

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

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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

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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 (unaudited)	December 31, 2010
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)

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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)

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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)

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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)
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PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
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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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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:

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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
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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)

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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
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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)

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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
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(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
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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
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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)

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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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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 nº 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)

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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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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
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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		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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**

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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
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(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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(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		As of December 31, 2010			
	Pension Benefits	Health Care Benefits	Total	Pension Benefits	Health Care Benefits	Total
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

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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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Net periodic benefit cost includes the following components:

	As of June 30,			2010	
	2011 Pension Plans		Health Care	Pension Plans	
	Defined-Benefits	Variable Contribution	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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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
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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)

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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	8,172
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	5,172
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
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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
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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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.

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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.

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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.

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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)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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.

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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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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.

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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
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(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
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(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)

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(Unaudited)

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

	Exploration and Production	Refining Transportation & Marketing	Gas & Power	International			Total
				Distribution	Corporate	Eliminations	
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
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(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)

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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)

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(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**

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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.
