

Horne International, Inc.  
Form 8-K  
May 10, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

May 8, 2007

**Horne International Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction  
of incorporation)

000-50373

(Commission  
File Number)

90-0182158

(I.R.S. Employer  
Identification No.)

2677 Prosperity Avenue, Suite 300, Fairfax,  
Virginia

(Address of principal executive offices)

22031

(Zip Code)

Registrant's telephone number, including area code:

703-641-1100

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))



**Top of the Form**

**Item 2.02 Results of Operations and Financial Condition.**

On May 8, 2007, the COmpany published a press release announcing its First Quarter 2007 results. A copy of the press release is attached as Exhibit 99.1 to this Current Report on Form 8K.

**Item 9.01 Financial Statements and Exhibits.**

99.1 May 8, 2007 Press Release

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**Top of the Form**

**SIGNATURES**

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 hereunto duly authorized.

Horne International Inc.

*May 10, 2007*

*By: Michael M. Megless*

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*Name: Michael M. Megless  
Title: Chief Financial Officer*

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Exhibit Index

Exhibit No.	Description
99.1	May 8, 2007 Press Release

TD width="25%" align="left"> **Subscribed  
and paid-in  
capital Shares**

issuance costs **Change in**

**interest in**

subsidiaries **Tax**

**incentives Cumulative**

**translation**

**adjustment Other**

**comprehensive**

**income Legal Statutory Tax**

incentives **Profit**

**retention Retained**

**earnings Total shareholders'**

**equity attributable**

**to shareholders of**

**the parent**

**company (CPC) Deferred**

**charges Non- controlling**

**interests**

**(IFRS) Total**

**consolidated**

**shareholders'**

**equity**

**(IFRS) Balances at January 1,**

**2010 78,967 1,423 515 (163) 96 10,902 1,294 1,111 72,123 (1,247) 165,021 (704) 2,149 166,466**

Capital increase with reserves

6,141 (515) (899) (14) (4,713)

Capital increase with issuing of shares

120,249 (477) 119,772 119,772

Change in interest in subsidiaries

(952) (952) 291 (661)

Net income for the year

35,036 35,036 **152** 692 35,880

Other comprehensive income:

Cumulative translation adjustment

(33) (33) (201) (234)

Unrealized results of available-for-sale securities and

cash flow hedge

201 201 201

Realization of deemed cost of an affiliated company

(11) 11

Distributions:

Allocations of net income in reserves

1,752 1,027 250 19,043 (22,072)

Dividends

(11,728) (11,728) 132 (11,596) **Balances at December 31,**  
**2010 205,357 (477) 471 (196) 286 12,654 1,422 1,347 86,453 307,317 (552) 3,063 309,828**

Capital increase with reserves

23 (23)

Change in interest in subsidiaries

865 865 (296) (547)

Net income for the year

33,101 33,101 212 (203) 33,110

Other comprehensive income:

Cumulative translation adjustment

1,123      1,123    300

Unrealized results of available-for-sale securities and

cash flow hedge

70      70    70

Realization of deemed cost of an affiliated company

(10)      10

Distributions:

Allocations of net income in reserves

1,655   1,027   81   18,347   (21,110)

Dividends

(12,001) (12,001) (228) (12,229) 205,380 (477) 1,336 927 346 14,309 2,449 1,405 104,800 330,475  
**at December 31, 2011 205,380 859 1,273 122,963 330,475 (636) 2,385 332,224**

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Statement of Cash Flows

**December 31, 2011 and 2010***(In millions of reais)*

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>				
Net income attributable to shareholders of Petrobras	33,313	35,189	33,101	35,036
<b>Adjustments for:</b>				
Non-controlling interest	(203)	692		
Equity in earnings of investments	(386)	(585)	(5,808)	(7,039)
Depreciation, depletion and amortization	17,739	14,612	12,902	10,813
Impairment	1,824	690	744	(33)
Dry hole costs	2,504	2,121	2,243	1,495
Losses (gains) on disposal of non-current assets	885	312	195	40
Exchange variations, monetary and financial charges on financing and loans and other operations	6,238	14	(231)	(1,044)
Deferred income and social contribution taxes, net	6,157	5,784	7,208	5,149
<b>Increase/decrease in assets</b>				
Accounts receivable	(3,848)	(4,422)	(3,127)	(7,398)
Inventories	(8,335)	(851)	(7,463)	(715)
Other assets	(4,207)	3	(4,099)	(206)
<b>Increase/decrease in liabilities</b>				
Trade accounts payable	4,112	542	(701)	(20,643)
Taxes and contributions payable	(3,405)	(3,732)	(791)	(3,276)
Employee's post-retirement benefits obligations - Pension and Health care	1,483	1,381	1,321	1,292
Other liabilities	2,451	1,121	(81)	954
<b>Net cash provided by operating activities</b>	<b>56,322</b>	<b>52,871</b>	<b>35,413</b>	<b>14,425</b>
<b>Investment activities</b>				



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Onerous assignment - Acquired rights		(74,808)		(74,808)
Settlement made through financial treasury bills (LFT)		67,816		67,816
Settlement made through cash and cash equivalents		(6,992)		(6,992)
Other investments in exploration and production of oil and gas	(31,412)	(30,557)	(24,455)	(23,479)
Investments in exploration and production of oil and gas	(31,412)	(37,549)	(24,455)	(30,471)
Investments in refining, transportation and marketing	(26,339)	(28,118)	(18,586)	(21,253)
Investments in gas and power	(4,517)	(7,270)	(2,454)	(384)
Investment in international segment	(3,966)	(4,114)	(11)	(1,073)
Investments in distribution	(1,070)	(858)		
Investments in biofuel	(504)	(1,212)	(711)	(1,301)
Other investments	(2,316)	(1,058)	(2,193)	(783)
Investments in marketable securities	11,606	(25,406)	13,030	(32,014)
Dividends received	680	401	2,434	1,916
<b>Cash flow used in investment activities</b>	<b>(57,838)</b>	<b>(105,184)</b>	<b>(32,946)</b>	<b>(85,363)</b>

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Statement of Cash Flows (continued)

**December 31, 2011 and 2010***(In millions of reais)*

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from financing activities</b>				
Capital increase		120,249		120,249
Contribution in LFTs		(67,816)		(67,816)
Contribution in cash and cash equivalents		52,433		52,433
Shares issuance costs		(710)		(710)
Acquisition of non-controlling interest	46	(581)		
Financing and loans, net				
Proceeds from borrowings	40,433	36,966	55,928	75,560
Repayment of principal	(14,523)	(18,707)	(39,525)	(42,435)
Repayment of interest	(7,633)	(6,209)	(3,053)	(2,913)
Assignments of credit rights - FIDC NP			(6,295)	1,615
Dividends paid	(10,659)	(9,415)	(10,659)	(9,415)
<b>Net cash provided by/(used) in financing activities</b>	<b>7,664</b>	<b>53,777</b>	<b>(3,604)</b>	<b>74,135</b>
<b>Effect of exchange variation on cash and cash equivalents</b>	<b>183</b>	<b>(294)</b>		
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>	<b>6,331</b>	<b>1,170</b>	<b>(1,137)</b>	<b>3,197</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>29,416</b>	<b>28,246</b>	<b>19,995</b>	<b>16,798</b>
<b>Cash and cash equivalents at end of year</b>	<b>35,747</b>	<b>29,416</b>	<b>18,858</b>	<b>19,995</b>

**Additional information on cash flows:**

**Amounts paid and received during the year**

Interest received on loans			764	710
Income tax and social contribution	3,438	4,680	(1,176)	2,520
Third party income tax withheld at source	3,963	2,909	(3,389)	2,804
	<b>7,401</b>	<b>7,589</b>	<b>(3,801)</b>	<b>6,034</b>

**Investment and financing transactions not involving cash**

Acquisition of property, plant and equipment on credit	17	53		
Contracts with transfer of benefits, risks and control of assets	35		342	8,188
Capital increase with public bonds, used for purchase of exploration rights (onerous assignment)		67,816		67,816
Formation of provision for decommissioning cost	2,303	1,698	2,382	1,600

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Statement of Added Value

**December 31, 2011 and 2010***(In millions of reais)*

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Income</b>				
Sales of products and services and other revenues	312,841	270,313	245,793	207,721
Losses for uncollectible accounts - formation	22	(207)	64	(160)
Revenues related to construction of assets for own use	66,853	67,591	49,939	50,440
	379,716	337,697	295,796	258,001
<b>Inputs acquired from third parties</b>				
Materials consumed	(43,220)	(38,474)	(28,200)	(23,784)
Cost of sales	(52,264)	(38,963)	(40,329)	(29,621)
Power, third-party services and other operating expenses	(70,145)	(72,724)	(54,506)	(53,958)
Tax credits on inputs acquired from third parties	(21,292)	(21,169)	(16,283)	(15,110)
Impairment	(1,824)	(690)	(744)	33
	(188,745)	(172,020)	(140,062)	(122,440)
<b>Gross added value</b>	190,971	165,677	155,734	135,561
<b>Retentions</b>				
Depreciation, depletion and amortization	(17,739)	(14,612)	(12,902)	(10,813)
<b>Net added value produced by the Company</b>	173,232	151,065	142,832	124,748
<b>Transferred added value</b>				

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Equity in earnings of investments	386		585		5,808		7,039	
Financial income - including monetary and exchange variations	6,543		4,424		8,570		4,547	
Rents, royalties and others	920		979		728		783	
	7,849		5,988		15,106		12,369	
<b>Total added value to be distributed</b>	<b>181,081</b>		<b>157,053</b>		<b>157,938</b>		<b>137,117</b>	
<b>Distribution of added value</b>								
<b>Personnel and officers</b>								
<b>Direct remuneration</b>								
Salaries	13,513	7%	11,782	8%	10,213	6%	8,765	6%
Profit sharing	1,560	1%	1,691	1%	1,295	1%	1,428	1%
	15,073		13,473		11,508		10,193	
<b>Benefits</b>								
Advantages	823		831	1%	528	0%	579	0%
Retirement and pension plan	1,526	1%	1,373	1%	1,395	1%	1,264	1%
Healthcare plan	2,181	1%	1,828	1%	1,976	2%	1,660	2%
<b>FGTS</b>	861		745	1%	746	0%	648	0%
	20,464	10%	18,250	13%	16,153	10%	14,344	10%
<b>Taxes</b>								
Federal*	61,098	34%	55,512	35%	57,033	36%	49,571	36%
State	36,358	20%	28,148	18%	22,367	10%	15,281	10%
Municipal	186		180		79	0%	86	0%
Abroad*	6,340	4%	4,915	3%				
	103,982	58%	88,755	56%	79,479	46%	64,938	46%
<b>Financial institutions and suppliers</b>								
Interest, and exchange and monetary variations	13,781	8%	6,580	4%	8,813	5%	7,162	5%
Rental and affreightment expenses	9,744	5%	7,587	5%	20,392	11%	15,637	11%
	23,525	13%	14,167	9%	29,205	17%	22,799	17%

**Shareholders**

Interest on shareholders' equity	10,436	6%	10,163	6%	10,436	7%	10,163	7%
Dividends	1,565	1%	1,565	1%	1,565	1%	1,565	1%
Non-controlling results	(203)		692					
Retained earnings	21,312	12%	23,461	15%	21,100	17%	23,308	17%
	33,110	19%	35,881	22%	33,101	26%	35,036	26%
<b>Added value distributed</b>	181,081	100%	157,053	100%	157,938	100%	137,117	100%

\* Includes government holdings.

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Consolidated Segment Information

**December 31, 2011 and 2010***(In millions of reais)*

	<b>2011</b>							
	<b>E&amp;P</b>	<b>Refining, Transportation &amp; Marketing</b>	<b>Gas &amp; Power</b>	<b>Biofuel</b>	<b>Distribution</b>	<b>International</b>	<b>Corporate</b>	<b>Eliminations</b>
<b>Sales revenues</b>	<b>124,028</b>	<b>198,516</b>	<b>16,295</b>	<b>535</b>	<b>73,633</b>	<b>28,374</b>		<b>(197,205)</b>
Intersegments	123,165	63,833	2,182	482	1,223	6,320		(197,205)
Third parties	863	134,683	14,113	53	72,410	22,054		
Cost of sales	(55,118)	(205,998)	(9,550)	(588)	(67,630)	(21,679)		193,624
<b>Gross profit</b>	<b>68,910</b>	<b>(7,482)</b>	<b>6,745</b>	<b>(53)</b>	<b>6,003</b>	<b>6,695</b>		<b>(3,581)</b>
<b>Income (expenses)</b>	<b>(7,058)</b>	<b>(7,026)</b>	<b>(2,533)</b>	<b>(222)</b>	<b>(4,118)</b>	<b>(3,169)</b>	<b>(8,008)</b>	<b>300</b>
Selling, administrative and general expenses	(819)	(5,536)	(1,739)	(111)	(4,024)	(1,554)	(4,114)	300
Exploration costs	(3,674)					(754)		
Research and development expenses	(1,248)	(470)	(116)	(50)	(9)	(1)	(550)	
Other taxes	(80)	(90)	(165)	(1)	(41)	(192)	(208)	
Other operating income and expenses, net	(1,237)	(930)	(513)	(60)	(44)	(668)	(3,136)	
<b>Income before financial results, profit sharing and income taxes</b>	<b>61,852</b>	<b>(14,508)</b>	<b>4,212</b>	<b>(275)</b>	<b>1,885</b>	<b>3,526</b>	<b>(8,008)</b>	<b>(3,281)</b>
Financial income (expenses), net							122	
Equity in earnings of	74	(165)	398	26	9	40	4	

investments								
Profit sharing	(488)	(348)	(61)	(2)	(118)	(52)	(491)	
<b>Income before income taxes</b>	<b>61,438</b>	<b>(15,021)</b>	<b>4,549</b>	<b>(251)</b>	<b>1,776</b>	<b>3,514</b>	<b>(8,373)</b>	<b>(3,281)</b>
Income tax and social contribution	(20,863)	5,051	(1,411)	94	(601)	(1,547)	6,920	1,116
<b>Net income</b>	<b>40,575</b>	<b>(9,970)</b>	<b>3,138</b>	<b>(157)</b>	<b>1,175</b>	<b>1,967</b>	<b>(1,453)</b>	<b>(2,165)</b>
<b>Net income attributable to:</b>								
Shareholders of Petrobras	40,594	(9,955)	3,109	(157)	1,175	1,949	(1,237)	(2,165)
Non-controlling interests	(19)	(15)	29			18	(216)	
	40,575	(9,970)	3,138	(157)	1,175	1,967	(1,453)	(2,165)

As from 2011, Biofuel's results are presented separately. This information was previously included in the Corporate segment. For comparative purposes, the 2010 information was reclassified.

See the accompanying notes to the financial statements.



Petróleo Brasileiro S.A. - Petrobras

Consolidated Segment Information

**December 31, 2011 and 2010***(In millions of reais)*

	<b>2010</b>							
	<b>E&amp;P</b>	<b>Refining, Transportation &amp; Marketing</b>	<b>Gas &amp; Power</b>	<b>Biofuel</b>	<b>Distribution</b>	<b>International</b>	<b>Corporate</b>	<b>Elimination</b>
<b>Sales revenues</b>	95,451	172,244	14,936	478	65,568	23,777		(160,612)
Intersegments	95,026	57,228	1,761	418	1,263	4,916		(160,612)
Third parties	425	115,016	13,175	60	64,305	18,861		
Cost of sales	(44,302)	(160,273)	(10,955)	(480)	(59,907)	(18,574)		158,874
<b>Gross profit</b>	<b>51,149</b>	<b>11,971</b>	<b>3,981</b>	<b>(2)</b>	<b>5,661</b>	<b>5,203</b>		<b>(1,738)</b>
<b>Income (expenses)</b>	<b>(5,825)</b>	<b>(6,330)</b>	<b>(2,488)</b>	<b>(122)</b>	<b>(3,618)</b>	<b>(3,288)</b>	<b>(8,454)</b>	<b>294</b>
Selling, administrative and general expenses	(794)	(5,144)	(1,822)	(70)	(3,476)	(1,539)	(3,761)	247
Exploration costs	(2,601)					(1,196)		
Research and development expenses	(774)	(380)	(129)		(9)	(2)	(445)	
Other taxes	(218)	(119)	(52)	(1)	(29)	(208)	(264)	
Other operating income and expenses, net	(1,438)	(687)	(485)	(51)	(104)	(343)	(3,984)	47
<b>Income before financial results, profit sharing and income taxes</b>	<b>45,324</b>	<b>5,641</b>	<b>1,493</b>	<b>(124)</b>	<b>2,043</b>	<b>1,915</b>	<b>(8,454)</b>	<b>(1,444)</b>
Financial income (expenses), net							2,620	
Equity in earnings of		322	305	(11)	7	(22)	(16)	

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investments								
Profit sharing	(538)	(378)	(66)		(120)	(48)	(541)	
<b>Income before income taxes</b>	<b>44,786</b>	<b>5,585</b>	<b>1,732</b>	<b>(135)</b>	<b>1,930</b>	<b>1,845</b>	<b>(6,391)</b>	<b>(1,444)</b>
Income tax and social contribution	(15,228)	(1,789)	(485)	43	(654)	(447)	6,043	490
<b>Net income</b>	<b>29,558</b>	<b>3,796</b>	<b>1,247</b>	<b>(92)</b>	<b>1,276</b>	<b>1,398</b>	<b>(348)</b>	<b>(954)</b>
<b>Net income attributable to:</b>								
Shareholders of Petrobras	29,691	3,729	1,285	(92)	1,276	1,277	(1,023)	(954)
Non-controlling interests	(133)	67	(38)	-	-	121	675	
	<b>29,558</b>	<b>3,796</b>	<b>1,247</b>	<b>(92)</b>	<b>1,276</b>	<b>1,398</b>	<b>(348)</b>	<b>(954)</b>

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Consolidated Segment Information

**December 31, 2011 and 2010***(In millions of reais)*

<b>Assets</b>	<b>E&amp;P</b>	<b>Refining, Transportation &amp; Marketing</b>	<b>Gas &amp; Power</b>	<b>Biofuel</b>	<b>Distribution</b>	<b>International</b>	<b>Corporate</b>	<b>Eliminations</b>
<b>Current assets</b>	<b>10,537</b>	<b>41,203</b>	<b>4,707</b>	<b>239</b>	<b>7,956</b>	<b>8,272</b>	<b>61,886</b>	<b>(13,636)</b>
<b>Non-current assets</b>	<b>254,164</b>	<b>116,982</b>	<b>47,150</b>	<b>2,180</b>	<b>6,835</b>	<b>28,167</b>	<b>23,138</b>	<b>(630)</b>
Long-term receivables	7,766	7,910	3,050	32	1,243	5,465	16,351	(630)
Investment	23	6,306	2,160	1,612	84	1,873	190	
Property, plant and equipment, net	169,833	102,473	41,208	536	4,709	17,842	5,666	
Intangible assets	76,542	293	732		799	2,987	931	
<b>At 12.31.2011</b>	<b>264,701</b>	<b>158,185</b>	<b>51,857</b>	<b>2,419</b>	<b>14,791</b>	<b>36,439</b>	<b>85,024</b>	<b>(14,266)</b>
<b>Current assets</b>	<b>6,133</b>	<b>28,722</b>	<b>5,086</b>	<b>210</b>	<b>6,581</b>	<b>5,513</b>	<b>63,611</b>	<b>(9,954)</b>
<b>Non-current assets</b>	<b>221,468</b>	<b>88,771</b>	<b>45,082</b>	<b>1,676</b>	<b>5,721</b>	<b>22,742</b>	<b>25,754</b>	<b>(270)</b>
Long-term receivables	6,268	6,006	2,679	13	960	3,919	18,143	(270)
Investment		6,482	2,012	1,116	73	1,736	173	
Property, plant and equipment, net	138,519	76,016	40,014	546	4,005	14,523	6,472	
Intangible assets	76,681	267	377	1	683	2,564	966	
<b>At 12.31.2010</b>	<b>227,601</b>	<b>117,493</b>	<b>50,168</b>	<b>1,886</b>	<b>12,302</b>	<b>28,255</b>	<b>89,365</b>	<b>(10,224)</b>

As from 2011 Biofuel's assets are presented separately. This information was previously included in the Corporate segment. For comparative purposes the 2010 information was reclassified.

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Consolidated Segment Information - International segment

**December 31, 2011 and 2010***(In millions of reais)*

	<b>2011</b>						
	<b>E&amp;P</b>	<b>Refining, Transportation &amp; Marketing</b>	<b>Gas &amp; Power</b>	<b>Distribution</b>	<b>Corporate</b>	<b>Eliminations</b>	<b>Total</b>
<b>Income statement</b>							
<b>Sales revenues</b>	<b>8,615</b>	<b>14,241</b>	<b>909</b>	<b>8,320</b>		<b>(3,711)</b>	<b>28,374</b>
Intersegments	6,373	3,585	39	45		(3,722)	6,320
Third parties	2,242	10,656	870	8,275		11	22,054
<b>Income (loss) before financial results, profit-sharing and income taxes</b>	<b>3,969</b>	<b>(226)</b>	<b>190</b>	<b>120</b>	<b>(507)</b>	<b>(20)</b>	<b>3,526</b>
<b>Net income attributable to shareholders of Petrobras</b>	<b>2,217</b>	<b>(213)</b>	<b>262</b>	<b>99</b>	<b>(396)</b>	<b>(20)</b>	<b>1,949</b>

	<b>2010</b>						
	<b>E&amp;P</b>	<b>Refining, Transportation &amp; Marketing</b>	<b>Gas &amp; Power</b>	<b>Distribution</b>	<b>Corporate</b>	<b>Eliminations</b>	<b>Total</b>
<b>Income statement</b>							
<b>Sales revenues</b>	<b>6,574</b>	<b>13,188</b>	<b>964</b>	<b>7,254</b>		<b>(4,203)</b>	<b>23,777</b>

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Intersegments	5,259	3,767	78	58		(4,246)	4,916
Third parties	1,315	9,421	886	7,196		43	18,861
<b>Income (loss) before financial results, profit-sharing and income taxes</b>	<b>2,148</b>	<b>64</b>	<b>116</b>	<b>10</b>	<b>(408)</b>	<b>(15)</b>	<b>1,915</b>
<b>Net income attributable to shareholders of Petrobras</b>	<b>1,527</b>	<b>78</b>	<b>142</b>	<b>10</b>	<b>(465)</b>	<b>(15)</b>	<b>1,277</b>

	<b>E&amp;P</b>	<b>Refining, Transportation &amp; Marketing</b>	<b>Gas &amp; Power</b>	<b>Distribution</b>	<b>Corporate</b>	<b>Eliminations</b>	<b>Total</b>
<b>Total assets</b>							
<b>At 12/31/2011</b>	<b>27,358</b>	<b>6,365</b>	<b>1,742</b>	<b>1,889</b>	<b>3,412</b>	<b>(4,327)</b>	<b>36,439</b>
<b>At 12/31/2010</b>	<b>20,715</b>	<b>5,433</b>	<b>1,518</b>	<b>1,645</b>	<b>2,840</b>	<b>(3,896)</b>	<b>28,255</b>

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Social balance

**December 31, 2011 and 2010**

*(In millions of reais, except when stated otherwise)*

<b>1 - Calculation basis</b>				<b>2011</b>		<b>2010</b>
Consolidated net earnings (NE)				244,176		211,842
Consolidated income before profit sharing and taxes (OI)				45,911		49,599
Consolidated gross payroll (GP)				13,026		11,462
<b>2 - Internal Social Indicators (i)</b>				<b>Amount</b>	<b>% of GP</b>	<b>% of NE</b>
Meals				845	6.49%	0.35%
Compulsory payroll charges				6,477	49.72%	2.65%
Private pension				328	2.52%	0.13%
Health				2,427	18.63%	0.99%
Work security and medicine				180	1.38%	0.07%
Education				133	1.02%	0.05%
Culture				11	0.09%	0.00%
Professional training and development				418	3.21%	0.17%
Crèche or day-care assistance				90	0.69%	0.04%
Profit sharing				1,560	11.98%	0.64%
Other				76	0.58%	0.03%
<b>Total - Internal social indicators</b>				<b>12,545</b>	<b>96.34%</b>	<b>5.13%</b>
				<b>Amount</b>	<b>% of OI</b>	<b>% of NE</b>
<b>3 - External Social Indicators (i)</b>				<b>Amount</b>	<b>% of OI</b>	<b>% of NE</b>
Generation of Income and Work Opportunity				48	0.10%	0.02%
Education for Professional Skills				57	0.12%	0.02%
Guarantee of Rights of Children and Adolescents (I)				70	0.15%	0.03%
Culture				182	0.40%	0.07%
Sport				80	0.17%	0.03%
Other				33	0.07%	0.00%
<b>Total contributions for the company</b>				<b>470</b>	<b>1.02%</b>	<b>0.19%</b>
Taxes (excluding payroll charges)				97,826	213.08%	40.06%
<b>Total - External social indicators</b>				<b>98,926</b>	<b>214.10%</b>	<b>40.26%</b>
				<b>Amount</b>	<b>% of OI</b>	<b>% of NE</b>
<b>4 - Environmental Indicators (i)</b>				<b>Amount</b>	<b>% of OI</b>	<b>% of NE</b>
Investments related to the company's production/operation				2,550	5.55%	1.04%
Investments in external programs and/or projects				172	0.37%	0.07%
<b>Total investments in the environment</b>				<b>2,722</b>	<b>5.93%</b>	<b>1.11%</b>
				( ) does		( ) does
				not have	( ) attains from 51	not have ( ) does not have
With respect to establishing "annual goals" for minimizing goals					to 75%	goals goals
waste products, consumption in general in				( ) attains		( ) attains
production/operation and for increasing efficiency in the				from 0 to (X) attains from 76	from 0 to (X) attains from 76	from 0 to (X) attains from 76
use of natural resources, the company:				50%	to 100%	50% to 100%





Petróleo Brasileiro S.A. - Petrobras

Social balance *(continued)*

**December 31, 2011 and 2010**

*(In millions of reais, except when stated otherwise)*

**5 - Indicators for the staff (i)**

	<b>2011</b>	<b>2010</b>
N° of employees at the end of the period	81,918	80,492
N° of hirings during the period	3,447	4,353
N° of contracted employees	328,133	291,606
N° of student trainees	1,825	1,402
N° of employees older than 45	35,927	34,504
N° of women that work in the company	13,860	13,408
% of leadership positions held by women	14.4%	13.3%
N° of Negroes that work in the company (III)	18.468	16,447
% of leadership positions held by Negroes (IV)	24.9%	25.3%
N° of handicapped workers (V)	1,104	1,093

**6 - Significant information with respect to the exercise of corporate citizenship (i)**

	<b>2011</b>			<b>Goals 2012</b>		
Ratio between the company's highest and lowest remuneration	20.22			20.22		
Total number of work accidents	653			487		
The social and environmental projects developed by the company were defined by:	(X)	directors		(X)	directors	
	( )	and	( ) all	( )	and	( ) all
	directors	managers	employees	directors	managers	employees
The safety and health standards in the work environment were defined by:	(X)	directors		(X)	directors	
	and	( ) all the	( ) everyone	and	( ) all the	( ) everyone
	managers	employees	+ Cipa	managers	employees	+ Cipa
With respect to union freedom, the right to collective bargaining and internal representation of the employees, the company:	( ) follows	ILO standards	encourages and follows ILO	( ) will not be involved	( ) will follow ILO standards	encourage and follow ILO
The private pension includes:	( ) directors	and	(X) all employees	( ) directors	and	(X) all employees
Profit-sharing and participation in results includes:	( ) directors	and	(X) all employees	( ) directors	and	(X) all employees
In the selection of suppliers, the same ethical standards and standards of social and environmental responsibility adopted by the company:	( ) are not considered	( ) are suggested	(X) are required	( ) will not be considered	( ) will be suggested	(X) will be required

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With respect to the participation of employees in voluntary work programs, the company:	<input type="checkbox"/> is not involved	<input type="checkbox"/> gives support	<input checked="" type="checkbox"/> organizes and encourages	<input type="checkbox"/> will not be involved	<input type="checkbox"/> will give support	<input checked="" type="checkbox"/> will organize and encourage
Total number of complaints and criticisms from consumers: (VI)	in the company 11,230	in Procon 5	in court 17	in the company 5,138	in Procon 4	in court 8
% of claims and criticisms attended or resolved: (VI)	in the company 93.8%	in Procon 80%	in court 29.4%	in the company 99.1%	in Procon 100%	in court 87.5%
Total added value to be distributed (consolidated) - amount:	<b>In 2011: 181,081</b>		<b>In 2010: 157,053</b>			
	58% government employees 7% shareholders 12% retained		10% employees 13% third parties 15% retained			
Distribution of added value			56% government employees 7% shareholders 15% retained			

Petróleo Brasileiro S.A. - Petrobras

Social balance *(continued)*

**Years ended December 31, 2011 and 2010**

*(In millions of reais, except when stated otherwise)*

**7 - Other information**

- 1)** This Company does not use child or slave labor, it is not involved in prostitution or sexual exploitation of children or adolescents and is not involved in corruption.
- 2)** Our Company values and respects diversity, both internally and externally.
  - I.** It includes R\$ 19.1 transferred to the Fund for Infancy and Adolescence (FIA).
  - II.** Information on the Petrobras System in Brazil with respect to hirings through public selection processes.
  - III.** Information for 2010 related to the employees of the Petrobras Parent Company, Petrobras Distribuidora and Transpetro who declare that they are Negroes.
  - IV.** Of the total number of leadership positions in the Petrobras Parent Company held by employees who informed their color/race, 25.3% are held by people who declared that they are Negroes.
  - V.** Information with respect to the Petrobras Parent company, Petrobras Distribuidora and Transpetro, which corresponds to 5.3% of the permanent staff in jobs where positions are reserved for persons with disabilities.
  - VI.** The information on the Company includes the number of complaints and criticisms received by the Petrobras Parent Company and Petrobras Distribuidora. The goals for 2011 (Company, Procon and courts) do not include the estimate for Petrobras Distribuidora.
    - (i)** (Unaudited information)

Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements  
(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)*

## **1 The Company and its operations**

Petróleo Brasileiro S.A. - Petrobras is dedicated, directly or through its subsidiaries (referred to jointly as “Petrobras” or “the Company”) to prospecting, drilling, refining, processing, trading and transporting oil originating from wells, shale or other rocks, and oil products, natural gas and other liquid hydrocarbons, in addition to activities connected with energy and it may carry out research, development, production, transport, distribution and trading of all forms of energy, as well as any other correlated or similar activities. The Company’s head office is located in Rio de Janeiro – RJ.

## **2 Presentation of the financial statements**

The financial statements include:

### **Consolidated financial statements**

The consolidated financial statements are being presented in accordance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) and they are also in accordance with accounting practices adopted in Brazil.

### **Individual financial statements**

The individual financial statements are being presented in accordance with accounting practices adopted in Brazil, observing the provisions contained in the Brazilian Corporate Law, and they incorporate the changes introduced through Law 11,638/07 and Law 11,941/09, complemented by the pronouncements, interpretations and orientations of the Accounting Pronouncements Committee (CPC), approved by resolutions of the Federal Accounting Council (CFC) and by rules of the Brazilian Securities Commission (CVM).



Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements  
(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)*

The pronouncements, interpretations and orientations of the Accounting Pronouncements Committee (CPC), approved by resolutions of the Federal Accounting Council (CFC) and rules of the Brazilian Securities Commission (CVM) are converging with the International Accounting Standards issued by the International Accounting Standard Board (IASB). Accordingly, the individual financial statements do not present differences with respect to those consolidated under IFRS, except for the maintenance of deferred assets, as established in CPC 43 (R1) approved by CVM deliberation 651/10. The reconciliations of the parent company's shareholders' equity and results with the consolidated statements are presented in note 3.1.

The financial statements were prepared using the historical cost as a value basis, except for the valuation of some non-current assets and liabilities, and financial instruments.

The Company's Board of Directors authorized the publication of these financial statements in a meeting held on February 9, 2012.

## **2.1 Business segment reporting**

The accounting information per operating business (business area) of the Company is prepared based on items directly attributable to the segment, as well as those that may be allocated on a reasonable basis.

In the computation of the results by business segment, transactions carried out with third parties and the transfers between the business segments are considered and they are valued by internal transfer prices defined between the departments using calculation methodologies based on market parameters.

The information per business segments in the Company is segmented in accordance with the prevailing organization model, containing the following segments:

a) Exploration and Production: This segment covers the activities of exploration, production development and production of oil, NGL (natural gas liquid) and natural gas in Brazil, for the purpose of supplying, as a priority, refineries in Brazil and, also, selling on the domestic and foreign markets the surplus oil and oil products produced in

their natural gas processing plants.

b) Refining, Transportation and Marketing: This segment consists of the refining, logistics, transport and trading activities of oil and oil products, exporting of ethanol, extraction and processing of shale, as well as holding interests in companies of the petrochemical sector in Brazil.

Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements  
(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)*

c) Gas and Power: It covers the activities of transport and trading of natural gas produced in Brazil or imported, transport and trading of LNG, generation and trading of electric power, as well as the corporate interests in transporters and distributors of natural gas and in thermoelectric power stations in Brazil, in addition to being responsible for the fertilizer business.

d) Biofuel: It comprises the activities for production of biodiesel and its co-products and ethanol activities through equity investments, production and marketing of ethanol, sugar and excess of electric power generated from sugarcane bagasse.

e) Distribution: It is responsible for the distribution of oil products, ethanol and compressed natural gas in Brazil, represented by the operations of Petrobras Distribuidora.

f) International: It covers the activities for exploration and production of oil and gas, refining, transportation & marketing, gas and power, and distribution, carried out abroad in a number of countries in the Americas, Africa, Europe and Asia.

The items that cannot be attributed to the other segments, notably those linked to corporate financial management, the overheads related to central administration and other expenses, including actuarial expenses related to the pension and health care plans for retired employees and pensioners, are allocated in the corporate segment.

## **2.2 Statement of added value**

The statements of added value present information related to the wealth created by the entity and the way in which this wealth is distributed. These statements were prepared in accordance with CPC 09 – Statement of Added Value approved by CVM deliberation 557/08 and, for IFRS purposes, they are presented as supplementary information.

## **2.3 Social balance**



The Social Balance presents social, environmental and functional quantitative indexes and relevant information with respect to the exercise of corporate citizenship. Some information was obtained through the Company's subsidiary records and managerial information. This balance is presented as additional information.

Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements  
(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)*

## **2.4 Functional currency**

The functional currency of Petrobras, as well as all its Brazilian subsidiaries, is the Real. The functional currency of some subsidiaries and special purpose entities that operate in the international economic environment is the US dollar and the functional currency of Petrobras Argentina S.A. is the Argentine peso.

The statements of income and cash flows of the invested companies in a stable economic environment with a functional currency different from the parent company are translated into Reais at the monthly average exchange rate, assets and liabilities are translated at the final rate and the other items of shareholders' equity are translated at the historical rate.

The exchange variations on investments in subsidiaries and affiliated companies with a functional currency different from the Parent company are recorded in shareholders' equity, as an cumulative translation adjustment and are transferred to the income statement upon realization of the investments.

## **2.5 Accounting estimates**

In the preparation of the financial statements it is necessary to use estimates for certain assets, liabilities and other transactions. These estimates include oil and gas reserves, liabilities of pension and health plans, depreciation, depletion and amortization, abandonment costs, provisions for legal contingencies, fair value of financial instruments, adjustments to present value of accounts receivable and payable of material transactions, income tax and social contribution. Although Management uses assumptions and judgments that are reviewed periodically, the actual results could differ from these estimates.

Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements  
(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***3 Consolidation basis**

The consolidated financial statements include information from Petrobras and its subsidiaries and special purpose entities, whose accounting practices are consistent with those adopted by jointly controlled subsidiaries the Company. The consolidated companies are as follows:

			<b>Equity capital - Subscribed, paid in and voting% 2010</b>
	<b>Country</b>	<b>2011</b>	
<b>Subsidiaries and jointly controlled</b>			
Petrobras Química S.A. - Petroquisa and its subsidiaries	Brazil	100.00	100.00
Petrobras Distribuidora S.A. - BR and its subsidiaries	Brazil	100.00	100.00
Braspetro Oil Services Company - Brasoil and its subsidiaries (i)	Cayman Islands	100.00	100.00
Braspetro Oil Company - BOC (i)	Cayman Islands	99.99	99.99
Petrobras International Braspetro B.V. - PIBBV and its subsidiaries (i) (ii)	Holland	100.00	100.00
Petrobras Comercializadora de Energia Ltda. - PBEN (iii)	Brazil	100.00	100.00
Petrobras Negócios Eletrônicos S.A. - E-Petro (iv)	Brazil	100.00	100.00
Petrobras Gás S.A. - Gaspetro and its subsidiaries	Brazil	99.99	99.99
Petrobras International Finance Company - PifCo and its subsidiaries (i)	Cayman Islands	100.00	100.00
Petrobras Transporte S.A. - Transpetro and its subsidiaries	Brazil	100.00	100.00
Downstream Participações Ltda. and its subsidiary	Brazil	99.99	99.99
Petrobras Netherlands B.V. - PNBV and its subsidiaries (i)	Holland	100.00	100.00
5283 Participações Ltda.	Brazil	100.00	100.00
FAFEN Energia S.A. and its subsidiary (v)	Brazil	100.00	100.00
Baixada Santista Energia Ltda.	Brazil	100.00	100.00
Sociedade Fluminense de Energia Ltda. - SFE	Brazil	100.00	100.00
Termorio S.A.(v)	Brazil	100.00	100.00
Termoceará Ltda.	Brazil	100.00	100.00

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Termomacaé Ltda	Brazil	100.00	100.00
Termomacaé Comercializadora de Energia Ltda.	Brazil	100.00	100.00
Usina Termelétrica de Juiz de Fora S.A (v)	Brazil		100.00
Fundo de Investimento Imobiliário RB Logística - FII	Brazil	99.00	99.00
Termobahia S.A.	Brazil	98.85	98.85
Petrobras Biocombustível S.A.	Brazil	100.00	100.00
Refinaria Abreu e Lima S.A.	Brazil	100.00	100.00
Cordoba Financial Services GmbH - CFS and its subsidiary (i)	Austria	100.00	100.00
Companhia Locadora de Equipamentos Petrolíferos S.A. – CLEP	Brazil	100.00	100.00
Comperj Petroquimos Básicos S.A(v)	Brazil		100.00
Comperj PET S.A.(v)	Brazil		100.00
Comperj Participações S.A.	Brazil	100.00	100.00
Comperj Estirênicos S.A.	Brazil	100.00	100.00
Comperj MEG S.A	Brazil	100.00	100.00
Comperj Poliolefinas S.A.	Brazil	100.00	100.00
Breitener Energética S.A. and its subsidiaries	Brazil	65.00	65.00
	Cayman		
Cayman Cabiunas Investment CO. (i)	Islands	100.00	100.00
Ibiritermo S.A.	Brazil	50.00	50.00
Innova S.A.	Brazil	100.00	
Companhia de Desenvolvimento de Plantas Utilidades S.A. - CDPU (vi)	Brazil	100.00	
Companhia de Recuperação Secundária S.A. – CRSEC	Brazil	100.00	

(i) Companies headquartered abroad with financial statements prepared in a foreign currency.

(ii) 11.87% interest in 2011 (11.45% in 2010) of 5283 Participações Ltda.

(iii) 0.09% interest of Petrobras Gás S. A. - Gaspetro.

(iv) 0.05% interest of Downstream.

(v) Companies merged by Petróleo Brasileiro S.A.

(vi) 20% interest of Comperj Participações S.A.

Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements  
(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)*

<b>Specific purpose entities - SPE</b>	<b>Country</b>	<b>Main activity</b>
Charter Development LLC – CDC (i)	USA	Exploration and Production
Companhia de Desenvolvimento e Modernização de Plantas Industriais – CDMPI	Brazil	Refining
Nova Transportadora do Nordeste S.A. – NTN	Brazil	Logistics
Nova Transportadora do Sudeste S.A. – NTS	Brazil	Logistics
PDET Offshore S.A.	Brazil	Exploration and Production
Fundo de Investimento em Direitos Creditórios Não-padronizados do Sistema Petrobras	Brazil	Corporate

(i) Companies headquartered abroad with financial statements prepared in foreign currency.

The process for consolidating the equity and income accounts corresponds to the sum of the balances of assets, liabilities, income and expenses, according to their nature, complemented by eliminating the transactions between consolidated companies, in addition to the balances and results not realized financially between these companies.

The Company began to recognize in its financial statements for the years ended December 31, 2011 and 2010 the investments in jointly controlled companies valued by the equity accounting method, which are no longer consolidated proportionally, in conformity with the alternative established in IAS 31 and the corresponding CPC 19 (R1), approved by CVM Resolution 666/11.

This change was applied retroactively to January 1, 2010, with changes in the balances as follows:

a) *Consolidated statement of financial position*

	01.01.2010			12.31.2010		
	Disclosed (*)	Effect of Proportional Consolidation	Initial balance adjusted 01/01/2010	Disclosed (*)	Effect of Proportional Consolidation	Adjusted Balance
Current assets	74,374	(934)	73,440	106,685	(783)	105,902
Non-current assets	34,923	(574)	34,349	38,470	(752)	37,718
Investments	5,772	2,272	8,044	8,879	2,713	11,592
Property, plant and equipment, net	227,079	(2,432)	224,647	282,838	(2,743)	280,095
Intangible assets	8,271	(1,482)	6,789	83,098	(1,559)	81,539
	<b>350,419</b>	<b>(3,150)</b>	<b>347,269</b>	<b>519,970</b>	<b>(3,124)</b>	<b>516,846</b>
Current liabilities	55,161	(1,068)	54,093	56,834	(886)	55,948
Non-current liabilities	128,363	(1,653)	126,710	152,911	(1,841)	151,070
Shareholder's equity attributable to						
Petrobras' shareholders	164,317		164,317	306,766	(1)	306,765
Non-controlling interests	2,578	(429)	2,149	3,459	(396)	3,063
	<b>350,419</b>	<b>(3,150)</b>	<b>347,269</b>	<b>519,970</b>	<b>(3,124)</b>	<b>516,846</b>

(\*) Published in the financial statements for the year ended December 31, 2010.

Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements  
(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)*b) *Consolidated income statement*

	<b>Disclosed</b>	<b>2010 Effect of Proportional Consolidation</b>	<b>Adjusted Balance</b>
<b>Sales revenues</b>	213,274	(1,432)	211,842
Cost of sales	(136,052)	435	(135,617)
<b>Gross profit</b>	<b>77,222</b>	<b>(997)</b>	<b>76,225</b>
Expenses	(30,165)	334	(29,831)
<b>Income before financial result, profit-sharing and taxes</b>	<b>47,057</b>	<b>(663)</b>	<b>46,394</b>
Financial income (expenses), net	2,563	57	2,620
Equity in earnings of investments	208	377	585
Profit-sharing	(1,691)		(1,691)
<b>Income before income taxes</b>	<b>48,137</b>	<b>(229)</b>	<b>47,908</b>
Income tax and social contribution	(12,236)	209	(12,027)
<b>Net income</b>	<b>35,901</b>	<b>(20)</b>	<b>35,881</b>
<b>Net income attributable to:</b>			
Shareholder's of Petrobras	35,189		35,189
Non-controlling interests	712	(20)	692
	<b>35,901</b>	<b>(20)</b>	<b>35,881</b>

c) *Consolidated statement of cash flows*

	<b>Disclosed</b>	<b>2010 Effect of Proportional Consolidation</b>	<b>Adjusted Balance</b>
Cash provided by operating activities:	53,435	(564)	52,871
Cash used in investment activities	(105,567)	383	(105,184)
Cash provided by financing activities	53,858	(81)	53,777
Effect of exchange variation on cash and cash equivalents	(437)	143	(294)
<b>Net increase/(decrease) in cash for the year</b>	<b>1,289</b>	<b>(119)</b>	<b>1,170</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>29,034</b>	<b>(788)</b>	<b>28,246</b>
<b>Cash and cash equivalents at end of year</b>	<b>30,323</b>	<b>(907)</b>	<b>29,416</b>

**3.1 Reconciliation of the shareholder's equity and net income of consolidated with that of the parent company**

	Shareholders' equity		Net income	
	2011	2010	2011	2010
<b>Consolidated - IFRS</b>	<b>332,224</b>	<b>309,828</b>	<b>33,110</b>	<b>35,881</b>
Equity of non-controlling interest	(2,385)	(3,063)	203	(692)
Deferred expenses, net of income tax	636	552	(212)	(153)
<b>Parent company adjusted to International Accounting Standards (CPC)</b>	<b>330,475</b>	<b>307,317</b>	<b>33,101</b>	<b>35,036</b>



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#### **4 Summary of significant accounting practices**

The accounting policies set below have been applied consistently by the Company on its consolidated and individual financial statements.

##### **4.1 Recognition of revenue, costs and expenses**

Sales revenues comprises the amount of the consideration received or receivable for the sale of products and services, net of returns, discounts and charges on sales.

- Revenue from the sale of crude oil and its derivatives is recognized in the income statement when the risks and rewards of ownership have been transferred to the buyer, which usually occurs upon delivery.
- Revenue from sale of freight and other services is recognized in accordance with their consummation.

The net financial results include mainly income from interest on financial investments and government bonds, expenses with interest on financing, gains and losses from valuation to fair value according to the classification of the security, as well as net exchange and monetary gains and losses.

Revenues, costs and expenses are recognized on the accrual basis.

##### **4.2 Financial assets and liabilities**

###### **4.2.1 Cash and cash equivalents**

They consist of short-term investments of high liquidity which are readily convertible into cash, with maturity within three months of the date of acquisition.

#### **4.2.2 *Marketable securities***

The Company classifies marketable securities on initial recognition, based on Management's strategies for these securities, in the following categories:

- Trading securities, which are stated at fair value. Interest, monetary restatement and changes resulting from the valuation to fair value are recorded in the income statement when incurred.

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- Available-for-sale securities, which stated at fair value. Interest and monetary restatement are recorded in the income statement, when incurred, while the changes resulting from valuation to fair value are recorded in equity valuation adjustments, in shareholders' equity, and transferred to the income statement for the year, upon settlement.
- Held-to-maturity securities, which are stated at cost of acquisition, plus interest and monetary restatement, which are recorded in the income statement when incurred.

#### **4.2.3    *Accounts receivable***

They are initially stated at the amount of the consideration to be received and, subsequently, at amortized cost, and they are deducted from the allowance for uncollectible accounts.

#### **4.2.4    *Loans and financing***

They are initially recognized at fair value less transaction costs incurred and, after initial recognition, are stated at amortized cost using the effective interest rate method.

#### **4.2.5    *Derivative financial instruments and hedge operations***

All the derivative financial instruments were recognized in the Company's statement of financial position, both in assets and liabilities, and are stated at fair value, which is determined based on market closing quotations, when available.

In the operations with derivatives, for hedge against variations in the prices of oil and oil products and currency, the gains and losses resulting from the changes in fair value are recorded in the financial results.

For cash flow hedges operations, the gains and losses resulting from the changes in their fair value are recorded in equity valuation adjustments, in shareholders' equity, until their settlement.

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#### **4.2.6 Capital**

The capital is represented by common and preferred shares which are classified as shareholders' equity. The expenditures with the issuing of shares are presented as a deduction from shareholders' equity, as additional paid-in-capital, net of tax effects.

The preferred shares are given priority in the event of reimbursement of capital and receipt of dividends of at least 3% of the value of the net equity of the share, or 5% calculated on the part of the capital represented by this type of shares, where the higher amount shall always prevail, participating on the same terms as the common shares, in the capital increases resulting from the incorporation of reserves and profits. Preferred shares do not have any voting rights and are not convertible into common shares and vice versa.

The minimum mandatory dividends comply with the limits defined in the Company's bylaws and are recognized as liabilities.

#### **4.3 Inventories**

Inventories are stated as follows:

- Raw material comprises mainly the stocks of oil, which are stated at the average value of the importing and production costs, adjusted, when applicable, to their realization value;
- Oil products and alcohol are stated at average refining or purchase cost, adjusted, when applicable, to their realization value;
- Materials and supplies are stated at average purchase cost, not exceeding replacement cost. Imports in transit are stated at identified cost.

#### **4.4 Investments**

Investments analysis is made subsidiaries, jointly controlled subsidiaries and also in affiliated companies over which management has significant influence, and in other companies which are part of the same group or under common control, are valued by the equity accounting method.

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#### **4.5 Business combinations and goodwill**

The purchase is analyzed case by case to determine whether the transaction represents a business combination or a purchase of assets. Transactions between companies under common control do not configure a business combination.

Assets and liabilities acquired in a business combination are stated in accordance with the method of acquisition and are recognized at their respective fair values. Any excess of the cost of acquisition over the fair value of the net assets acquired (identifiable assets and liabilities acquired, net) is recognized as goodwill in intangible assets. When the cost of acquisition is lower than the fair value of the net assets acquired, a gain is recognized in the income statement.

Changes in interests in subsidiaries that do not result in a loss of control are recognized directly in shareholders' equity, as an additional capital contribution, by the difference between the price paid/received and the book value of the interest purchased/sold.

On the purchases of an interest in subsidiaries and jointly-controlled companies, despite the fact that they do not configure a business combination, the net assets purchased are also recognized at their fair value and the goodwill is presented in the investment.

#### **4.6 Property, plant and equipment, net**

##### ***Measurement***

It is stated at the cost of acquisition or construction, which represents the costs for preparing the asset for operation, monetarily restated during hyperinflationary periods, less accumulated depreciation and loss through impairment. The rights that have as objects tangible assets intended for the maintenance of the Company's activities, arising from operations that transfer the benefits, risks and control of these assets, are presented at fair value or, if lower, by the present value of the minimum payments of the contract.

The costs incurred with exploration, development and production of oil and gas are recorded according to the successful efforts method. This method establishes that the development costs of all the production wells and the successful exploration wells, linked to economically viable reserves, are capitalized, while the geology and geophysics costs are considered expenses for the period in which they occur and the costs for dry exploration wells and the costs linked to non-commercial reserves are recorded in the income statement when they are thus identified.



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Material expenses with maintenance of the industrial units and ships, which include spare parts, dismantling and assembly services, amongst others, are recorded in property, plant and equipment, net. The financial charges on loans taken out, when directly attributable to the acquisition or construction of assets, are capitalized as part of the costs of these assets. The financial charges that are not directly related to the assets are capitalized based on an average funding rate on the balance of the work in progress. These costs are amortized over the estimated useful lives of the respective assets or by the unit of production method.

### ***Depreciation***

The equipment and facilities related to oil and gas production of the developed wells are depreciated in accordance with the monthly volume of production in relation to the proven and developed reserves of each producing field. These reserves are estimated by the Company's specialized professionals, in accordance with the definitions established by the Securities and Exchange Commission (SEC), and reviewed annually, or in shorter periods of time if there is evidence of material changes. The straight line method is used for assets with a useful life shorter than the life of the field or for assets that are linked to fields in various stages of production.

Land is not depreciated. The other items of property, plant and equipment, net are depreciated according to the straight-line method based on the following estimated useful lives:

<b>Class of assets</b>	<b>Useful life average weighted</b>
Buildings and improvements	25 years (25-40 years)
Equipment and other assets	20 years (3-31 years)

The stoppages for maintenance occur in programmed intervals, on average, of 4 years, and the respective expenses are depreciated as a production cost until the beginning of the following stoppage.

### **4.7 Intangible Assets**

They are stated at the cost of acquisition, less accumulated amortization and losses through impairment. They comprise rights and concessions that include, mainly, the signing bonus paid for obtaining concessions for exploration

of oil or natural gas, onerous assignment of exploration rights in blocks of the pre-salt area, public service concessions, in addition to trademarks and patents, software and goodwill from expectations of future profitability resulting from acquisition of a controlling interest. Goodwill resulting from acquisition of an interest in affiliated companies, subsidiaries and jointly controlled subsidiaries is presented in investments.

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The signing bonuses are amortized by the unit of production method in relation to the total proven reserves, while the other intangible assets are amortized on a straight line basis according to their estimated useful life, except for goodwill, which is not amortized.

The onerous assignment of exploration rights will also be amortized by the unit of production method.

#### **4.8 Deferred Charges**

The Company maintained the balance of deferred assets as of December 31, 2008 in the individual statement, which will continue to be amortized in up to 10 years, subject to impairment testing in conformity with the Law 11,941/09.

#### **4.9 Impairment of assets**

The Company evaluates the items of property, plant and equipment, net, intangible assets with a definite useful life and deferred charges (individual) when there is evidence they will not recover their book values. The assets that have an indefinite useful life, such as goodwill for expectations of future profitability, are tested for impairment annually, regardless of whether there is evidence of impairment or not.

When applying the impairment test to the recoverable value of assets, the carrying value of an asset or a cash generating unit is compared with its recoverable value. The recoverable value is the higher value between the net sales value of an asset and its value in use. Considering the particularities of the Company's assets, the recoverable value used for evaluation of the impairment test to recoverable value is the value in use, except when specifically indicated.

This use value is estimated based on the present value of future cash flows, resulting from the Company's best estimates. The cash flows resulting from continuous use of the related assets are adjusted by the specific risks and use the pre-tax discount rate. This rate is derived from the structured post-tax rate in the Weighted Average Cost of Capital (WACC). The main assumptions for cash flows are: prices based on the last strategic plan published, production curves associated with existing projects in the Company's portfolio, market operating costs and investments

required for carrying out the projects.

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These evaluations are made at the lowest level of assets for which there are identifiable cash flows. Assets connected with the exploration and development of oil and gas production are reviewed annually, field by field, in order to identify possible losses on recovery based on the estimated future cash flow.

Reversal of previously recognized losses is permitted, except in relation to the decrease in the value of goodwill for expectations of future profitability.

#### **4.10 Leases**

The liabilities of lease agreements with transfer of benefits, risks and control of the assets are recognized in liabilities as financial leasing. In the cases where the Company is lessor, these agreements are recognized as receivables in assets. The other lease agreements are classified as operating leases and the payments are recognized as an expense in the income statement during the term of the contract.

#### **4.11 Abandonment of wells and dismantling of areas**

The future liability for abandonment of wells and dismantling the production area is stated at its present value, discounted at a risk free rate and is fully recorded at the time of the declaration of commercial viability of each field, as part of the costs of the related assets (property, plant and equipment, net) as a contra entry to the provision recorded in the liabilities that will bear these expenses. The interest incurred through the updating of the provision is classified as a financial expense.

#### **4.12 Income tax and social contribution**

These taxes are calculated and recorded based on the rate of 25% for income tax and 9% for social contribution on taxable income. Deferred taxes and social contributions are recognized as a result of temporary differences, tax loss carry forwards and negative basis of social contribution, when applicable.

For purposes of calculating the income tax and social contribution on current income, the Company adopted the Transition Tax Regime, as established by Law 11,941/09, i.e. for calculating taxable income it considered the accounting criteria of Law 6,404/76 before the amendments of Law 11,638/07. The taxes on temporary differences, generated by adopting the new corporate law were recorded as deferred taxes and contributions, assets and liabilities.

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#### **4.13 Employee's benefits**

Provisions are recorded for the actuarial commitments with pension, retirement plans, and the health care plans, based on an actuarial calculation prepared annually by an independent actuary, in accordance with the projected credit unit method, net of the guarantor assets of the plan, when applicable, and the costs referring to the increase in the present value of the liability, resulting from the service provided by the employee, recognized during the employees' time of service.

The projected credit unit method considers each period of service as a generating fact for an additional unit of benefit, which is accumulated for the computation of the final obligation. Additionally, other actuarial assumptions are used, such as estimates of the evolution of costs with health care benefits, biological and economic hypotheses and, also, past data on expenses incurred and contributions from employees.

The actuarial gains and losses resulting from adjustments based on experience and on changes in the actuarial assumptions are included or excluded, respectively, when determining the net actuarial commitment and are amortized over the average period of service remaining for the active employees in accordance with the corridor method.

The Company also contributes to the national pension and social security plans of international subsidiaries, with defined contribution characteristics, whose percentages are based on the payroll, and these contributions are taken to the income statement when incurred.

#### **4.14 Government subsidies and assistance**

Government subsidies for investments are recognized as revenue throughout the period, compared with the expenses that it intends to offset on a systematic basis, and are invested in Petrobras in the following manner:

- Subsidies with reinvestments: in the same proportion as the depreciation of the asset, and

- Direct subsidies related to the operating profit: directly in the income statement.

The amounts recognized in the income statement will be distributed to the tax incentive reserve, in shareholders' equity.



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#### 4.15 New standards and interpretations

During 2011 the following standards issued by IASB entered into force but did not have an impact on the Company's financial statements:

- Revised version of IAS 24 - Related Party Disclosures
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments
- Amendment of IFRIC 14 - Prepayments of a Minimum Funding Requirement
- Amendment of IAS 32 - Classification of Rights Issues

The standards issued by IASB that have not yet entered into force and whose adoption had not been anticipated by the Company as of December 31, 2011 are as follows:

<b>Standards</b>	<b>Description</b>	<b>Term (*)</b>
Amendments to IFRS 7	Disclosures : <i>Transfers of Financial Assets</i> .	July 1, 2011
Amendments to IAS 12	<i>Deferred Tax: Recovery of Underlying Assets</i> . Establishes criteria for calculating the tax base of an asset.	January 1, 2012
IFRS 10	" <i>Consolidated Financial Statements</i> ". Establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities.	January 1, 2013
IFRS 11	" <i>Joint Arrangements</i> ". Establishes principles for disclosure of financial statements of entities that are parties of joint	January 1, 2013

	agreements.	
IFRS 12	“ <i>Disclosure of Interests in Other Entities</i> ”. Consolidates all the requirements of disclosures that an entity should carry out when participating in one or more other entities.	January 1, 2013
IFRS 13	“ <i>Fair Value Measurement</i> ”. Establishes fair value, explains how to calculate it and determines what must be disclosed about this form of calculation.	January 1, 2013
Amendments to IAS 1	“ <i>Presentation of Items of Other Comprehensive Income</i> ”. Includes in Other Comprehensive Income items that may be reclassified as profit or loss in the income statement for the year.	January 1, 2013
Amendments to IAS 19	“ <i>Employee Benefits</i> ”. Eliminates the corridor method for recognizing actuarial gains or losses, simplifies the presentation of changes in assets and liabilities of defined benefit plans and expands the disclosure requirements.	January 1, 2013
Amendments to IFRS 7	“ <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ”. Establishes disclosure requirements for compensation agreements of financial assets and liabilities.	January 1, 2013
Amendments to IFRS 9	“ <i>Mandatory Effective Date of IFRS 9 and Transition Disclosures</i> ”. Postpones the date of enforcement of IFRS 9 to 2015 . Also eliminates the requirement for republication of comparative information and requires additional disclosures about the transition to IFRS 9.	January 1, 2015

(\*) Standards valid as from the years beginning on or after these dates.

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The Company is assessing the impacts of the amendment to IAS 19 on its financial statements. With respect to the other amendments and new standards listed above, the Company estimates that their adoption will not have a material impact on its financial statements.

## 5 Cash and cash equivalents

	Consolidated		Parent company	
	2011	2010	2011	2010
Cash and banks	3,731	3,294	672	437
Financial investments				
- <i>In Brazil</i>				
Investment funds - Deposits	10,301	11,262	9,210	10,119
Other investment funds	4,275	1,750	2,623	325
	<b>14,576</b>	<b>13,012</b>	<b>11,833</b>	<b>10,444</b>
- <i>Abroad</i>	17,440	13,110	6,353	9,114
Total financial investments	<b>32,016</b>	<b>26,122</b>	<b>18,186</b>	<b>19,558</b>
<b>Total cash and cash equivalents</b>	<b>35,747</b>	<b>29,416</b>	<b>18,858</b>	<b>19,995</b>

Financial investments in Brazil are represented by investment funds whose resources are invested in federal government bonds and investments in quotas of the investment fund in credit rights (FIDC) of the Petrobras System.

Investments abroad comprise time deposits with terms of up to 3 months and other short-term fixed income instruments, made with major institutions.

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	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
For trading	16,785	25,651	16,785	25,588
Available-for-sale	5,479	5,303	5,210	5,125
Held-to-maturity	291	257	6,849	7,767
	<b>22,555</b>	<b>31,211</b>	<b>28,844</b>	<b>38,480</b>
<b>Current</b>	16,808	26,013	23,625	33,731
<b>Non-current</b>	5,747	5,198	5,219	4,749

Available-for-sale securities include Series B National Treasury Notes (NTN-B) in the amount of R\$ 5,401 (R\$ 5,137 in the Parent company) as of December 31, 2011, indexed to the amplified consumer price index (IPCA), with payment of half yearly coupons of 6 % p.a. and maturities in 2024 and 2035, and are presented in non-current assets. A part of these NTN-B was given in guarantee to Petros in 2008, after signing the Term of Financial Commitment, as described in Note 21.

The securities for trading refer mainly to investments in public bonds with maturity terms of more than 90 days and are presented in current assets considering their expectation of realization in the short term.

The held-to-maturity securities in the Parent company include investments in the nonstandard credit assignment investment fund (FIDC-NP) related to non-performing credit rights of its operating activities in the amount of R\$ 6,840 at December 31, 2011 and are presented in current assets.

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	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Trade Accounts Receivable				
Third parties	20,048	16,428	3,207	3,199
Related parties (Note 18)				
Subsidiaries and affiliated companies	1,549	1,116	26,146	40,127
Receivables from the electricity sector	2,952	3,145	1,099	2,315
Petroleum and alcohol accounts - STN	832	822	832	822
Other	5,565	4,671	3,029	2,733
	<b>30,946</b>	<b>26,182</b>	<b>34,313</b>	<b>49,196</b>
Allowance for uncollectible accounts	(2,790)	(2,681)	(402)	(466)
	<b>28,156</b>	<b>23,501</b>	<b>33,911</b>	<b>48,730</b>
<b>Current</b>	<b>22,053</b>	<b>18,069</b>	<b>21,068</b>	<b>17,701</b>
<b>Non-current</b>	<b>6,103</b>	<b>5,432</b>	<b>12,843</b>	<b>31,029</b>

**7.2 Changes in allowance for uncollectible accounts**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Opening balance</b>	<b>2,681</b>	<b>2,531</b>	<b>466</b>	<b>306</b>
Additions (*)	586	356	238	169
Write-offs/ Reversals (*)	(477)	(206)	(302)	(9)
<b>Closing balance</b>	<b>2,790</b>	<b>2,681</b>	<b>402</b>	<b>466</b>
<b>Current</b>	<b>1,685</b>	<b>1,715</b>	<b>402</b>	<b>466</b>
<b>Non-current</b>	<b>1,105</b>	<b>966</b>		

(\* ) It includes exchange variation on allowance for uncollectible accounts recorded in companies abroad.

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	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Up to 3 months	1,411	817	800	500
From 3 to 6 months	215	162	82	56
From 6 to 12 months	264	211	64	41
More than 12 months	2,982	3,017	447	570

**8 Inventories**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Products:				
Oil products (*)	9,166	6,254	7,550	4,957
Alcohol (*)	782	477	289	123
	9,948	6,731	7,839	5,080
Raw materials, mainly crude oil (*)	14,847	9,504	11,718	7,300
Maintenance materials and supplies (*)	3,369	3,253	2,911	2,864
Other	367	261	33	14
	<b>28,531</b>	<b>19,749</b>	<b>22,501</b>	<b>15,258</b>
<b>Current</b>	28,447	19,675	22,434	15,199
<b>Non-current</b>	84	74	67	59

(\*) It includes imports in transit.

**9 Restrict deposits for legal proceedings and guarantees**

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The restrict deposits for legal proceedings and guarantees are presented according to the nature of the corresponding lawsuits:

<b>Non-current asset</b>	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Labor	1,131	928	1,087	888
Tax (*)	1,264	1,192	963	912
Civil (*)	455	596	416	558
Other	105	74	98	68
<b>Total</b>	<b>2,955</b>	<b>2,790</b>	<b>2,564</b>	<b>2,426</b>

(\*) Net of deposits related to judicial proceedings for which a provision is recorded, when applicable.



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## **10 Purchases and sales of assets**

### **10.1 Business combinations**

#### **Companhia de Desenvolvimento de Plantas Utilidades S.A (CDPU)**

On December 23, 2011, Petrobras purchased 80% of Companhia de Desenvolvimento de Plantas Utilidades S.A (CDPU) for R\$ 20. With this transaction the Company now holds 100% of CDPU.

CDPU is a utilities center that concentrates the units for generating electricity and steam, treating water and industrial effluents for the Petrochemical Complex of Rio de Janeiro (COMPERJ).

#### **Gas Brasileiro Distribuidora S.A.**

On July 29, 2011, Petrobras Gás S.A. (Gaspetro) purchased 100% of the shares of Gas Brasileiro Distribuidora S.A. (GBD) for R\$ 425 (equivalent to US\$ 271 million). The appraisal of the fair value of the assets and liabilities has not been concluded and, therefore, preliminarily, goodwill of R\$ 19 has been recognized.

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 north west of the State of São Paulo. The concession agreement began in December 1999 with a duration of 30 years and it may be renewed for another 20 years.



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## 10.2 Acquisition of interests in jointly-controlled subsidiaries and in affiliated companies

### **BSBios Indústria e Comércio de Biodiesel Sul Brasil S.A.**

On July 1, 2011, Petrobras Biocombustível S.A. purchased 50% of a corporate interest in BSBios Indústria e Comércio de Biodiesel Sul Brasil S.A. through payment of R\$ 133 as follows: R\$ 76 in currency and a contribution of R\$ 57 referring to the interest in BSBios Marialva Indústria e Comércio de Biodiesel S.A.

### **Valuation of net assets at fair value – Nova Fronteira, Bioóleo, Braskem, Guarani and Total Canavieira**

In 2010, the Company signed investment agreements for investing in the capital of the companies Nova Fronteira Bioenergia S.A., Bioóleo Industrial e Comercial Ltda, Braskem S.A., Guarani S.A and Total Agroindústria Canavieira S.A. In 2011, appraisals of the net assets purchased at fair value were concluded, as follows:

	Jointly controlled		Affiliated companies			Total
	Nova Fronteira	Bioóleo	Braskem	Guarani	Total Agroindústria Canavieira	
Consideration transferred for the purchase	432	18	2,805	878	155	<b>4,288</b>
Interest in the fair value of the net assets acquired	(425)	(16)	(2,240)	(799)	(89)	<b>(3,569)</b>
Goodwill for expectations of future profitability	7	2	565	79	66	<b>719</b>
Interest acquired of total capital (%)	49.00%	50.00%	10.69%	31.44%	43.58%	

The interest in the fair value of the net assets acquired includes a surplus value of property, plant and equipment, net and intangible assets in the amount of R\$ 358 which is classified as investments, as well as goodwill in the amount of R\$ 719.



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*(In millions of reais, except when specifically indicated)*

### 10.3 Acquisition of non-controlling interests

#### Specific Purpose Entities - SPE

The Company exercised option for purchase of SPE during 2011 which resulted in an increase of R\$ 910 in the shareholders' equity attributable to its shareholders, as additional paid-in-capital, as follows:

<b>Date of option</b>	<b>Corporate name of SPE</b>	<b>% of shares</b>	<b>Additional paid-in-capital</b>
01/12/2011	Companhia Mexilhão do Brasil - CMB	100%	112
11/11/2011	Transportadora Gasene S.A. - Gasene	100%	789
12/09/2011	Companhia de Recuperação Secundária - CRSec	100%	9
			910

As from this purchase option Gasene Participações Ltda, former parent company of Transportadora Gasene, ceased to be consolidated in Petrobras.

#### Innova S.A.

As of March 31, 2011, Petrobras now directly owns 100% of the capital of Innova, a petrochemical company located in the industrial park of Triunfo (RS), which was indirectly controlled by Petrobras Argentina (Pesa). The amount of the transaction was US\$ 332 million (equivalent to R\$ 551), where US\$ 228 million was paid in April of 2011 and US\$ 104 million falls due on October 30, 2013 restated by 12 month LIBOR as from the date of signing the share purchase agreement (SPA). This transaction resulted in a decrease of R\$ 90 in the equity attributable to the shareholders of Petrobras, as a result of the decrease in the non-controlling interest in this venture.

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*(In millions of reais, except when specifically indicated)*

#### **10.4 Sale of assets and other information**

##### **Cia Energética Suape II**

Petrobras holds a 20% interest in Energética Suape II S.A, whose purpose is the construction of a thermoelectric power station in the municipality of Cabo de Santo Agostinho - PE, with an output of 380 MW. The remaining interest (80%) belongs to Nova Cibe Energia S.A.

On May 31, 2011, Petrobras deposited R\$ 48.4 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.

Petrobras holds the deposit as a right to acquisition of an equity interest under Investments, until 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 SPE Albacora Japão Petróleo Ltda for the amount of R\$ 10 thousand. As from this purchase option, the SPE 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 US\$ 102 million, pursuant to an agreement signed in 2010. The transaction, which is subject to approval by the Argentine regulatory agency, comprises a refinery located in San Lorenzo in the province of Santa Fé, a fluvial plant, a fuel trading network connected to the refinery (approximately 360 sales outlets and associated wholesale clients), as well as the inventories of oil and oil products.

**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. The shareholding breakdown is as follows: Petrobras - 20%; Copersucar S.A.- 20%; Raizen Energia S.A. - 20%; Odebrecht Transport Participações S.A. - 20%; Camargo Correa Óleo e Gás S.A. - 10% and Uniduto Logística S.A. - 10%.

Logum will be responsible for the construction of a multimodal logistics system for the transport and storage of ethanol, and the development and operation of the system which involves a polyduct, waterways, roads and coastal shipping.

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**Merger of Subsidiaries**

In 2011, the Special General Shareholders' Meetings of Petrobras approved the merger of subsidiaries into its equity, without a capital increase, as follows:

<b>Date of the Special General Shareholders' Meeting</b>	<b>Corporate name of SPE</b>
01/31/2011	Comperj Petroquímicos Básicos S.A. and Comperj PET S.A.
04/04/2011	Companhia Mexilhão do Brasil - CMB
12/19/2011	Termorio S.A., Usina Termelétrica de Juiz de Fora S.A. and Fafen Energia S.A.

These mergers aim to simplify the corporate structure and minimize costs.



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(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***11 Investments****11.1 Information on subsidiaries, jointly controlled subsidiaries and affiliated companies**

	Thousands of shares/quotas				Net income (loss) for the year
	Subscribed capital as of December 31, 2011	Common shares/quotas	Preferred shares	Shareholders' equity (unsecured liabilities)	
<b>Subsidiaries</b>					
Petrobras Netherlands B.V. - PNBV	7,223	26,057		14,376	3,666
Petrobras Gás S.A. - Gaspetro	6,615	3,103	775	10,573	823
Petrobras Distribuidora S.A. - BR	5,153	42,853,453		10,095	1,267
Petrobras Química S.A. - Petroquisa	3,788	13,508,637	12,978,886	4,515	(501)
Petrobras Transporte S.A. - Transpetro	2,464	2,464,466		3,241	629
Refinaria Abreu e Lima S.A.	2,889	2,889,240		2,998	(738)
Petrobras Biocombustível S.A.	1,902	190,239		1,477	(208)
Companhia Locadora de Equipamentos Petrolíferos S.A. - CLEP	827	180,000		1,473	(3)
Petrobras International Finance Company - PifCo	531	300,050		(1,364)	(633)
Downstream Participações Ltda.	1,227	1,226,500 (*)		1,146	(482)
Termomacaé Ltda	634	634,015 (*)		743	177
Comperj Poliolefinas S.A.	651	65,108		651	
Petrobras International Braspetro - PIB BV	6	2,837		461	1,255
INNOVA S.A.	307	57,600	5,747	374	39
Termoceaná Ltda.	275	275,226 (*)		319	41
Petrobras Comercializadora de Energia Ltda. - PBEN	217	216,852 (*)		270	45

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Baixada Santista Energia Ltda.	297	297,136 (*)	241	(22)
Braspetro Oil Services Company - Brasoil Termomacaé	351	106,210	216	(18)
Comercializadora de Energia Ltda.	78	77,599 (*)	115	70
Sociedade Fluminense de Energia Ltda. - SFE	56	55,556 (*)	104	108
Comperj Estirênicos S.A.	87	8,739	87	
Comperj MEG S.A.	77	7,696	77	
5283 Participações Ltda.	1,423	1,422,603 (*)	55	143
Breitener Energética S.A.	160	160,000	46	(77)
Cordoba Financial Services GmbH	5	1 (**)	42	
Termobahia S.A.	312	52	41	7
Petrobras Negócios Eletrônicos S.A. - E-Petro	21	21,000	28	2
Companhia de Desenvolvimento de Plantas Utilidades S.A. - CDPU	25	25,001	25	
Fundo de Investimento Imobiliário RB Logística - FII	1	117,127 (*)	11	8
Companhia de Recuperação Secundária S.A. - CRSEC		43,456	9	
Comperj Participações S.A.	18	1,771	8	(9)
Braspetro Oil Company - BOC		1 (**)		106
Cayman Cabiunas Investment Co.		100 (**)	25,500	

**Jointly controlled subsidiaries**

UTE Norte Fluminense S.A.	481	481,432	1,008	549
Termoaçu S.A.	700	699,737	726	15
Logum Logística S.A.	300	430,556	264	(26)
Brasil PCH S.A.	109	94,188	14,844	50
Cia Energética Manauara S.A	45	45,000	143	27
Ibiritermo S.A.	8	7,652	95	35
Brasympe Energia S.A.	26	260,000	78	8
Participações em Complexos Bioenergéticos S.A. - PCBIOS	63	62,850	62	(3)
Refinaria de Petróleo Riograndense S.A.	15	5,158	10,138	17
Eólica Mangue Seco 4 - Geradora e Comercializadora de Energia Elétrica S.A.	40	39,918	42	3
Eólica Mangue Seco 3 - Geradora e Comercializadora	39	38,911	41	4

de Energia Elétrica S.A. Eólica Mangue Seco 2 - Geradora e Comercializadora de Energia Elétrica S.A.	35	35,353		38	4
Brentech Energia S.A. Eólica Mangue Seco 1 - Geradora e Comercializadora de Energia Elétrica S.A.	39	25,901		35	
GNL do Nordeste Ltda.	34	35,433		34	2
	1	7,507 (*)			
<b>Affiliated companies</b>					
Braskem	8,043	451,669	349,997	9,928 (***)	(337)(***)
BRK - Investimentos Petroquímicos	2,432	269,193		5,120	(281)
UEG Araucária Ltda.	707	707,440 (*)		638	(6)
Fundo de Investimento em Participações de Sondas	259	261,573 (*)		256	(3)
Sete Brasil Participações S.A.	270	16,500		212	(59)
Termoelétrica Potiguar S.A. - TEP	37	6,159		92	4
Energética SUAPE II	140	139,977		56	(27)
Energética Camaçari Muriçy I Ltda.	67	67,260		22	(15)
Companhia Energética Potiguar S.A.	8	1		21	11
Arembepe Energia S.A.	90	90,218		11	(34)
Bioenergética Britarumã S.A.		110			

(\*) Quotas

(\*\*) Number of shares in units

(\*\*\*) Data with respect to 09/30/2011 - the most recent data available on the market.

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(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***11.2 Investments (Consolidated)**

	<b>2011</b>	<b>2010</b>
<b>Affiliated and jointly controlled subsidiaries</b>		
BRK Investimentos Petroquímicos S.A.	3,098	3,271
Other petrochemical investments	3,128	3,224
Gas distributors	1,056	960
Guarani S.A.	847	680
Termoaçu S.A.	538	524
Petroritupano - Orielo	458	413
Nova Fronteira Bionergia S.A.	434	243
Petrowayu - La Concepción	330	327
Distrilec S.A.	216	228
Petrokariña - Mata	195	212
UEG Araucária	128	128
Transierra S.A.	122	101
Other affiliated and jointly controlled subsidiaries	1,468	1,098
	<b>12,018</b>	<b>11,409</b>
<b>Other investments</b>	230	183
	<b>12,248</b>	<b>11,592</b>

**11.3 Investments in listed companies**

Company	Lot of a thousand shares		Type	Quotation on stock exchange (R\$ per share)		Market value	
	2011	2010		2011	2010	2011	2010
<b>Subsidiaries</b>							
Petrobras Argentina	678,396	678,396	ON	2.70	4.46	1,832	3,026
						<b>1,832</b>	<b>3,026</b>
<b>Affiliated companies</b>							
Braskem	212,427	212,427	ON	11.78	17.80	2,502	3,781

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Braskem	75,793	75,793	PNA	12.80	20.37	970	1,544
Quattor Petroquímica (*)		46,049	PN		6.99		322
						<b>3,472</b>	<b>5,647</b>

(\*) On February 3, 2011, the company was delisted from the Brazilian Securities Commission (CVM) due to the merger of its shares by Braskem.

The market value of these shares does not necessarily reflect the realizable value of a representative lot of shares.

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Notes to the financial statements

(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)***11.4 Change in Investments**

	<b>Result</b>							
	<b>Balance at 12/31/2010</b>	<b>Acquisition and paying in of capital</b>	<b>Additional capital contribution</b>	<b>Write-off through incorporation /capital decrease</b>	<b>Equity accounting</b>	<b>Other comprehensive results</b>	<b>Dividends</b>	<b>Balance 12/31/2011</b>
<b>Subsidiaries</b>								
PNBV	<b>8,599</b>				3,524	1,617		<b>13,740</b>
Gaspetro	<b>7,555</b>	1,726	705		824		(236)	<b>10,554</b>
Petrobras								
Distribuidora	<b>9,116</b>				1,267	4	(427)	<b>9,960</b>
Petroquisa	<b>3,997</b>	915			(512)	20	96	<b>4,516</b>
Transpetro	<b>2,568</b>	392			624	18	(456)	<b>3,146</b>
Refinaria								
Abreu e Lima	<b>2,015</b>	1,721			(739)			<b>2,997</b>
CLEP	<b>1,473</b>				(3)	3		<b>1,473</b>
PBIO	<b>1,194</b>	506			(191)	(32)		<b>1,477</b>
Downstream	<b>1,623</b>				(499)			<b>1,124</b>
Termomacaé								
Ltda	<b>734</b>				177		(168)	<b>743</b>
COMPERJ								
Poliolefinas	<b>309</b>	342						<b>651</b>
PIBBV					550	(150)		<b>400</b>
INNOVA		551	(165)		39	(48)		<b>377</b>
Termoceaná	<b>278</b>				41			<b>319</b>
PBEN	<b>370</b>				45		(145)	<b>270</b>
Baixada								
Santista	<b>249</b>	14			(22)			<b>241</b>
SFE	<b>187</b>				108		(192)	<b>93</b>
COMPERJ								
Estirênicos	<b>76</b>	11						<b>87</b>
COMPERJ								
MEG	<b>77</b>							<b>77</b>
Termorio	<b>2,371</b>			(2,526)	300		(145)	<b>1,100</b>
COMPERJ								
PET	<b>272</b>			(272)				<b>0</b>



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*(In millions of reais, except when specifically indicated)***11.5 Summarized information on jointly controlled subsidiaries and affiliated companies**

The Company invests in jointly controlled subsidiaries and affiliated companies abroad, whose activities are related to petrochemical companies, gas distributors, biofuels, thermoelectric power stations, refineries and others. The summarized accounting information is as follows:

	<b>2011</b>			
	<b>Jointly controlled subsidiaries</b>		<b>Affiliated companies</b>	
	<b>In Brazil</b>	<b>Abroad</b>	<b>In Brazil</b>	<b>Abroad</b>
Current assets	4,520	1,235	12,181	3,358
Non-current assets	1,497	382	3,967	752
Property, plant and equipment, net	7,653	2,345	23,017	2,243
Other non-current assets	131	832	4,390	
	13,801	4,794	43,555	6,353
Current liabilities	3,107	2,073	10,253	3,187
Non-current liabilities	3,747	1,485	20,546	373
Shareholders' equity	6,927	1,049	12,539	2,793
Non-controlling interestest	20	187	217	
	13,801	4,794	43,555	6,353
Sales revenues	9,243	3,276	36,033	1,765
Net Income for the Year	1,418	231	(396)	433
Ownership percentage - %	10% to 83%	33% to 51%	10% to 44%	22% to 36%



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Notes to the financial statements

(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)***12 Property, plant and equipment, net****12.1 By type of asset**

	Consolidated				Parent company	
	Land, buildings and improvements	Equipment and other assets	Assets under construction (*)	Expenditures on exploration & development Production of oil and gas (producing fields)	Total	Total
<b>Balance at January 1, 2010</b>	<b>7,260</b>	<b>69,241</b>	<b>116,423</b>	<b>31,262</b>	<b>224,186</b>	<b>149,447</b>
Additions	220	2,827	57,546	3,157	63,750	49,506
Capitalized interest			5,508		5,508	4,223
Business combinations	87	100	25		212	
Write-offs	(137)	(91)	(1,522)	(1,090)	(2,840)	(1,493)
Transfers	1,886	34,207	(39,000)	7,899	4,992	(1,863)
Depreciation, amortization and depletion	(591)	(7,677)		(5,730)	(13,998)	(10,149)
Impairment - formation		(181)		(265)	(446)	(434)
Impairment - reversal		131		408	539	538
Cumulative translation adjustment	31	(1,383)	(402)	(54)	(1,808)	
<b>Balance at December 31, 2010</b>	<b>8,756</b>	<b>97,174</b>	<b>138,578</b>	<b>35,587</b>	<b>280,095</b>	<b>189,775</b>
Cost	12,412	160,543	138,578	77,555	389,088	271,824
Accumulated depreciation, amortization and depletion	(3,656)	(63,369)		(41,968)	(108,993)	(82,049)
<b>Balance at December 31, 2010</b>	<b>8,756</b>	<b>97,174</b>	<b>138,578</b>	<b>35,587</b>	<b>280,095</b>	<b>189,775</b>
Additions	169	2,730	53,690	3,139	59,728	42,222
Capitalized interest			7,325		7,325	5,788
Business combinations			24		24	
Write-offs	(41)	(421)	(2,221)	(568)	(3,251)	(2,258)

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Transfers	4,205	31,283	(40,294)	14,812	10,006	4,531
Depreciation, amortization and depletion	(799)	(9,769)		(6,566)	(17,134)	(12,344)
Impairment - formation		(91)	(276)	(391)	(758)	(473)
Impairment - reversal	3	27		66	96	61
Cumulative translation adjustment	66	3,548	1,733	789	6,136	
<b>Balance at December 31, 2011</b>	<b>12,359</b>	<b>124,481</b>	<b>158,559</b>	<b>46,868</b>	<b>342,267</b>	<b>227,302</b>
Cost	16,865	195,977	158,559	97,671	469,072	321,469
Accumulated depreciation, amortization and depletion	(4,506)	(71,496)		(50,803)	(126,805)	(94,167)
<b>Balance at December 31, 2011</b>	<b>12,359</b>	<b>124,481</b>	<b>158,559</b>	<b>46,868</b>	<b>342,267</b>	<b>227,302</b>

<b>Weighted average of useful life in years</b>	25 (25 to 40) excluding land	20 (3 to 31)	Unit of production method
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(\* ) It includes assets for exploration and development of production of oil and gas.

At December 31, 2011, the property, plant and equipment, net of Consolidated and the Parent company includes assets originating from lease agreements that transfer benefits, risks and control in the amount of R\$ 178 and R\$ 10,921, respectively (R\$ 789 and R\$ 17,506 at December 31, 2010).

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(Consolidated and Parent Company)

(In millions of reais, except when specifically indicated)

## 12.2 Breakdown by time of useful life - Consolidated

<b>Buildings and improvements, equipment and other assets</b>			
<b>Estimated useful life</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Balance at 12/31/2011</b>
Up to 5 years	8,088	(4,728)	3,360
6 - 10 years	33,005	(16,150)	16,855
11 - 15 years	3,347	(1,582)	1,765
16 - 20 years	39,665	(15,942)	23,723
21 - 25 years	44,826	(11,040)	33,786
25 - 30 years	41,072	(5,786)	35,286
30 years onwards	5,086	(3,337)	1,749
Units of production method	36,152	(17,437)	18,715
	<b>211,241</b>	<b>(76,002)</b>	<b>135,239</b>
Buildings and improvements	15,264	(4,506)	10,758
Equipment and other assets	195,977	(71,496)	124,481

## 12.3 Depreciation

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Portion absorbed in funding:				
Of assets	9,165	7,130	5,890	4,752
Of exploration and production expenditures	6,126	5,344	5,112	4,326
Capitalization of/provision for costs for abandonment of wells	440	386	396	327
	<b>15,731</b>	<b>12,860</b>	<b>11,398</b>	<b>9,405</b>
Portion recorded directly in the results	1,403	1,138	946	744
	<b>17,134</b>	<b>13,998</b>	<b>12,344</b>	<b>10,149</b>



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Notes to the financial statements

(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)*

## **12.4 Impairment of assets**

### **Exploration and Production**

The evaluation of recoverability of the assets resulted in a loss of R\$ 473, which is related mainly to the assets in production in Brazil. The oil and natural gas fields that presented losses are at the maturity stage of their useful lives and, considering the levels of their future production and their cost structures, they have indicated the need for a decrease in their recoverable value.

This evaluation also indicated that the loss through devaluation, recognized in prior periods for some oil and natural gas fields, decreased or ceased to exist, considering, especially, the management of a reserve that resulted in an increase in recovery of the reserves, which resulted in a reversal in the amount of R\$ 61.

### **Refining, Transportation & Marketing**

In light of the flattening of the margins of the products in the Petroquímica Suape Complex in their markets, as well as the increase in the total investment of the projects, the book value of property, plant and equipment, net was determined as greater than its recoverable amount and an adjustment for impairment of R\$ 109 in Petroquímica Suape and R\$ 167 in Citepe was recognized.

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(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)***13 Intangible assets****13.1 By type of asset**

	<b>Consolidated</b>				<b>Parent company</b>	
		<b>Software</b>		<b>Goodwill from expectations of future profitability</b>	<b>Total</b>	<b>Total</b>
	<b>Rights and concessions</b>	<b>Acquired</b>	<b>Developed in-house</b>			
<b>Balance at January 1, 2010</b>	<b>4,237</b>	<b>368</b>	<b>1,355</b>	<b>829</b>	<b>6,789</b>	<b>3,216</b>
Addition	310	88	321		719	455
Oil exploration rights – Onerous assignment	74,808				74,808	74,808
Acquisition through business combination						
Capitalized interest			26		26	25
Write-off	(318)	(3)	(2)		(323)	(42)
Transfers	234	(11)	32	84	339	14
Amortization	(123)	(119)	(371)		(613)	(434)
Impairment - formation	(56)				(56)	
Accumulated translation adjustment	(140)	(3)		(7)	(150)	
<b>Balance at December 31, 2010</b>	<b>78,952</b>	<b>320</b>	<b>1,361</b>	<b>906</b>	<b>81,539</b>	<b>78,042</b>
Addition	829	110	336	19	1,294	411
Acquisition through business combination				4	4	
Capitalized interest			36		36	36
Write-off	(286)	(5)	(12)		(303)	(172)
Transfers	22	19	(36)	(4)	1	(1)
Amortization	(138)	(113)	(341)		(592)	(430)
Impairment - formation	(2)				(2)	
Accumulated translation adjustment	277	6		24	307	
<b>Balance at December 31, 2011</b>	<b>79,654</b>	<b>337</b>	<b>1,344</b>	<b>949</b>	<b>82,284</b>	<b>77,886</b>
<b>Estimated useful life - years</b>	<b>25</b>	<b>5</b>	<b>5</b>	Undefined		

### **13.2 Oil exploration rights – Onerous assignment**

At December 31, 2011, the Company's intangible assets include an onerous assignment agreement in the amount of R\$ 74,808, entered into in 2010 between the Federal Government (assignor) and the National Agency for Petroleum, Natural Gas and Biofuels - ANP (regulator and inspector), referring to the right to carry out prospection and drilling activities for oil, natural gas and other liquid hydrocarbons located in blocks in the pre-salt area (Franco, Florim, Nordeste de Tupi, Entorno de Iara, Sul de Guará e Sul de Tupi), limited to the production of 5 billion oil equivalent barrels in up to 40 years.

On February 8, 2012, the Company concluded the drilling of the first well of the onerous assignment, the results of which proved the extent of the oil reserves located to the Northwest of the discovery well of the Franco area. Immediately afterwards Petrobras will conduct a formation test to assess the productivity and will continue with the activities and investments established in the contract.

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*(In millions of reais, except when specifically indicated)*

The agreement for concession of the rights establishes that at the time of the declaration of the commerciality of the reserves there will be a review of volumes and prices, based on independent technical reports.

If the review determines that the acquired rights reach an amount greater than that initially paid, the Company may pay the difference to the Federal Government, recognizing this difference as an intangible asset, or it may reduce the total volume acquired in the terms of the agreement. If the review determines that the acquired rights result in an amount lower than that initially paid by the Company, the Federal Government will reimburse the difference in legal tender or bonds, subject to the budgetary laws.

When the effects of the abovementioned review become probable and measurable, the Company will make the respective adjustments to the purchase prices.

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 of production stage 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.

### **13.3 Devolution of areas in the exploration stage to ANP**

In fiscal year 2011, the rights to the exploration blocks returned to the National Agency of Petroleum, Natural Gas and Biofuels (ANP) totalled R\$ 158 (R\$ 40 in 2010) and are as follows:

- **Blocks – Exclusive concession of Petrobras:**

- Rio do Peixe basin: RIOP- T-41.



- Santos basin: S-M-613, S-M-1356, S-M-1480.
  
- Pelotas Sea basin: P-M-1267, P-M-1349.
  
- Potiguar basin: POT-T-706
  
- **Blocks in partnership (devolved by Petrobras or by its operators):**
  
- Santos basin: S-M-1227, S-M-792, S-M-791, S-M-1162, S-M-320, S-M-1163, S-M-731.
  
- Espírito Santo land basin: ES-T-401.

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*(In millions of reais, except when specifically indicated)*

#### **13.4 Devolution to ANP of oil and natural gas field operated by Petrobras**

During 2011, Petrobras devolved to ANP the Mutum field, located in the Sergipe/Alagoas basin.

#### **13.5 Concession of services for distribution of piped natural gas**

At December 31, 2011, the intangible assets include concession agreements for the distribution of piped natural gas in Brazil for a total of R\$ 456, with maturities between 2029 and 2043, which may be extended. The concessions establish distribution to the industrial, residential, commercial, vehicular, air conditioning, transport and other sectors.

The remuneration for providing services consists, basically, of the combination of operating costs and expenses, and return on invested capital. The fees charged for the volume of gas distributed are subject to periodic reviews and adjustments by the state regulatory agency.

At the end of the concessions, the agreements provide for compensation to the Company of the investments tied to returnable assets, according to surveys, evaluations and settlements to be made in order to determine the amount.

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*(In millions of reais, except when specifically indicated)***14 Exploration activities and valuation of oil and gas reserves**

The exploration and evaluation activities cover the search for oil and gas reserves from the obtaining of the legal rights to explore a specific area until the declaration of the technical and commercial viability of the reserves. The amounts involved in these activities are as follows:

	Consolidated		Parent company	
	2011	2010	2011	2010
<b>Capitalized balances in assets</b>				
Intangible assets	78,167	78,400	75,990	76,221
Property, plant and equipment, net	19,623	15,729	11,145	9,309
<b>Total assets</b>	<b>97,790</b>	<b>94,129</b>	<b>87,135</b>	<b>85,530</b>
<b>Exploration costs recognized in results</b>				
Expenses with geology and geophysics	1,723	1,421	1,400	1,113
Economically unviable projects (including dry wells and signing bonus)	2,504	2,081	2,243	1,495
Other exploration expenses	170	302		
<b>Total expenses for the year</b>	<b>4,397</b>	<b>3,804</b>	<b>3,643</b>	<b>2,608</b>
<b>Cash used in activities</b>				
Operating	1,856	1,395	1,400	1,113
Investments	10,736	15,600	8,942	14,297
<b>Total cash used for the year</b>	<b>12,592</b>	<b>16,995</b>	<b>10,342</b>	<b>15,410</b>

**15 Accounts payable to suppliers**

	Consolidated		Parent company	
	2011	2010	2011	2010

**Current liabilities**

Third parties				
In Brazil	12,259	10,200	9,252	7,418
Abroad	9,159	6,511	3,016	2,150
Related parties (Note 18.1)	834	663	10,333	14,179
	<b>22,252</b>	<b>17,374</b>	<b>22,601</b>	<b>23,747</b>

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(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)***16 Financing**

	Consolidated				Parent company			
	Current liabilities		Non-current		Current liabilities		Non-current	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Abroad</b>								
Financial institutions	13,641	10,623	37,590	29,368	344	201	13,163	11,973
Bearer bonds - "Notes", "Global Notes" and "Bonds"	803	1,045	39,441	19,252		747	2,182	
Trust Certificates - "Senior/Junior"		117	5	318				
Other	12	2	190	167				
	<b>14,456</b>	<b>11,787</b>	<b>77,226</b>	<b>49,105</b>	<b>344</b>	<b>948</b>	<b>15,345</b>	<b>11,973</b>
<b>In Brazil</b>								
Export Credit Notes	135	110	12,982	10,489	135	110	12,982	10,495
BNDDES	1,719	2,048	37,385	32,282	303	182	10,224	8,254
Debentures	1,853	315	993	2,377	1,700	141	167	1,715
FINAME	79	71	731	387	79	71	731	387
Bank Credit Certificate	51	53	3,606	3,606	52	54	3,606	3,606
Assignment of non-performing credit rights – FIDC-NP (Note 18.2)					9,639	15,933		
Other	591	531	3,482	2,421				
	<b>4,428</b>	<b>3,128</b>	<b>59,179</b>	<b>51,562</b>	<b>11,908</b>	<b>16,491</b>	<b>27,710</b>	<b>24,457</b>
	<b>18,884</b>	<b>14,915</b>	<b>136,405</b>	<b>100,667</b>	<b>12,252</b>	<b>17,439</b>	<b>43,055</b>	<b>36,430</b>
Interest on debt	1,648	1,448			514	592		
Current portion of the long-term debt (Principal)	6,921	4,782			2,099	914		
Current debt	10,315	8,685			9,639	15,933		
	<b>18,884</b>	<b>14,915</b>			<b>12,252</b>	<b>17,439</b>		

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(In millions of reais, except when specifically indicated)

**16.1 Maturities of the principal and interest of debt in non-current liabilities**

	<b>2011</b>	
	<b>Consolidated</b>	<b>Parent company</b>
2013	4,477	2,716
2014	8,324	1,851
2015	10,041	2,843
2016	24,887	12,878
2017 and thereafter	88,676	22,767
<b>Total</b>	<b>136,405</b>	<b>43,055</b>

**16.2 Interest rates for debt in non-current liabilities**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Abroad</b>				
Up to 6%	59,202	36,705	14,709	11,912
From 6 to 8%	15,729	10,817	636	61
From 8 to 10%	2,211	1,366		
From 10 to 12%	63	55		
More than 12%	21	162		
	<b>77,226</b>	<b>49,105</b>	<b>15,345</b>	<b>11,973</b>
<b>In Brazil</b>				
Up to 6%	5,383	3,907	465	387
From 6 to 8%	32,311	29,999	9,559	8,254
From 8 to 10%	3,621	986	1,098	234
From 10 to 12%	17,672	16,670	16,588	15,582
More than 12%	192			
	<b>59,179</b>	<b>51,562</b>	<b>27,710</b>	<b>24,457</b>
	<b>136,405</b>	<b>100,667</b>	<b>43,055</b>	<b>36,430</b>



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*(In millions of reais, except when specifically indicated)*

### 16.3 Balances per currencies in non-current liabilities

	Consolidated		Parent company	
	2011	2010	2011	2010
US dollar	68,012	46,440	14,451	11,852
Yen	2,897	2,734	72	122
Euro	4,681	214		
Real (*)	58,824	51,183	28,532	24,456
Other	1,991	96		
	<b>136,405</b>	<b>100,667</b>	<b>43,055</b>	<b>36,430</b>

(\*) At December 31, 2011, it includes R\$ 25,942 in debt in local currency parameterized to the variation of the US dollar, and also in debt abroad in reais parameterized to the variation of the general market price index (IGPM).

The hedges contracted for coverage of notes issued abroad in foreign currencies and the fair value of long-term loans are disclosed in notes 31 and 32, respectively.

### 16.4 Weighted average rate for capitalization of interest

The weighted average rate of the financial charges on the debt, used for capitalization of interest on the balance of work in progress, was 4.6% p.a. in 2011 (4.0% p.a. in 2010).

### 16.5 Funding

The loans and the financing are intended, mainly, for the development of oil and gas production projects, the building of ships and pipelines, and the expansion of industrial units.





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(In millions of reais, except when specifically indicated)

The main long-term funding carried out in 2011 are presented as follows:

**a) Abroad**

<b>Company</b>	<b>Date</b>	<b>Amount (R\$ million equivalent)</b>	<b>Maturity</b>	<b>Description</b>
PifCo	Jan/11	10,029	2016, 2021 and 2041	Global notes in the amounts of US\$ 2,500 million, US\$ 2,500 million and US\$ 1,000 million with 3.875% p.a., 5.375% p.a., and 6.75% p.a. coupon, respectively.
CHARTER	Jan/11	1,264	2018	Loan from Standard Shatered in the amount of US\$ 750 million - Libor + 1.5% p.a.
PNBV	Mar/11	1,079	2015 and 2021	Loan from Bank Of Tokyo-Mitsubishi in the amount of US\$150 million - Libor plus 1.25%p.a.; and from Banco Santander S.A., HSBC Bank PLC, HSBC Bank USA, N.A. and SACE S.P.A. in the amount of US\$ 500 million Libor - plus 1.10% p.a.
PNBV	Jun/11	3,175	2018	Loan from Banco Santander S.A., Grand Cayman Branch in the amount of US\$ 1,500 million - Libor plus 1.476%p.a.; and from Bank of Tokyo-Mitsubishi in the amount of US\$ 500 million - Libor plus 1.30% p.a.

PNBV	Aug/11	1,027	2016 and 2023	Loan from JP Morgan Chase Bank, N.A., Export-Import Bank of the United States in the amount of US\$ 300 million - Libor plus 0.45% p.a.; and from Citibank International PLC in the amount of US\$ 343 million - Libor plus 0.85% p.a.
PNBV	Dec/11	459	2018	Loan from Export Development Canada Bank, in the amount of US\$ 250 million - LIBOR + 1.40% p.a.
PifCo	Dec/11	4,485	2018 and 2022	Global notes in the amounts of € 1,250 million and € 600 million with coupon of 4.875% p.a., and 5.875% p.a., respectively.
PifCo	Dec/11	1,990	2026	Global notes in the amount of £ 700 million with 6.25% p.a. coupon.
		<b>23,508</b>		

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*(In millions of reais, except when specifically indicated)***b) In Brazil**

<b>Company</b>	<b>Date</b>	<b>Amount (R\$ million)</b>	<b>Maturity</b>	<b>Description</b>
Petrochemicals Citepe and Suape	May/11 to Dec/11	1,056	2022 and 2023	Financing from BNDES for implementation of plant - TJLP plus 1.36% p.a. and 2.96% p.a.
Petrobras	Jul/11	1,023	2022	Financing from BNDES for the construction of the Mexilhão platform – TJLP plus 2.76% p.a.
Fundo de Invest. Imobiliário - FII FCM	Oct/11	444	2023	Issuance of real state credit notes for the construction of new bases and BR Distribuidora's lubricants plant expansion - Amplified Consum Price Index(IPCA) plus 2.1% p.a.
Petrobras	Nov/11	2,500	2018	Financing obtained from Caixa Econômica Federal through the issuing of Export Credit Notes at a rate of 111.29% of the average CDI.
Refap	Mar to Dec/11	487	2018 and 2022	Financing from BNDES in the amount of R\$ 285 - TJLP plus 1.36% p.a. and 2.26% p.a. and subscription of debentures in the amount of R\$ 202 - TJLP plus 1.96% p.a. above of the BNDES basket of currencies.
		<b>5,510</b>		

**16.6 Financing with official credit agencies – lines of credit**

**a) Abroad**

Company	Agency	Amount in US\$ million			Description
		Contracted	Used	Balance	
Petrobras	China Development Bank	10,000	7,000	3,000	Libor + 2.8% p.a.
PNBV	Citibank International PLC	686	343	343	Libor + 0.85% p.a.

**b) In Brazil**

Company	Agency	Contracted	Used	Balance	Description
Transpetro (*)	BNDES	9,005	568	8,437	Program for Modernization and Expansion of the Fleet (PROMEF) - TJLP + 2.5% p.a for Brazilian equipment and 3% p.a. for imported equipment
Refap	BNDES	1,109	285	824	TJLP plus 1.36% p.a. and 2.26% p.a.
Petrobras	Caixa Econômica Federal	300		300	Bank Credit Certificate - 110% of average CDI
Petrochemicals Citepe and Suape	BNDES	1,166	1,056	110	Implementation of plant - TJLP plus 1.36% and 2.96% p.a.

(\*) Agreements were entered into for purchase and sale of 41 ships and 20 convoy vessels with 6 Brazilian shipyards in the amount of R\$ 10,005, where 90% is financed by BNDES, Banco do Brasil and Caixa Econômica.

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## 16.7 Guarantees

Petrobras is not required to provide guarantees to financial institutions abroad. Financing obtained from BNDES is secured by the assets being financed (carbon steel pipes for the Bolivia-Brazil gas pipeline and vessels).

The loans obtained by specific purpose entities (SPE) are guaranteed by the assets of the projects, as well as a pledge of the SPE's credit rights and shares.

## 17 Lease

### 17.1 Receipts/minimum payments of finance leasing (with transfer of benefits, risks and control)

	2011		Parent company Minimum payments
	Consolidated Minimum receipts	Minimum payments	
2012	257	82	2,212
2013 - 2016	1,249	157	6,606
2017 and thereafter	4,067	322	2,988
<b>Estimated receipts/payments of commitments</b>	<b>5,573</b>	<b>561</b>	<b>11,806</b>
Less amount of annual interest	(2,500)	(296)	(2,462)
<b>Present value of the minimum receipts/payments</b>	<b>3,073</b>	<b>265</b>	<b>9,344</b>
Current	225	82	1,922
Non-current	2,848	183	7,422
<b>At December 31, 2011</b>	<b>3,073</b>	<b>265</b>	<b>9,344</b>

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Current	117	175	3,149
Non-current	2,719	191	14,976
<b>At December 31, 2010</b>	<b>2,836</b>	<b>366</b>	<b>18,125</b>

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**17.2 Minimum payments of operating leases (without transfer of benefits, risks and control)**

	<b>2011</b>	
	<b>Consolidated</b>	<b>Parent company</b>
2012	24,044	32,291
2013 - 2016	55,156	78,252
2017 and thereafter	24,932	83,337
<b>At December 31, 2011</b>	<b>104,132</b>	<b>193,880</b>
<b>At December 31, 2010</b>	<b>80,108</b>	<b>137,679</b>

In 2011, the Company paid an amount of R\$ 12,651 in the Consolidated (R\$ 19,074 in the Parent company), recognized as an expense for the period.

**18 Related parties**

**18.1 Commercial transactions and other operations**

Petrobras carries out commercial transactions with its subsidiaries, controlled companies, special purpose entities and affiliated companies at normal market prices under market conditions. At December 31, 2011 and 2010, losses were not expected on the realization of accounts receivable.

**18.1.1 By company**



	Parent company 2011						
	Result	Current	Assets Non- current	Total	Current	Liabilities Non- current	Total
<b><u>Subsidiaries and controlled companies</u></b> (*)							
BR Distribuidora	67,527	2,579	124	2,703	(219)	(19)	(238)
PifCo	10,945	168	3	171	(2,781)	(1,725)	(4,506)
PIB-BV	13,418	7,320	5,874	13,194	(2,023)	(196)	(2,219)
Gaspetro	5,208	1,490	786	2,276	(1,411)		(1,411)
Downstream	2,420	141	145	286	(224)		(224)
Transpetro	565	342		342	(624)		(624)
PBEN	554	134		134	(7)		(7)
Brasoil	228		3,519	3,519	(177)	(457)	(634)
Thermoelectric power plants	213	155	226	381	(124)	(647)	(771)
PNBV	(243)	38	16	54	(2,543)		(2,543)
Other subsidiaries	432	716	972	1,688	(785)	(1,600)	(2,385)
	<b>101,267</b>	<b>13,083</b>	<b>11,665</b>	<b>24,748</b>	<b>(10,918)</b>	<b>(4,644)</b>	<b>(15,562)</b>
<b><u>Specific purpose entities (SPE)</u></b>							
CDMPI	(51)				(183)	(2,287)	(2,470)
PDET Off Shore	(83)		61	61	(305)	(1,254)	(1,559)
NTN	(26)	495	72	567	(429)	(860)	(1,289)
NTS	(20)	475	35	510	(465)	(734)	(1,199)
	<b>(180)</b>	<b>970</b>	<b>168</b>	<b>1,138</b>	<b>(1,382)</b>	<b>(5,135)</b>	<b>(6,517)</b>
<b><u>Affiliated companies</u></b>							
	<b>14,293</b>	<b>253</b>	<b>7</b>	<b>260</b>	<b>(89)</b>	<b>(58)</b>	<b>(147)</b>
	<b>115,380</b>	<b>14,306</b>	<b>11,840</b>	<b>26,146</b>	<b>(12,389)</b>	<b>(9,837)</b>	<b>(22,226)</b>

(\*) It includes its subsidiaries and jointly controlled subsidiaries.

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*(In millions of reais, except when specifically indicated)***18.1.2 By account**

	<b>Parent company 2011</b>						
	<b>Result</b>	<b>Current liabilities</b>	<b>Assets Non- current liabilities</b>	<b>Total</b>	<b>Current liabilities</b>	<b>Liabilities Non- current liabilities</b>	<b>Total</b>
<b><u>Result</u></b>							
<b>Operating income, mainly from sales</b>	<b>115,522</b>						
<b>Exchange and monetary variations, net</b>	<b>881</b>						
<b>Net financial income (expenses)</b>	<b>(1,023)</b>						
<b><u>Assets</u></b>							
<b>Trade accounts receivable</b>		<b>14,306</b>	<b>11,840</b>	<b>26,146</b>			
Accounts receivable, mainly from sales		13,584		13,584			
Dividends receivable		722		722			
Loans			9,908	9,908			
Advance for capital increase			317	317			
Amounts related to construction of gas pipeline			786	786			
Reimbursement receivable			383	383			
Other operations			446	446			
<b><u>Liabilities</u></b>							
<b>Financial leases</b>					<b>(1,918)</b>	<b>(7,382)</b>	<b>(9,300)</b>
<b>Financing on credit operations</b>						<b>(2,182)</b>	<b>(2,182)</b>
<b>Accounts payable to suppliers</b>					<b>(10,333)</b>		<b>(10,333)</b>
Purchases of oil and oil products					(7,630)		(7,630)
Affreightment of platforms					(2,333)		(2,333)
Advance from clients					(359)		(359)
Other					(11)		(11)
<b>Other operations</b>					<b>(138)</b>	<b>(273)</b>	<b>(411)</b>
<b>In 2011</b>	<b>115,380</b>	<b>14,306</b>	<b>11,840</b>	<b>26,146</b>	<b>(12,389)</b>	<b>(9,837)</b>	<b>22,226</b>

<b>In 2010</b>	<b>97,553</b>	<b>10,239</b>	<b>29,888</b>	<b>40,127</b>	<b>(17,520)</b>	<b>(15,328)</b>	<b>(32,848)</b>
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### 18.1.3 Rates for intercompany loans

Intercompany loans are made in accordance with market conditions and applicable legislation, as follows:

	<b>Index</b>	<b>Parent Company</b>	
		<b>2011</b>	<b>2010</b>
LIBOR + 1 to 3% p.a.		5,807	24,174
2% p.a.		3,150	3,011
1.7% p.a.		145	183
IGPM + 6% p.a.		153	146
101% of CDI		108	115
Other rates		545	456
		<b>9,908</b>	<b>28,085</b>

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## 18.2 Non standard credit rights investment fund (FIDC-NP)

The Parent Company has resources invested in the FIDC-NP which are mainly earmarked for the acquisition of performing and/or non-performing credit rights of operations performed by subsidiaries of the Petrobras System.

The amounts invested in government bonds in the FIDC-NP are recorded under cash and cash equivalents and marketable securities according to their respective realization terms.

The financial charges recognizable on the sales operations of performing and/or non-performing credit rights are recorded as other current assets.

The assignments of performing credit rights are classified as other current assets, while they are not offset. The assignment of non-performing credit rights are recorded as current debt in current liabilities.

	<b>2011</b>	<b>2010</b>
Financial investments	2,474	206
Marketable securities	6,840	7,758
Financial charges to be allocated	153	426
Assignments of performing rights	(681)	(622)
<b>Total classified in current assets</b>	<b>8,786</b>	<b>7,768</b>
Assignments of non-performing rights	(9,639)	(15,933)
<b>Total classified in current liabilities</b>	<b>(9,639)</b>	<b>(15,933)</b>
Financial income	210	184
Financial expenses	(1,202)	(1,441)
<b>Financial income (expenses), net</b>	<b>(992)</b>	<b>(1,257)</b>

### **18.3 Guarantees granted**

Petrobras has a policy of granting guarantees to its subsidiaries for certain financial operations carried out abroad.

The guarantees offered by Petrobras are made based on contractual clauses that support the financial operations between the subsidiaries and third parties, guaranteeing the purchase of the debt in the event of default on the part of the subsidiaries.

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At December 31, 2011, the financial operations carried out by these subsidiaries and guaranteed by Petrobras present the following balances to be settled:

Maturity date of the loans	2011					2010	
	PNBV	PifCo	PIB-BV	Ref. Abreu e Lima	TAG	Total	Total
2011							8,108
2012	3,126	4,877				8,003	1,532
2013	80	702				782	730
2014	463	1,149				1,612	1,784
2015	2,264					2,264	4,140
2016	3,428	7,785				11,213	2,103
2017 and thereafter	17,288	30,617	1,079	9,773	11,736	70,493	37,635
	<b>26,649</b>	<b>45,130</b>	<b>1,079</b>	<b>9,773</b>	<b>11,736</b>	<b>94,367</b>	<b>56,032</b>

#### 18.4 Investment fund of subsidiaries abroad

At December 31, 2011, the subsidiaries PifCo and Brasoil had amounts invested in an investment fund abroad that held, amongst others, debt securities of companies of the Petrobras System and a specific purpose entity related to the Company's projects, mainly the CLEP, Malhas and Marlim Leste (P-53) and Gasene projects, equivalent to R\$14,527 (R\$14,048 at December 31, 2010). These amounts refer to the consolidated companies and were offset against the balance of financing in current and non-current liabilities.

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*(In millions of reais, except when specifically indicated)***18.5 Transactions with jointly controlled companies, affiliated companies, government entities and pension funds**

Significant transactions resulted in the following balances:

	<b>Consolidated</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Jointly controlled subsidiaries and affiliated companies</b>	<b>1,314</b>	<b>783</b>	<b>1,282</b>	<b>714</b>
Gas distributors	876	355	817	407
Braskem and its subsidiaries	163	134	162	103
Other jointly controlled subsidiaries and affiliated companies	275	294	303	204
<b>Government entities and pension funds</b>	<b>41,934</b>	<b>67,795</b>	<b>42,825</b>	<b>56,007</b>
Government bonds	26,486		31,098	
Banco do Brasil S.A. (BB)	8,066	11,822	5,067	9,415
Restricted deposits for legal proceedings and guarantees (CEF and BB)	3,175		2,466	
Electricity sector (note 18.6)	2,952		3,145	
Petroleum and alcohol account - Receivable from Federal government (note 18.7)	832		822	
BNDES	7	40,891	3	36,320
Caixa Econômica Federal (CEF)	1	8,184	2	5,662
National Agency for Petroleum, Natural Gas and Biofuels		3,869		2,568
Federal government - Proposed dividends and interest on shareholders' equity		1,119		1,118
Petros (Pension fund)		353		501
Other	415	1,557	222	423
	<b>43,248</b>	<b>68,578</b>	<b>44,107</b>	<b>56,721</b>

The balances are classified in the statement of financial position as follows:

	<b>Consolidated</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Current assets</b>	<b>33,266</b>		<b>35,444</b>	
Cash and cash equivalents	12,079		5,424	
Marketable securities	16,785		25,525	
Trade accounts receivable, net	4,268		4,355	
Other current assets	134		140	
<b>Non-current</b>	<b>9,982</b>		<b>8,663</b>	
Petroleum and alcohol account - STN	832		822	
Marketable securities	5,638		5,177	
Restricted deposits for legal proceedings and guarantees	3,175		2,468	
Other non-current assets	337		196	
<b>Current liabilities</b>		<b>11,677</b>		<b>8,963</b>
Current debt		4,726		3,667
Proposed dividends		1,848		1,596
Other current liabilities		5,103		3,700
<b>Non-Current Liabilities</b>		<b>56,901</b>		<b>47,758</b>
Non-current debt		56,786		47,634
Other non-current liabilities		115		124
	<b>43,248</b>	<b>68,578</b>	<b>44,107</b>	<b>56,721</b>



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#### **18.6 Receivables from the electricity sector**

The Company has receivables from the electricity sector related to the supplying of fuel to thermoelectric power stations, direct and indirect subsidiaries of Eletrobrás, located in the northern region of Brazil. Part of the costs for supplying fuel to these thermoelectric power stations is borne by funds from the Fuel Consumption Account (CCC), managed by Eletrobrás.

The Company also supplies fuel to Independent Power Producers (PIE), companies created for the purpose of producing power exclusively for Amazônia Distribuidora S. A. (ADESA), a direct subsidiary of Eletrobras, whose payments for supplying fuel depend directly on the forwarding of funds from ADESA to these Independent Power Producers.

The balance of these receivables at December 31, 2011 was R\$ 2,952 (R\$ 3,145 at December 31, 2010), of which R\$ 2,426 was overdue (R\$ 2,372 at December 31, 2010).

The Company has made systematic collections from the debtors and Eletrobrás, itself, and partial payments have been made.

#### **18.7 Petroleum and alcohol accounts - STN**

At December 31, 2011, the balance of the account was R\$ 832 (R\$ 822 at December 31, 2010) and this can be settled by the Federal Government by issuing National Treasury Bonds in an amount equal to the final balance for the settling of accounts with the Federal Government, in accordance with what is established in Provisional Measure 2,181, of August 24, 2001, or through offsetting against other amounts that Petrobras may be owing the Federal Government, at the time, including tax related amounts or a combination of the foregoing operations.

Aiming at concluding the settlement of accounts with the Federal Government, Petrobras provided all the information required by of the National Treasury Office (STN) seeking to settle all the remaining differences between the parties.

As the Company considers that the negotiation process between the parties at the administrative level has been exhausted, the Company decided on judicial collection of the aforementioned credit and, accordingly, it filed a lawsuit in July 2011.

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## 18.8 Remuneration of employees and officers

The Petrobras Plan for Positions and Salaries and for Benefits and Advantages and the specific legislation establish the criteria for all the remunerations attributed by the Company to its officers and employees.

The remuneration of employees, including those occupying managerial roles, and officers of Petrobras for the month of December 2011 and 2010 were as follows:

	<b>Expressed in reais</b>	
	<b>2011</b>	<b>2010</b>
<b>Remuneration per employee</b>		
Lowest remuneration	2,024.49	1,801.35
Average remuneration	10,652.30	9,522.21
Highest remuneration	67,494.48	60,965.12
<b>Remuneration per officer of Petrobras (highest)</b>	<b>81,289.05</b>	<b>69,539.03</b>

The total remuneration for short-term benefits for the Company's officers during 2011 was R\$ 12.5 (R\$ 8.7 in 2010), referring to seven officers and nine board members.

The fees of the executive board and the board of directors in 2011 in the consolidated totaled R\$ 45.0 (R\$ 35.9 in 2010).

Petrobras began the process for election of the representative of its employees on the Board of Directors, as established by Federal law 12,353/2010. Accordingly, the Board will now have ten members and the appointment will be ratified by shareholders at the next Annual General Meeting.



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*(In millions of reais, except when specifically indicated)***19 Provisions for decommissioning costs**

<b>Non-current liabilities</b>	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Opening balance</b>	<b>6,505</b>	<b>4,790</b>	<b>6,072</b>	<b>4,419</b>
Revision of provision	2,455	1,795	2,288	1,594
Use by payment	(488)	(482)	(328)	(158)
Updating of interest	210	229	209	217
Other	157	173		
<b>Closing balance</b>	<b>8,839</b>	<b>6,505</b>	<b>8,241</b>	<b>6,072</b>

**20 Taxes, contributions and profit-sharing****20.1 Recoverable taxes**

<b>Current assets</b>	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
In Brazil:				
ICMS	3,186	2,634	2,016	1,662
PIS/COFINS	5,146	3,407	4,766	3,021
CIDE	144	66	144	66
Income tax	2,251	1,442	1,692	748
Social contribution	615	333	521	189
Other taxes	422	397	233	225
	<b>11,764</b>	<b>8,279</b>	<b>9,372</b>	<b>5,911</b>
Abroad	1,082	488		
	<b>12,846</b>	<b>8,767</b>	<b>9,372</b>	<b>5,911</b>

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*(In millions of reais, except when specifically indicated)***20.2 Taxes, contributions and profit-sharing payable**

<b>Current liabilities</b>	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
ICMS	2,178	1,954	1,945	1,622
PIS/COFINS	579	1,119	483	848
CIDE	477	749	472	684
Special participation charge /Royalties	5,190	3,618	5,142	3,583
Income tax and social contribution withheld at source	831	657	787	640
Current income tax and social contribution	494	858		
Other taxes	1,220	1,105	429	460
	<b>10,969</b>	<b>10,060</b>	<b>9,258</b>	<b>7,837</b>

**20.3 Deferred income tax and social contribution**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Non-current assets</b>				
Deferred income tax and social contribution	8,042	6,365	3,171	2,951
Deferred ICMS	2,199	2,394	1,742	2,005
Deferred PIS and COFINS	6,543	8,048	4,592	6,834
Other	472	231		
	<b>17,256</b>	<b>17,038</b>	<b>9,505</b>	<b>11,790</b>
<b>Non-current liabilities</b>				
Deferred income tax and social contribution	33,230	25,863	29,408	21,808
Other	38	35		
	<b>33,268</b>	<b>25,898</b>	<b>29,408</b>	<b>21,808</b>

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**20.4 Deferred income tax and social contribution - non-current**

The grounds and expectations for realization are presented as follows:

**a) Changes in deferred income tax and social contribution**

**Changes in net deferred taxes**

	Consolidated										
	Property, plant and equipment (*)	Exploration costs	Other	Accounts receivable / payable, loans and financing	Financial leases	Provision for legal proceedings	Tax losses	Inventories	Interest on shareholders' equity	Other	T
<b>At January 1, 2010</b>	(14,206)	(88)	(449)	(1,411)		203	530	995	358	466	(13)
Recognized in the results for the year	(3,276)	(1,901)	(1,476)	264		155	229	(154)	396	(21)	(5)
Recognized in shareholders' equity										(168)	
Cumulative translation adjustment			52	1		51	(55)			(14)	
Other			40	72	24	88	7			(210)	
<b>At December 31, 2010</b>	<b>(17,482)</b>	<b>(1,897)</b>	<b>(1,852)</b>	<b>(1,123)</b>		<b>497</b>	<b>711</b>	<b>841</b>	<b>754</b>	<b>53</b>	<b>(19)</b>





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**b) Realization of deferred income tax and social contribution**

Management considers that the deferred tax assets will be realized in proportion to the realization of the provisions and the final resolution of future events, both of which are based on projections that have been made.

Management's projection for realization of the deferred tax assets and liabilities is presented below:

	<b>Deferred income tax and social contribution</b>			
	<b>Consolidated</b>		<b>Parent company</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
2012	3,217	4,135	1,846	3,057
2013	591	2,494	13	2,149
2014	557	2,681	4	2,185
2015	607	2,320	47	2,033
2016	1,062	2,506	636	2,264
2017	316	2,417	6	2,211
2018	630	2,931	20	1,879
2019 and thereafter	1,062	13,746	599	13,630
Portion recorded in the accounting	8,042	33,230	3,171	29,408
Portion not recorded in the accounting	1,563			
Total	9,605	33,230	3,171	29,408

At December 31, 2011, the Company had unrecorded tax credits in the amount of R\$ 1,563 (R\$ 1,804 at December 31, 2010) resulting from accumulated tax losses, originating, mainly, from oil and gas exploration and production activities in the United States in the amount of R\$ 1,199 (US\$ 639 million), whose statute of limitations is 20 years as from the date of their recording.

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*(In millions of reais, except when specifically indicated)***20.5 Reconciliation of income tax and social contribution on income**

The reconciliation of taxes calculated according to nominal, statutory rates and the amount of taxes recorded in 2011 and 2010 are presented as follows:

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Income before income taxes	44,351	47,908	41,568	43,799
Income tax and social contribution at statutory rates (34%)	(15,079)	(16,289)	(14,133)	(14,892)
Adjustments for calculation of the effective rate:				
· Credit resulting from inclusion of interest on shareholders' equity as operating expenses	3,548	3,455	3,548	3,455
· Results of companies abroad with different rates	622	601		
· Tax incentives	386	157	87	131
· Tax losses	(588)	(83)		
· Permanent exclusions/(additions), net*	(466)	(221)	1,528	2,153
· Tax credits of companies abroad in the exploration stage	(1)	(31)		
· Other	337	384	503	390
Income tax and social contribution expenses	<b>(11,241)</b>	<b>(12,027)</b>	<b>(8,467)</b>	<b>(8,763)</b>
Deferred income tax/social contribution	(6,157)	(5,784)	(7,208)	(5,149)
Current income tax/social contribution	(5,084)	(6,243)	(1,259)	(3,614)
	<b>(11,241)</b>	<b>(12,027)</b>	<b>(8,467)</b>	<b>(8,763)</b>
Effective rate for income tax and social contribution	25.3%	25.1%	20.4%	20.0%

\* It includes equity accounting.



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## 21 Employee's post - retirement benefits obligations - Pension and Health care

The balances related to benefits granted to employees are presented as follows:

	Consolidated		Parent company	
	2011	2010	2011	2010
<b>Liabilities</b>				
Pension plans	5,059	4,795	4,568	4,377
Healthcare plan	13,021	11,786	12,125	10,994
	<b>18,080</b>	<b>16,581</b>	<b>16,693</b>	<b>15,371</b>
<b>Current</b>	1,427	1,303	1,341	1,209
<b>Non-current</b>	16,653	15,278	15,352	14,162

### 21.1 Pension plans in Brazil – Defined benefit and variable contribution

Fundação Petrobras de Seguridade Social (Petros) was established by Petrobras as a legal entity under private law, a nonprofit organization with administrative and financial autonomy.

#### a) *Petros Plan - Fundação Petrobras de Seguridade Social*

The Petros Plan is a defined benefit pension plan, established by Petrobras in July 1970, which assures its participants a supplement to the benefits provided by Social Security, and is directed towards the employees of Petrobras and its subsidiaries. The Petros Plan is closed for employees hired since September 2002.

The evaluation of the Petros funding plan is made by independent actuaries on a capitalization basis for the majority of the benefits. The sponsors make regular contributions in amounts equal to the contributions of the members (employees, retired employees and pensioners), i.e. on a parity basis.

On the verification of an eventual deficit in the defined benefit plan, this must be resolved by members and sponsors, pursuant to Constitutional Amendment 20/1998 and Complementary Law 109/2001, observing the proportion with respect to the normal contributions made in the year in which that result was verified.

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At December 31, 2011, the balances of the Terms of Financial Commitment, signed by the Company and Petros in 2008, totaled R\$ 5,076 (R\$ 4,784 in the Parent company), of which R\$ 49 (R\$ 47 in the Parent company) in interest falls due in 2012. The Financial Commitment Agreement has a term of 20 years with payment of half-yearly interest of 6% p.a. on the updated balance payable. The long term National Treasury Notes held in the portfolio as collateral for the Financial Commitment Agreement, totaled R\$ 5,079 (R\$ 4,816 in the Parent company).

The contributions expected from the sponsors for 2012 are R\$ 622 (R\$ 585 in the Parent company).

***b) Petros Plan 2 – Fundação Petrobras de Seguridade Social***

The Petros Plan 2 was implemented in July 2007, in the form of a variable contribution plan by Petrobras and its subsidiaries which assumed the past service of the contributions for the period in which the participants had no plan, as of August 2002, or the date of later admission, until August 29, 2007. The plan remains open for inscriptions after this date, but there will no longer be payment for past service.

Disbursements for past service are made monthly, for the same number of months in which the participant had no plan.

The portion of this plan with defined benefit characteristics refers to risk coverage for disability and death, a guarantee of a minimum benefit and a lifetime income, and the related actuarial commitments are recorded according to the projected credit unit method. The portion of the plan with defined contribution characteristics is earmarked for forming a reserve for programmed retirement, whose contributions are recognized in the income statement as the contributions are made. In 2011, the Company's contribution to the defined contribution portion totaled R\$ 474. (R\$ 441 in the Parent company).

The expected contributions from the sponsors for 2012 are R\$ 510, where R\$ 106 refers to the defined benefit portion and R\$ 404 refers to the defined contribution portion. (R\$ 101 and R\$ 386, respectively, in the Parent Company).



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*(In millions of reais, except when specifically indicated)***21.2 Pension plans abroad – Defined benefit**

The Company also sponsors pension plans abroad, with defined benefit characteristics, through subsidiaries in Argentina, Japan and other countries. Most plans are financed, where the assets are held in trusts, foundations or similar entities that are governed by local regulations. In 2011, the Company's contributions to these plans totaled the equivalent of R\$ 8.

**21.3 Assets of the Pension Plans**

The investment strategy for assets of the benefit plans is a reflection of a long-term view of a careful evaluation of the risks inherent to the various classes of assets, as well as the use of diversification as a risk reduction mechanism for the portfolio. The portfolio of assets of the plan must meet the standards set by the National Monetary Council. The fixed income funds have the largest concentration of investments, distributed mainly in public and private bonds. The goal for the distribution of assets for the period between 2012 and 2016 is: 40% to 75% in fixed income, 20% to 45% in variable income, 1.5% to 8% in real estate properties, 0% to 15% in loans for participants, 2.5% to 12% in structured projects and 0% to 3% in investments abroad.

The assets of the pension plans, separated by level of measurement, are as follows:

Category of the Asset	Prices quoted on an active market (Level 1)	Valuation supported by observable prices (Level 2)	2011	Total fair value (Levels 1, 2 and 3)	%	2010	%
			Valuation without use of observable prices (Level 3)			Total fair value (Levels 1, 2 and 3)	
<b>Fixed income</b>	<b>16,158</b>	<b>7,240</b>		<b>23,398</b>	<b>47%</b>	<b>24,677</b>	<b>54%</b>
Corporate bonds		7,075		7,075		8,755	
Government bonds	16,158			16,158		15,800	
Other investments		165		165		122	
<b>Variable income</b>	<b>13,023</b>	<b>3,093</b>	<b>6,586</b>	<b>22,702</b>	<b>46%</b>	<b>18,274</b>	<b>40%</b>
Shares on demand	13,023			13,023		10,456	



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Private <i>Equity funds</i>	2,948	6,585	9,533		7,780	
Other investments	145	1	146		38	
<b>Real estate</b>		<b>1,800</b>	<b>1,800</b>	<b>4%</b>	<b>1,462</b>	<b>4%</b>
			<b>47,900</b>	<b>97%</b>	<b>44,413</b>	<b>98%</b>
<b>Loans granted to participants</b>			<b>1,441</b>	<b>3%</b>	<b>1,131</b>	<b>2%</b>
			<b>49,341</b>	<b>100%</b>	<b>45,544</b>	<b>100%</b>

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At December 31, 2011, the investments include common and preferred shares of Petrobras in the amount of R\$ 846 and of R\$ 696, respectively, and real estate properties rented by the Company in the amount of R\$ 347.

The loan assets granted to participants are stated at amortized cost, which closely approximates market value.

The changes in the fair value of assets valued using the discounted cash flow, classified as Level 3, are as follows:

	<b>Private Equity funds</b>	<b>Changes in Level 3</b>		
		<b>Real estate</b>	<b>Other investments</b>	<b>Total</b>
<b>At December 31, 2010</b>	<b>5,622</b>	<b>1,462</b>	<b>1</b>	<b>7,085</b>
Profitability of the assets	859	14		873
Purchases and sales, net	104	324		428
<b>At December 31, 2011</b>	<b>6,585</b>	<b>1,800</b>	<b>1</b>	<b>8,386</b>

The expected profitability of the investments, based on market expectations, is 8% p.a. for variable income assets and 6% p.a. for fixed income assets and other investments, resulting in an average interest rate of 6.49% p.a.

#### **21.4 Health Care - Multidisciplinary Health Care (AMS)**

Petrobras and its subsidiaries have a health care plan (AMS) that covers all present and retired employees of the companies in Brazil and their dependents. The plan is managed by the Company, itself, and the employees contribute a fixed monthly amount to cover the main risks and a portion of the costs related to the other types of coverage in accordance with participation tables based on specified parameters, including salary levels, in addition to a pharmacy benefit that provides special terms for buying certain medications in registered pharmacies throughout Brazil.

The health care plan is not covered by guarantor assets. The benefits are paid by the Company, based on the costs incurred by the plan members.

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*(In millions of reais, except when specifically indicated)***21.5 Net actuarial liabilities and expenses, calculated by independent actuaries, and fair value of the plans' assets**

The data for all the defined benefit plans in Brazil and abroad were added together, since they contain similar assumptions and the total assets and liabilities of pension plans abroad is not material.

All the pension plans have accumulated benefit obligations in excess of the plans' assets.

**a) Changes in the benefit obligations, in the fair value of the assets and in the amounts recognized in the statement of financial position**

	2011				Parent company Total	2010				Parent company Total
	Consolidated Pension plan			Health care plan		Consolidated Pension plan			Health care plan	
	Defined benefit	Variable contribution	Total			Defined benefit	Variable contribution	Total		
<b>Changes in the present value of the benefit obligations</b>										
Benefit obligations at the beginning of the year	55,242	733	13,777	69,752	65,151	47,495	525	11,961	59,981	5
Cost of interest:										
· With financial commitment agreement	605			605	571	509			509	
· Actuarial	5,589	83	1,551	7,223	6,747	4,737	59	1,328	6,124	
Current service cost	334	334	244	912	820	405	104	198	707	
Benefits paid	(2,057)	(4)	(611)	(2,672)	(2,518)	(1,783)	(3)	(523)	(2,309)	(2)

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Actuarial (gain) / loss on the benefit obligations	2,352	317	514	3,183	2,728	3,885	48	813	4,746	6
Other	8	1		9		(6)			(6)	
Benefit obligations at the end of the year	62,073	1,464	15,475	79,012	73,499	55,242	733	13,777	69,752	6

**Changes in the fair  
value of the plan's  
assets**

Plan's assets at the beginning of the year	45,315	229		45,544	42,748	39,482	201		39,683	3
Expected income from the plan's assets	5,532	36		5,568	5,231	4,469	28		4,497	
Contributions received by the fund	819	64	611	1,494	1,387	896		523	1,419	
Receipts entailed to the financial commitment agreement	290			290	274	258			258	
Benefits paid	(2,057)	(4)	(611)	(2,672)	(2,518)	(1,783)	(3)	(523)	(2,309)	(2)
Actuarial gain / (loss) on the plan's assets	(888)	1		(887)	(1,100)	1,993	3		1,996	
Other	4			4						
Plan's assets at the end of the year	49,015	326		49,341	46,022	45,315	229		45,544	4

**Amounts  
recognized in the  
statement of  
financial position**

Present value of the obligations with established fund	62,073	1,464		63,537	73,499	55,242	733		55,975	5
(-) Fair value of the plan's assets	(49,015)	(326)		(49,341)	(46,022)	(45,315)	(229)		(45,544)	(42)
Present value of the obligations in excess of the fair value of the plan's assets	13,058	1,138		14,196	27,477	9,927	504		10,431	
Present value of the obligations without established fund			15,475	15,475				13,777	13,777	1

Unrecognized actuarial gains/(losses)	(8,530)	(430)	(2,426)	(11,386)	(10,593)	(5,301)	(116)	(1,959)	(7,376)	(6)
Unrecognized prior service cost	(83)	(94)	(28)	(205)	(191)	(116)	(103)	(32)	(251)	
<b>Net actuarial obligations at December 31</b>	<b>4,445</b>	<b>614</b>	<b>13,021</b>	<b>18,080</b>	<b>16,693</b>	<b>4,510</b>	<b>285</b>	<b>11,786</b>	<b>16,581</b>	<b>1</b>
<b>Changes in net actuarial liabilities</b>										
Balance at January 1	4,510	285	11,786	16,581	15,371	4,455	143	10,774	15,372	1
(+) Costs incurred in the year	686	361	1,846	2,893	2,635	837	143	1,533	2,513	
(-) Payment of contributions	(479)	(35)	(611)	(1,125)	(1,042)	(525)		(523)	(1,048)	
(-) Payment of the financial commitment agreement	(290)			(290)	(274)	(254)			(254)	
Other	18	3		21	3	(3)	(1)	2	(2)	
<b>Balance at December 31</b>	<b>4,445</b>	<b>614</b>	<b>13,021</b>	<b>18,080</b>	<b>16,693</b>	<b>4,510</b>	<b>285</b>	<b>11,786</b>	<b>16,581</b>	<b>1</b>

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Notes to the financial statements

(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)***b) Components of the net expenses**

	2011				Parent company Total	2010				Parent company Total
	Consolidated Pension plan			Health care plan		Consolidated Pension plan			Health care plan	
	Defined benefit	Variable contribution	Total			Defined benefit	Variable contribution	Total		
Current service cost	334	334	244	912	820	405	104	198	707	631
Cost of interest:										
· With financial commitment agreement	605			605	571	509			509	479
· Actuarial	5,589	83	1,551	7,223	6,747	4,737	59	1,328	6,124	5,719
Estimated income from the plan's assets	(5,532)	(36)		(5,568)	(5,232)	(4,469)	(28)		(4,497)	(4,223)
Amortization of actuarial (gains)/losses	6	3	47	56	42	3	1	1	5	1
Contributions by participants	(340)	(29)		(369)	(344)	(371)			(371)	(343)
Prior service cost	24	8	4	36	33	23	7	4	34	34
Other		(2)		(2)	(2)			2	2	
<b>Net cost for the year</b>	<b>686</b>	<b>361</b>	<b>1,846</b>	<b>2,893</b>	<b>2,635</b>	<b>837</b>	<b>143</b>	<b>1,533</b>	<b>2,513</b>	<b>2,298</b>

Related to present employees:

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Absorbed in the funding of operating activities	219	152	355	726	688	185	72	296	553	530
Directly to income	108	203	301	612	508	141	69	198	408	314
Related to retired employees	359	6	1,190	1,555	1,439	511	2	1,039	1,552	1,454
<b>Net cost for the year</b>	<b>686</b>	<b>361</b>	<b>1,846</b>	<b>2,893</b>	<b>2,635</b>	<b>837</b>	<b>143</b>	<b>1,533</b>	<b>2,513</b>	<b>2,298</b>



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Notes to the financial statements  
(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***c) Differences between estimated amounts and amounts incurred**

The differences between the estimated amounts and those actually incurred in the last three years, were as follows:

	Consolidated			Parent company		
	2011	2010	2009	2011	2010	2009
<b>Pension plan gains/(losses)</b>						
Actuarial liability	(125)	118	(381)	109	28	(417)
Pension plan assets	(886)	1,996	3,423	(1,100)	1,928	3,357
<b>Health care plan gains/(losses)</b>						
Actuarial liability	1,320	414	663	1,232	406	637

**d) Difference in the costs with health care**

The difference of 1% in the assumptions for medical costs would have the following impacts:

	Consolidated		Parent company	
	1% increase	1% decrease	1% increase	1% decrease
Actuarial liability	2,305	(1,886)	2,125	(1,739)
Service cost and interest	299	(240)	274	(221)

**e) Actuarial assumptions adopted in the calculation****2011****2010**

Discount rate	Inflation 5.6% to 4.34% p.a ( <sup>1</sup> ) + Interest: 5.58% p.a ( <sup>2</sup> )	Inflation 5.3% to 4.3% p.a ( <sup>1</sup> ) + Interest: 5.91% p.a ( <sup>2</sup> )
Growth rate for salaries	Inflation 5.6% to 4.34% p.a. <sup>(1)</sup> + 2.080% to 3.188% p.a	Inflation 5.3% to 4.3% p.a( <sup>1</sup> ) + 2.220% p.a
Expected return rate from the pension plan assets	Inflation 5.6% p.a. + interest: 6.49% p.a.	Inflation 5.3% p.a. + interest: 6.78% p.a.
Turnover rate of the health plans	0.652% p.a ( <sup>3</sup> )	0.660% p.a ( <sup>3</sup> )
Turnover rate of the pension plans	Null	Null
Variation rate for hospital medical costs	8.96% to 4.34%p.a ( <sup>4</sup> )	7.89% to 4.3%p.a ( <sup>4</sup> )
Mortality table	AT 2000, sex specific TASA 1927/ Zimmermann adjusted ( <sup>5</sup> )	AT 2000, sex specific TASA 1927/ Zimmermann adjusted ( <sup>5</sup> )
Disability table		
Mortality table for disabled persons	AT 49, sex specific	AT 49, sex specific

(<sup>1</sup>) Inflation decreasing lineally in the next 5 years when it becomes constant.

(<sup>2</sup>) The Company uses a methodology for computing an equivalent real rate from the future curve of return of the longest term government bonds, considering in the calculation of this rate the maturity profile of the pension and health care obligations.

(<sup>3</sup>) Average turnover which varies according to age and time of service.

(<sup>4</sup>) Decreasing rate for doctors' and hospital costs, attaining in the next 30 years the projected long-term expectations for inflation.

(<sup>5</sup>) Disability table: Zimmermann adjusted to the Petros 2 plan.

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Notes to the financial statements  
(Consolidated and Parent Company)

*(In millions of reais, except when specifically indicated)*

## 21.6 Other defined contribution plans

Petrobras, through its subsidiaries in Brazil and abroad, also sponsors defined contribution employee retirement plans. The contributions paid in 2011, recognized in the income statement, totaled R\$ 24.

## 22 Profit sharing

Employee profit sharing (PLR) is based on statutory requirements and guidelines established by the Department of Coordination and Governance of State Owned Enterprises (DEST), of the Ministry of Planning, Budget and Management, and by the Ministry of Mines and Energy, and is related to consolidated net income before profit sharing by employees and management and the result attributable to non-controlling interests.

In 2011, the Company, based on the assumptions in question, recorded a provision for R\$ 1,560 for profit sharing (R\$ 1,691 in 2010), as follows:

	<b>2011</b>	<b>2010</b>
Net income attributable to shareholders of Petrobras	33,313	35,189
Result attributable to non-controlling interests	(203)	712 (*)
Profit sharing	1,560	1,691
<b>Income before interest - calculation basis</b>	<b>34,670</b>	<b>37,592</b>
Established percentage	4.5%	4.5%
<b>Profit sharing</b>	<b>1,560</b>	<b>1,691</b>

(\*) Result attributable to non-controlling interests published in 2010, the basis for determining profit sharing.

Management participation in the the profits or results will be subject to approval at the Annual General Meeting for 2012, in accordance with articles 41 and 56 of the Company's bylaws and specific federal regulations.



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Notes to the financial statements  
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*(In millions of reais, except when specifically indicated)*

## **23 Shareholders' equity**

### **23.1 Paid-in capital**

At December 31, 2011, subscribed and fully paid-in capital in the amount of R\$ 205,380 was represented by 7,442,454,142 common shares and 5,602,042,788 preferred shares, all of which are registered, book entry shares with no par value.

#### **Capital increase with reserves in 2011**

The Special General Meeting, held jointly with the Annual General Meeting on April 28, 2011, approved the Company's capital increase from R\$ 205,357 to R\$ 205,380, through capitalization of part of the profit reserve from tax incentives recorded in 2010, in the amount of R\$ 23, in compliance with article 35, paragraph 1, of Ordinance 2,091/07 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.

#### **Capital increase with reserves in 2012**

The Management of Petrobras will propose to the Special General Shareholders' Meeting, to be held jointly with the General Shareholders' Meeting for 2012, a capital increase for the Company from R\$ 205,380 to R\$ 205,392, through capitalization of part of the tax incentive profit reserve established in 2011 in the amount of R\$ 12.

### **23.2 Additional paid-in-capital**

#### **a) Expenditures with issuing of shares**

The global offering of shares made in 2010 generated a funding cost in the amount of R\$ 477, net of taxes.

***b) Changes in interest in subsidiaries***

It includes the value of the differences between the amount paid and the book value, resulting from the changes in interests in subsidiaries which do not result in loss of control, considering that they address capital transactions, i.e. transactions with the shareholders, as owners.

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### **23.3 Profit reserves**

#### **a) Legal reserve**

The legal reserve is formed through the appropriation of 5% of the net income for the year, pursuant to article 193 of the Brazilian Corporation Law.

#### **b) Statutory reserve**

The statutory reserve is formed through the allocation of the net income for each year in an amount equivalent to at least 0.5% of the paid-in capital at year-end. This reserve is used to fund research and technological development programs. The balance of this reserve may not exceed 5% of the paid-in capital, pursuant to article 55 of the Company's bylaws.

#### **c) Tax incentive reserve**

It is created through distribution of part of the results for the year equivalent to the tax incentives resulting from government donations or subsidies, pursuant to article 195-A of the Corporation Law. This reserve may only be used for absorbing losses or increasing capital.

In 2011, R\$ 81 was earmarked from the results referring to the incentive for subsidies for investments in the Northeast and Amazônia, in the ambit of the Superintendencies for Development of the Northeast (SUDENE) and Amazonia (SUDAM), where R\$ 12 refers to the realization of part of the deposits for reinvestments with funds from income tax.

#### **d) Profit retention reserve**

It is earmarked for investments established in the capital budget, mainly in exploration activities and development of oil and gas production, pursuant to article 196 of the Brazilian Corporation Law.

The Board of Directors is proposing maintaining in shareholders' equity, in a profit retention reserve, the amount of R\$ 18,347, where R\$ 18,337 originates from the profit for 2011 and R\$ 10 from the remaining balance of retained earnings, which is earmarked to partially attend the annual investment program established in the capital budget for 2012, to be decided in the Annual General Shareholders' Meeting for 2012.



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Notes to the financial statements  
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#### **23.4 Equity valuation adjustment**

##### **a) *Cumulative translation adjustment***

It includes the differences of the translation to *reais* of the financial statements of the companies with a functional currency different from the Parent company.

##### **b) *Other comprehensive income***

It includes the changes in fair value involving financial assets available for sale, cash flow hedging and the adjustments through adopting the deemed cost of the petrochemical sector on the transition date.

#### **23.5 Dividends**

The shareholders are assured a minimum dividend and/or interest on shareholders' equity of at least 25% of the adjusted net income for the year, calculated in accordance with article 202 of the Brazilian Corporation Law.

Preferred shares have priority in the event of reimbursement of capital and receipt of dividends of at least 3% of the amount of the shareholder's equity of the share, or 5% calculated on the portion of capital represented by this kind of shares, where the highest amount always prevails.

The proposal for dividends related to 2011, which is being sent by the Management of Petrobras for approval by the shareholders in the Annual General Meeting of 2012, in the amount R\$ 12,001, meets the statutory rights granted to preferred shares and is being offered equally for both common and preferred shares. This proposed dividend reached 38.25% of the basic profit because the rights of the holders of the preferred shares for priority in the dividends, of at least 3% of the portion of the shareholder's equity representing the preferred shares, was higher than the minimum dividend equivalent to 25% of the basic profit for determining the dividends.

In 2010, in the proposed dividend, without distinction between common and preferred shares, representing 35.50% of the basic income, the parameter of 5% of the portion of the capital representative of the preferred shares prevailed, which is also in compliance with the statutory rights of the holders of preferred shares.

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Notes to the financial statements  
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*(In millions of reais, except when specifically indicated)*

Statement of basic profit for calculating the dividends:

	<b>2011</b>	<b>2010</b>
Net income for the year (Parent company)	33,101	35,036
Allocation:		
Legal reserve	(1,655)	(1,752)
Tax incentive reserve	(81)	(250)
Other reversals/additions:	10	
<b>Basic profit for determining dividend</b>	<b>31,375</b>	<b>33,034</b>
Proposed dividends, equivalent to 38.25 % of the basic profit - R\$ 0.92 per share, (35.50 % in 2010, R\$ 1.03 per share) as follows:		
Interest on shareholders' equity	10,436	10,163
Dividends	1,565	1,565
<b>Total proposed dividends</b>	<b>12,001</b>	<b>11,728</b>
Less:		
Interest on shareholders' equity paid in advance	(7,827)	(7,945)
Updating of interest on shareholders' equity paid in advance	(296)	(188)
<b>Balance of proposed dividends</b>	<b>3,878</b>	<b>3,595</b>

The proposed dividends at December 31, 2011, in the amount of R\$ 12,001, include interest on shareholders' equity in the total amount of R\$ 10,436, approved by the Board of Directors, as follows:

<b>Payment</b>	<b>Date of approval by Board of Directors</b>	<b>Date of shareholder position</b>	<b>Date of payment</b>	<b>Amount of payment</b>	<b>Gross amount per share (ON and PN) (R\$)</b>
1st payment of interest on shareholders' equity	04.29.2011	05.11.2011	05.31.2011	2,609	0.20

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2nd payment of interest on shareholders' equity	07.22.2011	08.02.2011	08.31.2011	2,609	0.20
3rd payment of interest on shareholders' equity	10.28.2011	11.11.2011	11.30.2011	2,609	0.20
4th payment of interest on shareholders' equity	12.22.2011	01.02.2012		2,609	0.20
Dividends	02.09.2012			1,565	0.12
				<b>12,001</b>	<b>0.92</b>

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Notes to the financial statements  
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The portions of interest on shareholders' equity distributed in advance in 2011 will be discounted from the dividends proposed for this year, corrected by the benchmark (SELIC) rate from the date of its payment until December 31, 2011. The final portion of interest on shareholders' equity will be paid up to March 30, 2012 and the dividends will be paid on a date to be established by the Annual General Shareholders' Meeting. These amounts will be monetarily restated as from December 31, 2011 until the initial date of payment, in accordance with the variation of the SELIC rate.

The interest on shareholders' equity is subject to the withholding of income tax at source of 15%, except for the shareholders that are immune and exempt, as established in Law 9,249/95. This interest was allocated to the dividends for the year, as established in the Company's bylaws, posted in the operating results, as required by the tax laws and regulations, and was reversed against retained earnings, pursuant to CVM Resolution 207/96, which resulted in income and social contribution tax credits of R\$ 3,548 (R\$ 3,455 in 2010).

**23.6 Earnings per Share**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net income attributable to shareholders of Petrobras	33,313	35,189	33,101	35,036
Weighted average of the number of common and preferred shares outstanding (No. of Shares)	13,044,496,930	9,872,826,065	13,044,496,930	9,872,826,065
Basic and diluted earnings per common and preferred share ( R\$ per share)	2,55	3,57	2,54	3,55

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Notes to the financial statements  
(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***24 Sales revenues**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Gross sales revenue</b>	306,234	266,060	241,042	204,595
Sales charges	(62,058)	(54,218)	(57,221)	(48,108)
<b>Sales revenues</b>	<b>244,176</b>	<b>211,842</b>	<b>183,821</b>	<b>156,487</b>

**25 Expenses by nature**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Raw material / products purchased	(95,484)	(77,437)	(68,529)	(53,405)
Contracted services, freight, rents and general charges	(25,200)	(22,915)	(17,612)	(13,284)
Government take	(27,205)	(20,315)	(26,507)	(19,810)
Expenses with personnel and benefits	(18,908)	(16,697)	(14,715)	(12,185)
Depreciation, depletion and amortization	(17,739)	(14,612)	(12,901)	(10,813)
	<b>(184,536)</b>	<b>(151,976)</b>	<b>(140,264)</b>	<b>(109,497)</b>
Cost of sales	(166,939)	(135,617)	(124,320)	(96,134)
Selling expenses	(8,950)	(8,557)	(9,915)	(7,920)
Administrative and general expenses	(8,647)	(7,802)	(6,029)	(5,443)
	<b>(184,536)</b>	<b>(151,976)</b>	<b>(140,264)</b>	<b>(109,497)</b>

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Notes to the financial statements  
(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***26 Other operating expenses, net**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Pension and Healthcare plans	(1,555)	(1,552)	(1,439)	(1,454)
Unscheduled stoppages and pre-operating expenditures	(1,466)	(623)	(1,097)	(613)
Institutional relations and cultural projects	(1,439)	(1,234)	(1,275)	(1,132)
Expenses on security, environment and health	(772)	(369)	(649)	(451)
Adjustment to market value of inventories	(1,046)	(603)	(227)	(61)
Collective bargaining agreement	(700)	(647)	(655)	(577)
Losses from contingencies with judicial and administrative proceedings	(670)	(1,834)	(448)	(1,352)
Gains from judicial and arbitral proceedings	883		688	
Operating expenses with thermoelectric power stations	(207)	(307)	(550)	(602)
Impairment	(664)	(76)	(412)	104
Government subsidies and assistance	615	377	187	360
Results from sale/write-off of assets	12	65	(226)	(33)
Expenditures / reimbursements from operations in E&P partnerships	16	46	16	46
Incentive for purchase of Petrobras shares		(91)		(85)
Other	405	(201)	317	89
	<b>(6,588)</b>	<b>(7,049)</b>	<b>(5,770)</b>	<b>(5,761)</b>

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(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***27 Financial income (expenses), net**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Exchange variation on cash and cash equivalents	971	(693)	924	(784)
Exchange variation on debt (*)	(5,453)	1,683	(2,809)	1,271
<b>Exchange variation on net debt</b>	<b>(4,482)</b>	<b>990</b>	<b>(1,885)</b>	<b>487</b>
<b>Exchange variation on debt</b>	<b>(102)</b>	<b>(276)</b>	<b>(76)</b>	<b>(253)</b>
Expenses with debt	(8,146)	(6,752)	(6,114)	(7,209)
Earnings on financial investments	2,788	1,645	2,303	1,155
Income from government bonds for trading	2,118	529	2,118	529
<b>Net financial expenses</b>	<b>(3,240)</b>	<b>(4,578)</b>	<b>(1,693)</b>	<b>(5,525)</b>
<b>Financial result on net debt</b>	<b>(7,824)</b>	<b>(3,864)</b>	<b>(3,654)</b>	<b>(5,291)</b>
Capitalized financial charges	7,361	5,262	5,823	4,249
Hedge on sales and financial operations	(387)	9	(124)	24
Income from available-for-sale securities	594	524	576	510
Income/(expenses) from held-to-maturity securities	(114)	119	532	451
Other financial expenses and income, net	(93)	(56)	619	1,641
Other exchange and monetary variations, net	585	626	1,809	50
<b>Financial income (expenses), net</b>	<b>122</b>	<b>2,620</b>	<b>5,581</b>	<b>1,634</b>
<b>Financial income (expenses), net (**)</b>				
Income	6,543	4,424	6,025	4,312
Expenses	(2,422)	(3,145)	(291)	(2,960)
Exchange and monetary variations, net	(3,999)	1,341	(153)	282
	<b>122</b>	<b>2,620</b>	<b>5,581</b>	<b>1,634</b>

(\*) It includes monetary variation on financing in local currency parameterized to the variation of the US dollar.





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## **28 Legal proceedings and contingencies**

The Company is a defendant in numerous legal proceedings involving tax, civil, labor and environmental issues, arising from the normal course of its operations. The classification of actions in accordance with the expectations of loss as probable, possible or remote, as well as their estimated amounts, is prepared based on advice from its legal advisors and Management's best judgment.

### **28.1 Provisions for legal proceedings**

The Company recorded provisions in an amount sufficient to cover the losses considered as probable and that could be reasonably estimated. Among which, the main proceedings are related to income tax withheld at source for issuing securities abroad, losses and damages from the dissolution of an operation for assignment of an IPI credit premium and compensation for fishermen for the oil spillage that occurred in Rio de Janeiro in January 2000.

The Federal and State Public Prosecutors Offices of the State of Paraná filed a lawsuit against Petrobras with respect to compensation for moral damages, financial damages and environmental restoration, due to an oil spill in Terminal São Francisco do Sul - President Vargas Refinery on July 16, 2000.

Based on studies made in 2011, considering the proportion of damages caused, the Company reassessed its expectations of loss of the lawsuit, reclassifying it from possible to probable, and estimated the amount to be incurred as R\$ 62, nevertheless the pretension of the Plaintiffs for the award of around R\$ 6,765 persists.

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The amounts recorded as provisions, net of restricted deposits for legal proceedings and guarantees, are as follows:

<b>Non-current liabilities</b>	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Labor claims	290	193	202	88
Tax claims	661	607	12	68
Civil claims	298	357	161	269
Other claims	112	108	62	
	<b>1,361</b>	<b>1,265</b>	<b>437</b>	<b>425</b>

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Opening balance</b>	<b>1,265</b>	<b>837</b>	<b>425</b>	<b>252</b>
Addition	534	1,422	336	845
Use	(183)	(910)	(118)	(598)
Transfers	(266)	(93)	(237)	(83)
Updating of interest	87	9	86	9
Other	(76)		(55)	
<b>Closing balance</b>	<b>1,361</b>	<b>1,265</b>	<b>437</b>	<b>425</b>

**28.2 Legal proceedings not accrued for:**

<b>Nature</b>	<b>Consolidated</b>	<b>Estimate for 2011</b>
Tax		34,137
Civil- General		8,858
Civil- Environmental		989
Other		1,560
		<b>45,544</b>



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The tables below present in detail the main lawsuits of tax and civil nature, whose expectations of loss are classified as possible:

*a) Proceedings of a tax nature*

Description - Tax Nature	Estimate
<b>Plaintiff: Federal Revenue Department of Brazil</b>	
I) Notices of infraction for non-deductibility of Income tax (IRPJ) and Social Contribution on Net Income (CSLL) on the renegotiation of the Petros Plans.	3,139
II) Lack of addition to the calculation basis of income tax and social contribution of the profits earned by the subsidiaries and affiliated companies domiciled abroad in 2005, 2006 and 2007.	1,989
III) Non payment of income tax and social contribution on the financial incentive to employees for the renegotiation of the Petros Plan, in 2007.	1,499
<b>Plaintiff: Federal Revenue Department of Rio de Janeiro</b>	
Tax deficiency notice related to income tax withheld at source on remittances of payments for affreightment of vessels referring to the period from 1999 to 2002.	4,684
<b>Plaintiff: Department of Finance of the State of Rio de Janeiro</b>	
I) ICMS – Notices of infraction on LNG transfer operations without issuing a tax document in the ambit of the centralizing establishment.	2,491
II) Tax assessment due to difference in ICMS rate on operations for the sale of aviation fuel, on the grounds of the declaration of the unconstitutionality of Decree 36454 of 2004.	1,410
<b>Plaintiff: Federal Revenue Department of Brazil</b>	
I) Non payment of CIDE (Contribution for Intervention in the Economic Domain) by Petrobras on imports of naphtha resold to Braskem.	2,793

II) Non-payment in the period from March 2002 to October 2003 of CIDE - Fuels, pursuant to court orders obtained by distributors and petrol stations protecting them from levying this charge. 1,235

**Plaintiff: Department of Finance of the State of São Paulo**

I) Notice of tax assessment related to the suspension of payment of ICMS and a fine for non-compliance with an accessory obligation on importing. Temporary admission of a drilling rig in São Paulo and clearance in Rio de Janeiro (ICMS Agreement 58/99). 2,184

II) Suspension of collection of ICMS and fine on imports (Temporary admission - Drilling Rig - Admission in São Paulo - Clearance in Rio de Janeiro). 1,657

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Description - Tax Nature	Estimate
<b>Plaintiff: Municipal governments of Anchieta, Aracruz, Guarapari, Itapemirim, Marataízes, Linhares, Vila Velha and Vitória.</b>	
Not withholding and paying service tax (ISS) on offshore services. 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 (ISSQN) on offshore services. Petrobras withheld this ISSQN; however, it paid the tax to the municipalities where the respective service providers are established, in accordance with Complementary Law 116/03.	1,624
<b>Plaintiff: Federal Revenue Department of Brazil</b>	
IOF (tax on financial operations) credit on intercompany loans	1,181
<b>Plaintiff: Federal Revenue Department of Brazil</b>	
IRRF (Income tax withheld at source) - Remittances abroad for payment of oil imports	924
<b>Plaintiff: Departments of Finance of the States of Rio de Janeiro and Sergipe</b>	
Incorrect use of ICMS credits from drilling bits and chemical products used in the formulation of drilling fluids and notices of infraction for understanding that they constitute material for use and consumption, when use of the credit would only be allowed from the following period.	817
<b>Other processes of a tax nature</b>	<b>6,510</b>
<b>Total for processes of a tax nature</b>	<b>34,137</b>

**b) Proceedings of a civil nature - General**

Description - Civil Nature	Estimate
<b>Plaintiff: Porto Seguro Imóveis Ltda.</b>	5,615
Porto Seguro, a minority shareholder of Petroquisa, filed a lawsuit against Petrobras, related to alleged losses arising from the sale of the shareholding interests of Petroquisa in various petrochemical companies. The estimated indemnity to be paid to Petroquisa is R\$ 22,461 as of December 31, 2011. As Petrobras holds 100% of Petroquisa's capital, part of the indemnity, estimated at R\$ 14,824 "net of tax" does not represent an actual disbursement from the Petrobras	

system. Additionally, Petrobras would have to indemnify Porto Seguro, the plaintiff, 5% as a premium and 20% as lawyers' fees to Lobo & Ibeas Advogados.

**Plaintiff: National Petroleum Agency - ANP**

Difference in the payment of special participation charge in the Albacora, Carapeba, Cherne, Espadarte, Marimba, Marlim, Marlim Sul, Namorado, Pampo and Roncador fields – Campos Basin, using an agreement for leasing of assets with Companhia Locadora de Equipamentos Petrolíferos (CLEP), contrary to ANP Ordinance 10/99 and a fine for non-compliance with the minimum exploration programs – “Rodada Zero”.	1,212
<b>Other processes of a civil nature</b>	2,031
<b>Total for processes of a civil nature</b>	<b>8,858</b>

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**28.3 Contingencies from operating partnerships - Frade field**

In November 2011 there was an oil spillage in the Frade field, located in the Campos basin, which is operated by Chevron Brasil. The federal public prosecutor is conducting an investigation and has initiated a process claiming R\$ 20 billion in damages against Chevron Brazil, Chevron Latin America Marketing LLC and Transocean Brasil Ltda, where the latter was the operator of the platform at the time of the spillage. The Company’s legal advisors considered that the amount attributed to this claim is not reasonable and is extremely high in relation to the extension of the damages caused.

Petrobras holds a 30% interest in the Frade consortium. Although it is not a party to the process, because of its stake Petrobras may be contractually obliged to pay 30% of the total contingencies related to the Frade field. If Chevron is held to be legally responsible, Petrobras may be contractually liable for payment of up to 30% of the costs related to the indemnity.

**28.4 Positive contingencies**

**28.4.1 Recovery of maintenance costs – Barracuda & Caratinga**



In 2006, Petrobras, as representant of Barracuda & Caratinga Leasing Company B.V. (BCLC), resorted to arbitration abroad against Kellogg, Brown, Root, LLC (KBR), to obtain compensation for maintenance costs carried out on flexible lines of the Barracuda and Caratinga field, in the period covered by contractual guarantee.

On September 21, 2011, the Court of arbitration ruled in favor of BCLC, definitively, condemning KBR to indemnify it in the amount of R\$ 339, pleaded in the arbitration, plus internal costs of Petrobras in conducting the arbitration, in addition to legal fees and costs of the arbitration. After the definitive decision, Petrobras recognized the amount of R\$ 339 in non-current assets.

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#### **28.4.2 Recovery of PIS and COFINS**

Petrobras and its subsidiaries filed a civil suit against the Federal government referring to recovery, through offsetting, of the amounts paid as PIS on financial revenue and exchange gains in the period between February 1999 and November 2002 and COFINS between February 1999 and January 2004, in light of the ruling that paragraph 1 of article 3 of Law 9,718/98 is unconstitutional.

On November 9, 2005, the Federal Supreme Court considered that the respective paragraph 1 of article 3 of Law 9,718/98 is unconstitutional.

On November 18, 2010, the Superior Court of Justice upheld the action by Petrobras, filed in 2006 to recover the COFINS for the period from January 2003 to January 2004. After the *res judicata* of the action, Petrobras recognized the amount of R\$ 497 as recoverable taxes in non current assets.

On December 31, 2011, the Company had R\$ 2,188 (R\$ 2,066 in the Parent company) related to these suits which are not yet reflected in the financial statement due to the absence of a final favorable decision.

#### **28.4.3 Legal proceeding in the United States of America - P-19 e P-31**

In 2002, Braspetro Oil Service Company (Brasoil) and Petrobras won related lawsuits filed with the US lower courts by the insurance companies United States Fidelity & Guaranty Company and American Home Assurance Company in which they were trying to obtain, since 1997, with respect to the first company (Brasoil), a legal declaration that exempted them from the obligation of paying the performance bond of the platforms P-19 and P-31, and, with respect to the second company (Petrobras), they were seeking reimbursement of any quantities for which they might happen to be condemned in the execution proceedings of the performance Bond.

On July 21, 2006, the US court handed down an executive decision, conditioning the payment of the amounts owed to Brasoil to the permanent closing of legal proceedings involving identical claims in progress before the Brazilian courts, which the parties proceeded to do.

The amount of damages pleaded is approximately US\$ 245 million.

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**29 Commitments for purchase of natural gas**

Petrobras entered into an agreement with Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) to purchase a total of 201.9 billion m<sup>3</sup> of natural gas during the term of the agreement, undertaking to purchase minimum annual volumes at a price calculated according to a formula indexed to the price of fuel oil. The agreement is valid until 2019 and will be renewed until the total contracted volume has been consumed.

On December 31, 2011, the minimum purchase commitment for the period from 2012 to 2019 is approximately 70.3 billion m<sup>3</sup> of natural gas, equivalent to 24.06 million m<sup>3</sup> per day, which corresponds to an estimated total of US\$ 15.2 billion.

**30 Guarantees for concession agreements for petroleum exploration**

Petrobras gave guarantees to the National Petroleum Agency (ANP) in the total amount of R\$ 6,015 for the Minimum Exploration Programs established in the concession agreements for exploration areas, with R\$ 5,429, net of commitments already undertaken, remaining in force. Of this amount, R\$ 3,385 corresponds to a lien on the oil from previously identified fields already in production, and R\$ 2,043 refers to bank guarantees.

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### **31 Derivative instruments, hedging and risk management activities**

The Company is exposed to a series of risks arising from its operations. These risks mainly involve the fact that eventual variations in the prices of oil and oil products, in exchange rates or in interest rates may negatively affect the value of the Company's financial assets and liabilities or future cash flows and profits.

#### **31.1. Risk management objectives and strategies**

The Petrobras risk management policy aims at contributing towards an appropriate balance between its objectives for growth and return and its risk exposure level, 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.

Petrobras's risk management is conducted by its officers, following a corporate risk management policy. In March 2010 the Executive Committee established the Financial Integration Committee, which is composed of all the executive managers of the financial department, and the executive managers of the business departments are called upon for discussions of specific themes. One of the responsibilities of the Financial Integration Committee is to assess exposures to risks and to establish guidelines for measuring, monitoring and managing the risk related to the activities of Petrobras and it is the Executive Committee's responsibility to decide on the topics.

Petrobras adopts a philosophy of integrated risk management, according to which the management focus is not on individual risks – the operations or the business units – but on the corporation's broader, consolidated prospects, making use of possible natural hedges. For the management of market/financial risks, structural actions, created as a result of appropriate management of the company's capital and indebtedness, are adopted as a preference in detriment to the use of derivative financial instruments.

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### **31.2. Risk of change in the prices of oil and oil products**

#### **a) Risk management of prices of oil and oil products**

Petrobras maintains, as a preference, exposure to the price cycle, not using derivatives for hedging systematic operations (purchase or sale of commodities with the aim of attending the Company's operational requirements).

Nevertheless, the decisions referring to this issue are reviewed periodically and recommended to the Financial Integration Committee. If hedge is indicated, in scenarios with a significant probability of adverse events, the hedge strategy should be carried out with the aim of protecting the Company's solvency and liquidity, considering an integrated analysis of all the Company's risk exposures and assuring the execution of the corporate investment plan.

#### **b) Main transactions and future commitments hedged by derivative operations**

The main operations are intended for hedging the expected results of the transactions carried out abroad.

Accordingly, the operations with derivative financial instruments are usually short-term operations and accompany the terms of the commercial transactions. The instruments used are futures, forward, swap and options contracts. 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.

#### **c) Parameters used for risk management**

The main parameters used in risk management for variations in the prices of Petrobras's oil and oil products are the operating cash flow at risk (CFAR), Value at Risk (VAR) and Stop Loss.

At December 31, 2011, the portfolio for commercial operations carried out abroad, as well as the hedges for their protection through derivatives for oil and oil products, presented a maximum estimated loss per day (VAR – Value at Risk), calculated at a reliability level of 95%, of approximately US\$ 2 million.

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	Consolidated				Maturity	Parent company	
	Notional value thousands of bbl in *		Fair value recorded**			Fair value recorded**	
	2011	2010	2011	2010		2011	2010
<b>Futures contracts</b>	<b>(6,217)</b>	<b>(8,570)</b>	<b>34</b>	<b>(40)</b>	2012	<b>(1)</b>	
Purchase commitments	30,193	19,921					
Sale commitments	(36,410)	(28,491)					
<b>Options contracts</b>	<b>(2,130)</b>	<b>(1,679)</b>	<b>(4)</b>	<b>(3)</b>	2012		
<b>Buy</b>	<b>(730)</b>	<b>1,446</b>	<b>(3)</b>	<b>1</b>			
Bidding position	6,728	1,646					
Short sale	(7,458)	(200)					
<b>Sale</b>	<b>(1,400)</b>	<b>(3,125)</b>	<b>(1)</b>	<b>(4)</b>			
Bidding position	3,990	2,070					
Short sale	(5,390)	(5,195)					
<b>Forward contracts</b>	<b>275</b>	<b>354</b>			(1) 2012		
Long position	275	979					
Short position		(625)					
<b>Total recorded in other current assets and liabilities</b>			<b>30</b>	<b>(44)</b>		<b>(1)</b>	

\* A negative notional value represents a short position.

\*\* Negative fair values were recorded in liabilities and positive fair values in assets.



Main counterparties of the operations: NYMEX, ICE, Morgan Stanley, BNP Paribas, BP North America Chicago, Shell (Stasco).

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**e) Gains and losses in the period**

<b>Derivatives for oil and oil products</b>	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Gain (loss) recorded in results	(410)	(4)	(124)	24

**f) Value and type of margins given in guarantee**

The guarantees given as collateral generally consist of deposits.

<b>2011</b>	<b>Consolidated</b>	<b>2010</b>	<b>2011</b>	<b>Parent company</b>	<b>2010</b>
	168			367	

**g) Sensitivity analysis of derivatives of oil and oil products**

The probable scenario is the fair value at December 31, 2011. The possible and remote scenarios consider a deterioration in the prices in the risk variable of 25% and 50%, respectively, with respect to the same date.

<b>Market derivatives for oil and oil products</b>	<b>Risk</b>	<b>Consolidated</b>		
		<b>Probable scenario in 2011</b>	<b>Possible Scenario (Δ of 25%)</b>	<b>Remote Scenario (Δ of 50%)</b>
Brent	High of Brent Oil	(8)	(307)	(580)
Gasoline	Low of Gasoline	3	16	28
Fuel oil	High of Fuel Oil	(15)	(249)	(484)
WTI	High of WTI	-	2	(21)
Diesel	Low of Diesel	6	(15)	(37)
Ethanol	High of Ethanol	1	(27)	(54)

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Naphtha	High of Naphtha	-	(3)	(7)
Dubai	High of Dubai Oil	2	(12)	(25)
LLS	Low of LLS Oil	-	(8)	(15)

The positions indicated by a hyphen represent amounts lower than R\$ 500 thousand.

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**h) Embedded derivatives**

The procedures for identifying derivative financial instruments in contracts aim at timely recognition, control and adequate accounting handling to be employed, and are applicable to the units of Petrobras and its subsidiaries.

The contracts with possible clauses for derivative instruments or securities to be realized are reported, so that there is orientation with respect to the eventual performance of effectivity tests, the establishment of the accounting policy to be adopted and the methodology for calculation of the fair value.

The embedded derivatives identified in the quarter were:

**Sale of ethanol**

The agreement consists of sale of hydrous ethanol through a price formula defined at the time of signing the agreement. The definition of price for each shipment of hydrous ethanol delivered in this agreement involves two quotations of distinct references: ethanol and naphtha.

The price formula in question uses as one of its references the quotation of a commodity that does not maintain a strict cost or market value relationship with the product transacted in the agreement, according to the criteria of technical pronouncement CPC 38 – Financial Instruments: Recognition and Measurement. Accordingly, pursuant to the orientations for this standard, the portion referring to the embedded derivative should be separated from the original agreement and recorded in the financial statements following the same rules applicable to the other derivative financial instruments.

The tables below present the fair value of the embedded derivative and a sensitivity analysis for December 31, 2011:

		<b>Notional value in thousands of m<sup>3</sup></b>	<b>Fair value</b>	<b>Maturity</b>
<b>Forward contracts</b>				
Long position		715	49	2016
<b>Embedded derivatives</b>	<b>Risk</b>	<b>Probable scenario in 2011</b>	<b>Possible Scenario (Δ of 25% )</b>	<b>Remote Scenario (Δ of 50% )</b>
Swap Naphtha vs. Ethanol	Fall in Naphtha vs. Ethanol spread	49	40	32

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The derivative was valued at fair value through profit and loss and classified at level 3 in the hierarchy for valuation of the fair value.

The Company determined the fair value of this contract based on practices used on the market, where the difference between the spreads for naphtha and ethanol is calculated. The selling price of the ethanol in the agreement refers to the Brazilian market (ESALQ). The values of the parameters used in the calculation were obtained from market price quotations for ethanol and naphtha on the CBOT (Chicago Board of future market on the last working day of the period of the financial statements.

The gains obtained are presented in the income statement as financial income.

### **31.3. Exchange risk**

Exchange risk is one of the financial risks that the Company is exposed to and it originates from changes in the levels or volatility of the exchange rates that are a reference for asset and liability positions. Fluctuations in exchange rates may have a negative affect on Petrobras's financial situation and operating results, since the majority of the revenues are mainly in reais while the major part of its liabilities are in foreign currency.

#### **a) Exchange risk management**

With respect to exchange risk management, Petrobras seeks to identify and address them in an integrated manner, aiming at assuring efficient allocation of the resources earmarked for the hedge.

Taking advantage of operating in an integrated manner in the energy segment, the company seeks, primarily, to identify or create natural hedges, i.e. to benefit from the correlation between its income and expenses. In the specific case of exchange variation inherent to contracts where the cost and remuneration involve different currencies, this hedge is provided through allocating the cash investments between the Real and the US dollar or another currency.

The risk management is performed for the net exposure. Periodic analyses of the exchange risk are prepared, assisting the executive committee's decisions. The exchange risk management strategy may involve the use of derivative financial instruments to minimize the exchange exposure of certain liabilities of the Company.

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**b) Main transactions and future commitments hedged by derivative operations**

**Swaps**

**Yen vs. Dollar**

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 costs of this operation in dollars. In a cross currency swap there is 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. For this relationship between the derivative and the loan, described as a cash flow hedge, the Company adopted hedge accounting.

In the contracting of hedge and during its effectiveness, it is expected that the hedge will be highly effective. The changes in the fair value, in the measure of the effectiveness of the hedge, tested quarterly, are stated in other comprehensive retained earnings, until the result of the item liable to hedge is realized.

**Dollar vs. CDI**

The Company contracted an exchange swap related to financing of imports (FINIMP) for purchase of petroleum.

**Dollar forward contracts**

Petrobras is in a short position in exchange futures rates through NDFs on the Brazilian over-the-counter market. The period of exposure is 3 months on average and the operation is conducted for the purpose of securing and guaranteeing the trading margin.



None of the operations required margin deposits in guarantee.

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**c) Notional and fair value of the derivative instruments**

The table below summarizes the information on the derivative contracts in force.

	Notional value		Consolidated Fair value **		Maturity
	2011	2010	2011	2010	
<b>Dollar forward contracts</b>					
<b>Short position</b>	<b>USD 87</b>	<b>USD 61</b>	<b>(3)</b>	<b>4</b>	2012
	USD 87	USD 61	(3)	4	
<b>Swaps</b>			<b>32</b>		2012
<b>Asset position</b>					
Foreign currency (US dollar)	USD 127		241		
<b>Liability position</b>					
CDI reais	BRL 199		(209)		
<b>Cross Currency Swap</b>			<b>243</b>	<b>192</b>	2016
<b>Asset position</b>					
Average rate of receipt (JPY) = 2.15% p.a.	JPY 35.000	JPY 35.000	926	783	
<b>Liability position</b>					
Average rate of payment (USD) = 5.69% p.a.	USD 298	USD 298	(683)	(591)	
<b>Total recorded in other current assets and liabilities</b>			<b>272</b>	<b>196</b>	

\*\* Negative fair values were recorded in liabilities and positive fair values in assets.

Main counterparties of the operations: Citibank, HSBC, Bradesco and Itaú

The positions indicated by a hyphen represent amounts lower than R\$ 500 thousand.

**d) Gains and losses in the period**

<b>Foreign currency derivatives</b>	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Gain (loss) recorded in results	25	7	-	-
Gain (loss) recorded in shareholders' equity	8	(10)	-	-

e) **Value and type of margins given in guarantee**

The existing foreign currency derivative operations do not require a guarantee margin deposit.

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The probable scenario is the fair value at December 31, 2011, the possible and remote scenarios consider a deterioration in the risk variable of 25% and 50%, respectively, with respect to the same date.

<b>Foreign Currency Derivatives</b>	<b>Risk</b>	<b>Probable scenario at 12.31.2011</b>	<b>Consolidated Possible Scenario (Δ of 25%)</b>	<b>Remote Scenario (Δ of 50%)</b>
Dollar forward contracts	Appreciation of Dollar against Real	(3)	(44)	(85)
Cross Currency Swap	Depreciation of Yen against Dollar	243	58	(65)
Swaps	Appreciation of Real against Dollar	32	(38)	(98)
<b>Foreign currency debt *</b>	<b>Risk</b>	<b>Probable scenario at 12.31.2011</b>	<b>Consolidated Possible Scenario (Δ of 25%)</b>	<b>Remote Scenario (Δ of 50%)</b>
Real <sup>1</sup>	Appreciation of Dollar against Real	26,621	6,655	13,311
Dollar	Appreciation of Dollar against Real	68,012	17,003	34,006
Euro	Appreciation of the Euro against Real	4,681	1,170	2,340
Yen	Appreciation of Yen against Real	2,897	724	1,448
		<b>102,211</b>	<b>25,552</b>	<b>51,105</b>

<sup>1</sup> Financing in local currency parameterized to the variation of the dollar.

<b>Financial investment*</b>	<b>Risk</b>	<b>Probable scenario at 12.31.2011</b>	<b>Consolidated Possible Scenario (Δ of 25%)</b>	<b>Remote Scenario (Δ of 50%)</b>
in foreign currency	Appreciation of Real against Dollar	17,440	(4,360)	(8,720)

(\*) The isolated sensitivity analysis of the financial instruments does not represent the Company's net exposure to exchange risk. Considering the balance between liabilities, assets, revenues and future commitments in foreign currency, the economic impact of possible exchange variations is not considered material.

#### **31.4. Interest rate risk**

The interest rate risk that the Company is exposed to is due to its long-term debt and, to a lesser degree, its short-term debt. If the market interest rates (particularly LIBOR) rise, the financial expenses will increase, which may cause a negative impact on the operating results and financial position. The foreign currency debt at floating rates is subject, mainly, to the fluctuation of the LIBOR and the debt expressed in reais is subject, mainly, to the fluctuation in the long-term interest rate (TJLP), published by the Central Bank of Brazil.

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### **Interest rate risk management**

Petrobras considers that the exposure to interest rate fluctuations will not have a material impact, and so, preferably, it does not use derivative financial instruments to manage this type of risk; except for specific situations presented by companies of the Petrobras system.

#### **a) Main transactions and future commitments hedged by operations with derivatives**

### **Swaps**

#### **Floating interest rate (Libor USD) vs. fixed rate (USD)**

The Company contracted an interest rate swap in order to transform financing tied to a floating rate into a fixed rate in order to eliminate the mismatch between the cash flows of assets and liabilities of an investment project. The Company does not intend to settle the operation before its maturity and, therefore, adopted hedge accounting for the relationship between the financing and derivative.

#### **Floating interest rate (Euribor) vs. fixed rate (EUR)**

The Company contracted a swap for fixing the rate of interest related to financing.

#### **b) Notional and fair value of the derivative instruments**

	Notional value		Consolidated Fair value **		Maturity
	12.31.2011	12.31.2010	12.31.2011	12.31.2010	
<b>Swaps contracts</b>					
<b>Liability position</b>	USD 478	USD 487	(67)	14	2020
<b>Swaps contracts</b>			(3)		2015
<b>Asset position</b>			1		
Euribor 1M	EUR20				
<b>Liability position</b>			(4)	-	
Fixed rate of 4.19%	EUR20				
<b>Total recorded in other current assets and liabilities</b>			(70)	14	

\*\* Negative fair values were recorded in liabilities and positive fair values in assets.

The positions indicated by a hyphen represent amounts lower than R\$ 500 thousand.

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**c) Sensitivity analysis of interest rate derivatives**

<b>Foreign Currency Derivatives</b>	<b>Risk</b>	<b>Probable scenario at 12.31.2011</b>	<b>Consolidated Possible Scenario (Δ of 25%)</b>	<b>Remote Scenario (Δ of 50%)</b>
Swaps	Decrease in Libor	(67)	(101)	(124)
Swaps	Decrease in Euribor	(3)	(3)	(4)

**31.5. Credit risk**

Petrobras is exposed to the credit risk of clients and financial institutions, resulting from its commercial operations and its cash management. These risks consist of the possibility of non-receipt of sales made and amounts invested, deposited or guaranteed by financial institutions.

**Credit risk management objectives and strategies**

Credit risk management in Petrobras is part of financial risk management, which is performed by the Company's officers. The Credit Commissions, due to a decision by the Executive Board, are each composed of three members and chaired by the Executive Manager for Financial Planning and Risk Management and the other members are the Executive Manager for Finances and the Executive Manager for the commercial department in contact with the client or with the financial institution.

The purpose of the Credit Commissions is to analyze questions connected with credit management, not only with respect to granting credit but also with respect to its management; to encourage integration between the units that compose them; and to identify recommendations to be applied in the units involved or to be submitted to the appreciation of higher jurisdictions.



The credit risk management policy is part of the Company's global risk management policy and aims at reconciling the need for minimizing exposure to credit risk and maximizing the result of sales and financial operations, through an efficient credit analysis, concession and management process.

**Parameters used for credit risk management**

In its management of credit risks, Petrobras uses quantitative and qualitative parameters that are appropriate for each of the market segments in which it operates.

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The Company's commercial credit portfolio, which surpasses US\$ 40 billion, is very diversified and the credits granted are divided between clients on the Brazilian domestic market and foreign markets. Amongst the main clients there are large companies from the oil market, considered as major companies.

Financial institutions are beneficiaries of approximately US\$ 30 billion, distributed between the main international banks, considered by international risk classifiers as Investment Grade, and the most important Brazilian banks.

#### **Guarantees used in credit risk management**

Only guarantees issued by financial institutions that have credit available, in accordance with the parameters adopted by the Company, are accepted.

Credit sales to clients considered as high risk are only made through receipt of guarantees. Accordingly, Petrobras accepts credit cards issued abroad, bank guarantees issued in Brazil, mortgages and collateral. For clients considered as medium risk, guarantees and endorsements of the partners of the companies, both individuals and legal entities, are also accepted.

The table below presents the maximum exposure to credit risk for:

	<b>2012</b>
<b>Guarantees</b>	4,019
<b>Derivatives</b>	344
<b>Financial investments</b>	16,247

The maximum exposure to the accounts receivable credit risk is represented by the balance described in note 7.

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### 31.6. Liquidity risk

**Petrobras uses its funds mainly for capital expenses, payment of dividends and debt refinancing. Historically, the conditions are met with funds generated internally, short and long-term debts, project financing, sales transactions and leasing. These sources of funds, allied to the Company's strong financial position, will continue to permit compliance with the established capital requirements.**

**Liquidity risk management**

The liquidity risk management policy adopted by the Company establishes the continuity of rescheduling the term of maturity of our debts, exploiting the financing capacity of the domestic market and developing a strong presence on the international capital market, through broadening the investor base in fixed income.

Petrobras finances the working capital, assuming short-term debts normally related to our commercial flow, such as export credit notes and advances on exchange contracts. Investments in non current assets are financed through long term debts such as issuing bonuses on the international market, credit agencies, export financing and prepayment, development banks in Brazil and abroad, and lines of credit with Brazilian and international commercial banks.

**Nominal flow of principal and interest on financing**

<b>Maturity</b>	<b>Consolidated</b>	<b>Parent company</b>
2012	26,220	5,750
2013	16,802	3,934
2014	18,844	5,182
2015	21,045	5,925
2016	35,615	15,768
2017	21,176	7,573
2018 and thereafter	111,893	21,151
<b>Balance at 12/31/2011</b>	<b>251,595</b>	<b>65,283</b>
<b>Balance at 12/31/2010</b>	<b>175,129</b>	<b>59,076</b>

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### 31.7. Financial investments (operations with derivatives)

Operations with derivatives, both on the domestic market and the foreign market, are earmarked exclusively for the exchange of indexes of the assets that comprise the portfolios, and their purpose is to provide the managers with greater flexibility in their quest for efficiency in the management of available funds.

The following table presents the market values of the operations with derivatives held in the exclusive investment funds as of December 31, 2011.

Contract	Number	Notional value	Fair value*	Maturity
<b><u>Future DI</u></b>	<b>(39,957)</b>	<b>(3,244)</b>		
Long position	31,724	2,652	1	2012 to 2014
Short position	(71,681)	(5,896)	(1)	2012 to 2014
<b><u>Future dollar</u></b>	<b>147</b>	<b>14</b>		2012
Long position	312	29		
Short position	(165)	(15)		

\* The positions indicated by a hyphen represent amounts lower than R\$ 500 thousand.

### 32 Fair value of financial assets and liabilities

**Fair values are determined based on market price quotations, when available, or, in the absence thereof, on the present value of expected cash flows. The fair values of cash and cash equivalents, trade accounts receivable, short term debt and accounts payable to suppliers are the same as their**

Fair values are determined based on market price quotations, when available, or, in the absence thereof, on the present value of expected cash flows.

**carrying values. The fair values of other long-term assets and liabilities do not differ significantly from their carrying values.**

The estimated fair values for long-term loans of the Parent Company and Consolidated at December 31, 2011 were, respectively, R\$ 44,097 and R\$ 137,239, calculated at the prevailing market rates, considering natures, terms and risks similar to the registered contracts, and may be compared to the carrying values of R\$ 43,055 and R\$ 136,405.





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**The hierarchy of the fair values of the financial assets and liabilities, recorded at fair value on a recurring basis, is presented as follows:**

	Fair value measured based on			Total fair value recorded
	Prices quoted on active market (Level I)	Valuation technique supported by observable prices (Level II)	Valuation technique without use of observable prices (Level III)	
<b>Assets</b>				
Marketable securities	22,264			22,264
Foreign Currency Derivatives	32	243		275
Commodity derivatives	66		49	115
<b>Balance at December 31, 2011</b>	<b>22,362</b>	<b>243</b>	<b>49</b>	<b>22,654</b>
<b>Balance at December 31, 2010</b>	<b>30,984</b>	<b>198</b>	<b>53</b>	<b>31,235</b>
<b>Liabilities</b>				
Foreign Currency Derivatives		(3)		(3)
Commodity derivatives	(36)			(36)
Interest derivatives	(70)			(70)
<b>Balance at December 31, 2011</b>	<b>(106)</b>	<b>(3)</b>		<b>(109)</b>
<b>Balance at December 31, 2010</b>	<b>(63)</b>	<b>(3)</b>		<b>(66)</b>

### 33 Insurance

For protection of its patrimony, Petrobras has the basic philosophy of transferring, through taking out insurance, the risks that, in the event of their occurrence, may cause losses that significantly impact the Company's patrimony, as well as the risks subject to obligatory insurance, whether through legal or contractual provisions. The other risks are subject to self-insurance, with Petrobras intentionally assuming the full risk through absence of insurance. The Company assumes an expressive portion of its risk, contracting deductible amounts that may reach an amount equivalent to US\$ 60 million.

The risk assumptions adopted are not part of the scope of an audit of financial statements. Accordingly, they were not examined by our independent auditors.

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The main information concerning the insurance coverage in force at December 31, 2011 may be presented as follows:

Assets	Types of coverage	Amount insured	
		Consolidated	Parent Company
Facilities, equipment and products in stock	Fire and operating risks	237,491	147,878
Tankers and auxiliary vessels	Hulls	4,290	0
Fixed platforms, floating production systems and offshore drilling units	Oil risks	52,547	18,498
<b>Total</b>		<b>294,328</b>	<b>166,376</b>

Petrobras does not take out insurance for loss of earnings, control of wells and the pipeline network in Brazil.

### **34 Subsequent events**

#### ***Merger of Petrobras Química S.A. (Petroquisa) and split-off of BRK***

On January 27, 2012, the Special General Meeting of Petrobras approved the merger of Petrobras Química S.A. - Petroquisa and the split-off of BRK Investimentos Petroquímicos S.A. (BRK) with the return of the portion split off to the shareholder's equity of Petrobras, without increasing the capital.

#### ***Raising of funds for PifCo***

The hierarchy of the fair values of the financial assets and liabilities, recorded at fair value on a recurring basis, is p

On February 6, 2012, Petrobras International Finance Company (PifCo) concluded the offer of Global Notes on the international market, resulting in the receipt of funds in the amount of US\$ 7 billion which will be used to finance the Company's investments. The transaction consisted of issuing securities with maturity in 2015 and 2017 and the reopening of securities maturing in 2021 and 2041, whose annual interest rates are 2.875%, 3.50%, 5.375% and 6.75%, respectively, with semiannual payment of interest.

The issuing costs were approximately US\$ 22 million, a discount of US\$ 16 million (2015 and 2017 series) and goodwill on the reopening of the securities of US\$ 255 million (2021 and 2041 series), resulting in effective annual interest rates of 3.15%, 3.69%, 4.84% and 5.95% respectively. Global Notes constitute unsecured, unsubordinated obligations for PifCo and have the complete, unconditional guarantee of Petrobras.

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***Investment agreement for a partnership in Gás Brasileiro Distribuidora***

On February 8, 2012, Petrobras Gás S.A. (Gaspetro), Gás Brasileiro Distribuidora S.A. (GBD) and Companhia Energética de Minas Gerais (Cemig) signed an investment agreement that establishes the entry of Cemig in the capital of GBD, resulting in a company with a 60% interest held by Gaspetro and a 40% interest held by Cemig. Currently GBD is controlled 100% by Gaspetro.

The implementation of this Agreement is subject to the approval of the competent regulatory agencies and the conclusion of the transaction is forecast to take place during 2012.

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Additional Information on Oil and Gas Exploration and Production Activities (Unaudited)

*(In millions of reais, except when specifically indicated)*

**Information on reserves**

The activities for exploration, development and production of oil and natural gas in Brazil were carried out exclusively in the form of concessions until the enactment of Law 12351 of December 22, 2010, which introduced the system for sharing of production where areas of the pre-salt and others considered as strategic are now contracted by the Union. Abroad, the Company holds most of its contracts in the form of concessions. Therefore, the expenses incurred to explore and develop the production are presented in the Company's assets and not the volume of monetized reserves.

The proven oil and gas reserves correspond to the estimated quantities of crude oil and natural, condensed gas that, through the analysis of geo-engineering data, may be estimated with reasonable certainty, considered commercial, from a known reserve, under defined economic conditions, known operation methods and in a valid regulatory situation, on a determined date.

The developed proven reserves correspond to the quantities of hydrocarbons that it is expected to recover in the existing projects for exploitation of oil and gas from existing wells through existing equipment and operating methods. Undeveloped proven reserves correspond to the volumes of hydrocarbons that it is expected to recover as a result of future investments in drilling of wells and in additional equipment.

The estimate for reserves includes uncertainties inherent to the business and, accordingly, changes may occur in the measure that our knowledge increases through the acquisition of new information.

The net proven oil and gas reserves estimated by the Company in accordance with the criteria defined by the Securities and Exchange Commission (SEC) are as follows:

	Oil (billions of bbl) (*)			Gas (billions of m <sup>3</sup> ) (*)			Oil + Gas (billions of boe) (*)		
	Brazil	International	Total	Brazil	International	Total	Brazil	International	Total
Balance at December 31,	10.379	0.345	10.724	279.651	37.600	317.251	12.139	0.566	12.705

The hierarchy of the fair values of the financial assets and liabilities, recorded at fair value on a recurring basis, is p

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2010

Change in the reserves	0.737	0.066	0.803	31.677	2.544	34.221	0.936	0.081	1.0
Production	(0.705)	(0.047)	(0.752)	(18.086)	(3.305)	(21.391)	(0.819)	(0.067)	(0.8
Balance at December 31, 2011	10.411	0.364	10.775	293.242	36.839	330.081	12.256	0.580	12.8
Reserve of non-consolidated companies									
Balance at December 31, 2010	-	0.033	0.033	-	1.691	1.691	-	0.043	0.0
Balance at December 31, 2011	-	0.030	0.030	-	1.231	1.231	-	0.037	0.0
Proven and developed reserves									
At December 31, 2010	6.931	0.183	7.114	184.822	15.855	200.677	8.094	0.276	8.3
At December 31, 2011	6.974	0.181	7.155	181.134	14.506	195.640	8.113	0.267	8.3
<b>(*) Unaudited</b>									

The reserves of Bolivia are not included in the proven international reserves, due to the requirements of the New Political Constitution of the State (NCPE), which prohibits the annotation and recording of oil and gas reserves by private companies in Bolivia.



Petróleo Brasileiro S.A. - Petrobras

The Board of Directors and Officers

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Chief Financial and Investor Relations Officer

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Director of Gas and Energy

GUILHERME DE OLIVEIRA ESTRELLA

Director of Exploration and Production

PAULO ROBERTO COSTA

Director of Supplies

JORGE LUIZ ZELADA

International Director

RENATO DE SOUZA DUQUE

Director of Services

MARCOS MENEZES

Accountant - CRC-RJ 35.286/O-1

## 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: April 5, 2012

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By:

/s/ Almir Guilherme Barbassa

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**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.

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