | (164) | (59) | 1 | 9 | (37) | - | (250) |
| Costs and expenses | (1,394) | (4,223) | (236) | (2,423) | (191) | 1,157 | (7,310) |
| Operating income (loss) | 986 | 61 | 33 | 27 | (191) | 11 | 927 |
| Equity in results of non-consolidated companies | (40) | 9 | 5 | 5 | (1) | - | (22) |
| Other taxes | (28) | (2) | (1) | (5) | (16) | - | (52) |
| Income (loss) before income taxes | 918 | 68 | 37 | 27 | (208) | 11 | 853 |
| Income tax benefits (expense) | (63) | 4 | 10 | (4) | 62 | - | 9 |
| Net income (loss) for the period | 855 | 72 | 47 | 23 | (146) | 11 | 862 |
| Less: Net income (loss) attributable to the noncontrolling interests | - | - | 1 | - | - | - | 1 |
| Net income (loss) attributable to Petrobras | 855 | 72 | 48 | 23 | (146) | 11 | 863 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information (Continued)

Six-month period ended June 30, 2010
International

| | Exploration and Production | Refining, Transportation & Marketing | Gas & Power | Biofuel (1) | (see separate disclosure) | Distribution | Corporate (1) | Eliminations |
|---|---|---|----------------------------|------------------------|--------------------------------------|---------------------|--------------------------|---------------------|
| Net operating revenues derived from third parties | 141 | 32,012 | 3,027 | 7 | 5,116 | 16,880 | - | - |
| Inter-segment net operating revenues | 25,959 | 15,284 | 432 | 128 | 1,275 | 349 | - | (43,427) |
| Net operating revenues | 26,100 | 47,296 | 3,459 | 135 | 6,391 | 17,229 | - | (43,427) |
| Cost of sales | (10,018) | (43,442) | (2,100) | (125) | (4,563) | (15,719) | - | 43,254 |
| Depreciation, depletion and amortization | (2,652) | (546) | (244) | (10) | (427) | (103) | (149) | 1 |
| Exploration, including exploratory dry holes | (758) | - | - | - | (134) | - | - | - |
| Impairment | - | - | (44) | - | (50) | - | - | - |
| Selling, general and administrative expenses | (189) | (1,452) | (408) | (16) | (388) | (848) | (1,015) | 116 |
| | (228) | (74) | (32) | - | (1) | (2) | (111) | - |

| | | | | | | | | | |
|---|----------|----------|---------|-------|---------|----------|---------|--------|-----|
| Research and development expenses | | | | | | | | | |
| Other operating expenses | (326) | (470) | (205) | (3) | (123) | (32) | (980) | - | (0) |
| Costs and expenses | (14,171) | (45,984) | (3,033) | (154) | (5,686) | (16,704) | (2,255) | 43,371 | (4) |
| Operating income (loss) | 11,929 | 1,312 | 426 | (19) | 705 | 525 | (2,255) | (56) | |
| Equity in results of non-consolidated companies | 5 | (100) | 65 | (5) | 6 | - | 1 | - | |
| Financial income (expenses), net | - | - | - | - | - | - | (679) | - | |
| Other taxes | (70) | (27) | (13) | - | (38) | (8) | (55) | - | |
| Income (loss) before income taxes | 11,864 | 1,185 | 478 | (24) | 673 | 517 | (2,988) | (56) | |
| Income tax benefits (expense) | (4,032) | (437) | (141) | 7 | (67) | (176) | 1,780 | 19 | (0) |
| Net income for the period | 7,832 | 748 | 337 | (17) | 606 | 341 | (1,208) | (37) | |
| Less: Net income attributable to the noncontrolling interests | 7 | (32) | 49 | - | (42) | - | (21) | - | |
| Net income (loss) attributable for Petrobras | 7,839 | 716 | 386 | (17) | 564 | 341 | (1,229) | (37) | |

(1) As of 2011 Biofuel's results are presented separately. This information was previously included in the Corporate Segment. For comparative purposes, the 2010 information was reclassified.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information (Continued)**Six-month period ended June 30, 2010**

| | Exploration and Production | Refining Transportation & Marketing | Gas & Power | International | | Eliminations | Total |
|---|---|--|----------------------------|----------------------|------------------|---------------------|--------------|
| | | | | Distribution | Corporate | | |
| Net operating revenues derived from third parties | 324 | 2,638 | 245 | 1,894 | - | 15 | 5,116 |
| Inter-segment net operating revenues | 1,472 | 949 | 21 | 19 | - | (1,186) | 1,275 |
| Net operating revenues | 1,796 | 3,587 | 266 | 1,913 | - | (1,171) | 6,391 |
| Cost of sales | (438) | (3,327) | (212) | (1,750) | - | 1,164 | (4,563) |
| Depreciation, depletion and amortization | (349) | (41) | (9) | (15) | (13) | - | (427) |
| Exploration, including exploratory dry holes | (134) | - | - | - | - | - | (134) |
| Impairment | - | (50) | - | - | - | - | (50) |
| Selling, general and administrative expenses | (78) | (64) | (3) | (119) | (124) | - | (388) |
| Research and development expenses | - | - | - | - | (1) | - | (1) |
| | (49) | (107) | 5 | 8 | 21 | (1) | (123) |

| | | | | | | | |
|---|---------|---------|-------|---------|-------|-------|---------|
| Other operating expenses | | | | | | | |
| Costs and expenses | (1,048) | (3,589) | (219) | (1,876) | (117) | 1,163 | (5,686) |
| Operating income (loss) | 748 | (2) | 47 | 37 | (117) | (8) | 705 |
| Equity in results of non-consolidated companies | 12 | 9 | 1 | 3 | (19) | - | 6 |
| Other taxes | (17) | (2) | (1) | (2) | (16) | - | (38) |
| Income (loss) before income taxes | 743 | 5 | 47 | 38 | (152) | (8) | 673 |
| Income tax benefits (expense) | (100) | (3) | (2) | (5) | 43 | - | (67) |
| Net income for the period | 643 | 2 | 45 | 33 | (109) | (8) | 606 |
| | | | | | | | - |
| Less: Net income attributable to the noncontrolling interests | - | (1) | (1) | - | (40) | - | (42) |
| Net income (loss) attributable for Petrobras | 643 | 1 | 44 | 33 | (149) | (8) | 564 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

17. Segment Information (Continued)

Capital expenditures incurred by segment for the six-month periods ended June 30, 2011 and 2010 are as follows:

| | Six-month periods ended June 30, | |
|--------------------------------------|---|-------------|
| | 2011 | 2010 |
| Exploration and Production | 9,149 | 9,133 |
| Refining, Transportation & Marketing | 8,049 | 6,342 |
| Gas & Power | 1,088 | 2,106 |
| International | | |
| Exploration and Production | 896 | 1,120 |
| Refining, Transportation & Marketing | 117 | 34 |
| Distribution | 16 | 15 |
| Gas & Power | 27 | 2 |
| Others | 5 | 1 |
| Distribution | 278 | 145 |
| Biofuels | 134 | 22 |
| Corporate | 447 | 467 |
| | 20,206 | 19,387 |

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

18. Acquisition/Sales of Assets and Interests

a) Acquisition of noncontrolling interest

- **Innova S.A.**

As from March 31, 2011, Petrobras now holds 100% of the capital of Innova, a petrochemical company located in the industrial park of Triunfo in the State of Rio Grande do Sul, previously indirectly controlled by Petrobras Argentina (Pesa). The amount of the transaction is US\$332, with the payment of US\$228 in April 2011 and US\$104 due on October 30, 2013, restated by 12 month LIBOR as from the date of signing of the share purchase agreement (SPA). This transaction resulted in a decrease of US\$54 in the equity attributable to the shareholders of Petrobras, as a result of the decrease in the non-controlling interest in this venture.

- **Purchase option and merger of Companhia Mexilhão do Brasil – “CMB”**

On January 12, 2011, Petrobras exercised its purchase option for 100% of the shares of the Variable Interest Entity (“VIE”), Companhia Mexilhão do Brasil – “CMB”, as contractually established. In accordance with ASC 810, this acquisition resulted in an increase in equity attributable to Petrobras, as “Additional paid in capital”, in the amount of US\$72.

On April 4, 2011, the merger of CMB by Petrobras was approved in the Special Shareholders' General Meeting as it is the most efficient way of dissolving the company and absorbing its assets.

b) Sale of assets and other information

- **Cia Energética Suape II**

Petrobras holds a 20% interest in Energética Suape II S.A., the purpose of which is the construction of a thermoelectric power station in Cabo de Santo Agostinho, in the state of Pernambuco with an output 380 of MW. The remaining 80% interest is held by Nova Cibe Energia S.A.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

18. Acquisition/Sales of Assets and Interests (Continued)

b) Sale of assets and other information (Continued)

- **Cia Energética Suape II (Continued)**

On May 31, 2011, Petrobras deposited US\$31 for the shares not subscribed by Nova Cibe, for which the exercise of the purchase option occurred on May 5, 2011, as established in the Suape II Shareholders' Agreement.

At June 30 2011, Petrobras recorded the deposit as a right to acquisition of an equity interest under "Investments", until the resolution of the conflict in a seat of arbitration.

- **Albacora Japão Petróleo Ltda.**

On May 6, 2011, Petrobras exercised its purchase option for the oil production assets of VIE Albacora Japão Petróleo Ltda for the amount of US\$6 thousand. As from this purchase option, the VIE ceased to be consolidated in Petrobras, due to compliance with the related contractual obligations.

- **Sale of the San Lorenzo Refinery and part of the distribution network in Argentina**

On May 2, 2011, the Company sold refining and distribution assets in Argentina to Oil Combustibles S.A. for a total amount of US\$102, according to an agreement signed in 2010. The transaction is subject to the approval of the Argentine regulatory agency and comprised a refinery located in San Lorenzo in the province of Santa Fé, a fluvial plant and a fuel trading network connected to this refinery, (approximately 360 sales points and associated wholesaler clients), as well as inventories of oil and oil products.

- **BRF Biorefino de Lubrificantes S.A.**

On March 21, 2011, Petrobras Distribuidora S.A. established BRF Biorefino de Lubrificantes S.A, the shareholding interest of which is 49%. The purpose of BRF is the construction of building, and operation of the used or contaminated lubricant oil refining plant in the State of Rio de Janeiro.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

18. Acquisition/Sales of Assets and Interests (Continued)

b) Sale of assets and other information (Continued)

- **Logum Logística S.A.**

On March 1, 2011 the corporate name of PMCC Soluções Logística de Etanol S.A. was changed to Logum Logística S.A., in accordance with the shareholders' agreement, which composition of shareholding is as follows: Petrobras - 20%; Copersucar S.A. - 20%; Cosan S.A. Indústria e Comércio - 20%; Odebrecht Transport Participações S.A. - 20%; Camargo Correa Óleo e Gás S.A. - 10% and Uniduto Logística S.A. - 10%.

Logum Logística S.A. will be responsible for the construction of a comprehensive multimodal logistics system for ethanol transport and storage, the development and operation of the system which will involve polyducts, waterways, highways and coastal shipping.

- **Operations in Ecuador**

On July 26, 2010, the new hydrocarbon law in Ecuador, established, the obligatoriness of migration introduced of the November 24, 2010, exploration before agreements entered into to service agreements.

Petrobras Argentina S.A. (PESA), through its subsidiary Sociedade Ecuador TLC S.A., held a 30% interest in the exploration agreements for block 18 and the unified Palo Azul field, located in the Oriente basin of Ecuador, and

decided not to accept the final proposal to migrate its agreements to the new contractual model, thus it is the responsibility of the Ecuadorian Government to indemnify the investments made in those exploration blocks.

The Company disagrees with the criteria established for the indemnification of the amounts invested and, although it is not renouncing its rights, it recognized a loss in an amount equivalent to US\$53, due to the uncertainties involving the process.

PESA has a ship-or-pay agreement entered into with Oleoducto de Crudos Pesados Ltd (OCP) for transporting oil in Ecuador, in force since 2003 with an effective term of 15 years. On account of the commitments assumed for the transport capacity contracted and not used, at June 30, 2011, the Company has a liability in the amount equivalent to US\$81.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

19. Subsequent Events

- **BSBIOS Indústria e Comércio de Biodiesel Sul Brasil S.A.**

On July 1, 2011, Petrobras Biocombustível S.A., S.L., acquired 50% of the capital of BSBIOS Indústria e Comércio de Biodiesel Sul Brasil S.A, for the amount of US\$128 which are subject to adjustments due to implementation of process of due diligence.

- **Acquisition of Gás Brasileiro Distribuidora S.A.**

On July 29, 2011, Petrobras Gás S.A.- Gaspetro acquired 100% of the shares of Gas Brasileiro Distribuidora S.A. “GBD”, for US\$271. The transaction was authorized by the São Paulo regulatory agency in April 2011 and the addendum to GBD's concession agreement was signed in July 2011, complying with the conditions established in the agreement entered into with Ente Nazionale Idrocarburi S.p.A. (ENI) in 2010.

GBD holds the concession for the natural gas distribution service in the northwest region of the State of São Paulo. The concession agreement began in December 1999 with duration of 30 years and may be renewed for another 20 years.

- **Raising of financing with BNDES**

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

In July 2011, the Company signed long-term financing agreements with BNDES for financing the Mexilhão platform and implementing projects in Refap in the amount of US\$1,365, as follows:

| Company | Date | Contract Value - US\$ | Maturity | Description |
|----------------|-------------|----------------------------------|-----------------|----------------------|
| Petrobras | 07/12/2011 | 655 | 2023 | TJLP plus 2.76% p.a. |
| Refap | 07/21/2011 | 710 | 2022 | TJLP plus 3.26% p.a. |
| | | 1,365 | | |

Petrobras withdrew US\$557 of which US\$387 was used to settle the bridge-loan entered into with BNDES in 2008. The first withdrawal of the credit contracted by Refap is forecast to occur later this year.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 24, 2011

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By:

/s/ Almir Guilherme Barbassa

Almir Guilherme Barbassa
Chief Financial Officer and Investor Relations
Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act) that are not based on historical facts and are not assurances of future results. These forward-looking statements are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

All forward-looking statements are expressly qualified in their entirety by this cautionary statement, and you should not place reliance on any forward-looking statement contained in this press release. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.
