

PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
February 29, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

For the month of February, 2012

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS
(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS
(Translation of Registrant's name into English)

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

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

Form 20-F Form 40-F

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

Yes No

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

Petróleo Brasileiro S.A. - Petrobras

Financial Statements

December 31, 2011 and 2010

Petróleo Brasileiro S.A. - Petrobras

Financial Statements

December 31, 2011 and 2010

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Independent auditor's report on the financial statements

(A translation of the original report in Portuguese as published in Brazil containing financial statement prepared in accordance with accounting practices adopted in Brazil)

To

The Board of Directors and Shareholders of

Petróleo Brasileiro S.A. - Petrobras

Rio de Janeiro - RJ

1. We have examined the accompanying individual and consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras ("Company"), identified as Parent Company and Consolidated, respectively, which comprise the statement of financial position as of December 31, 2011 and the respective income statement, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other notes to the financial statements.

Management's responsibility for the financial statements

2. The Company's management is responsible for the preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and in accordance with accounting practices adopted in Brazil, as well as for the internal control as it considers necessary to enable the preparation of financial statements free of material misstatements, regardless of whether due to fraud or error.

Independent auditor's responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit, conducted in accordance with the Brazilian and International Standards on Auditing. These standards require compliance with ethical requirements by the auditor and that the audit is planned and performed for the purpose of obtaining reasonable assurance that the financial statements are free from material misstatement.

4. An audit involves performing selected procedures to obtain evidence with respect to the amounts and disclosures presented in the financial statements. The procedures selected depend on the auditor's judgment, and include the assessment of the risks of material misstatements of the financial statements, regardless of whether due to fraud or error. In the assessment of these risks, the auditor considers the relevant internal controls for the preparation and fair presentation of the Company's financial statements, in order to plan audit procedures that are appropriate in the

circumstances, but not for purposes of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the adequacy of the accounting practices used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements taken as a whole.

5. We believe that the audit evidence obtained is sufficient and appropriate for expressing our opinion.

Opinion on the individual financial statements

6. In our opinion, the aforementioned individual financial statements present fairly, in all material respects, the financial position of Petróleo Brasileiro S.A. - Petrobras as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

7. In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial position of Petróleo Brasileiro S.A. - Petrobras and its subsidiaries as of December 31, 2011, its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis

8. As mentioned in Note 2, the Company's financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Petróleo Brasileiro S.A. - Petrobras these practices differ from IFRS, applicable to the separate financial statements, only with respect to the valuation of the investments in subsidiaries, associated companies and jointly controlled subsidiaries by the equity accounting method, while for IFRS purposes it would be cost or fair value; and by the option for maintaining the balance of deferred assets, existing as of December 31, 2008, which is being amortized. Our opinion is not qualified due to this issue.

Other matters

Statements of added value, business segment reporting and social balance

9. We have also examined the individual and consolidated statements of added value for the year ended December 31, 2011, the presentation of which is required by Brazilian Corporation Law for public companies, the consolidated statements of business segment reporting and the consolidated accounting information contained in the social balance, which is the responsibility of the Company's management, considered as supplementary information by IFRS, which does not require the presentation of the statements of added value and social balance. These statements were submitted to the same audit procedures described previously and, in our opinion, are presented adequately, in all material respects, in relation to the financial statements, taken as a whole.

Rio de Janeiro, February 9, 2012

KPMG Auditores Independentes

CRC SP-014428/O-6 F-RJ

Bernardo Moreira Peixoto Neto

Accountant CRC RJ-064887/O-8

Petróleo Brasileiro S.A. - Petrobras

Statement of financial position

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

| Assets | Note | Consolidated | | Parent company | | Liabilities | Note | Consolidated | |
|------------------------------|------|----------------|----------------|----------------|---------------|---|------|---------------|---------------|
| | | 2011 | 2010 | 2011 | 2010 | | | 2011 | 2010 |
| Current | | | | | | Current | | | |
| Cash and cash equivalents | 5 | 35,747 | 29,416 | 18,858 | 19,995 | Trade accounts payable | 15 | 22,252 | 17,374 |
| Marketable securities | 6 | 16,808 | 26,013 | 23,625 | 33,731 | Current debt | 16 | 18,884 | 14,915 |
| Accounts receivable, net | 7.1 | 22,053 | 18,069 | 21,068 | 17,701 | Current portion of finance lease obligations | 17.1 | 82 | 175 |
| Inventories | 8 | 28,447 | 19,675 | 22,434 | 15,199 | Taxes, contributions and profit-sharing payable | 20.2 | 10,969 | 10,060 |
| Recoverable taxes | 20.1 | 12,846 | 8,767 | 9,372 | 5,911 | Dividends payable | 23.5 | 3,878 | 3,595 |
| Advances to suppliers | | 1,389 | 1,309 | 1,040 | 1,048 | Payroll and related charges | | 3,182 | 2,551 |
| Other current assets | | 3,874 | 2,653 | 1,647 | 1,673 | Profit sharing | 22 | 1,560 | 1,691 |
| | | | | | | Employee's post-retirement benefits obligations - Pension and Health care | 21 | 1,427 | 1,303 |
| | | 121,164 | 105,902 | 98,044 | 95,258 | Other current liabilities | | 5,978 | 4,284 |
| | | | | | | | | 68,212 | 55,948 |
| Non-current | | | | | | Non-current | | | |
| Long-term receivables | | | | | | | | | |
| Accounts receivable, net | 7.1 | 6,103 | 5,432 | 12,843 | 31,029 | Long-term debt | 16 | 136,405 | 100,667 |
| | 6 | 5,747 | 5,198 | 5,219 | 4,749 | | 17.1 | 183 | 191 |

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| | | | | | | | | | |
|--|------|----------------|----------------|----------------|----------------|---|------|----------------|----------------|
| Marketable securities | | | | | | Finance lease obligations | | | |
| Restricted deposits for legal proceedings and guarantees | 9 | 2,955 | 2,790 | 2,564 | 2,426 | Deferred income tax and social contribution | 20.3 | 33,268 | 25,898 |
| Deferred tax assets | 20.3 | 17,256 | 17,038 | 9,505 | 11,790 | Employee's post-retirement benefits obligations - Pension and Health care | 21 | 16,653 | 15,278 |
| Advances to suppliers | | 5,892 | 4,964 | 1,011 | 964 | Legal proceedings provision | 28 | 1,361 | 1,265 |
| Other long-term receivables | | 3,234 | 2,296 | 2,322 | 1,426 | Provision for decommissioning cost | 19 | 8,839 | 6,505 |
| | | 41,187 | 37,718 | 33,464 | 52,384 | Other non-current liabilities | | 2,005 | 1,266 |
| | | | | | | | | 198,714 | 151,070 |
| | 11.2 | | | | | | | | |
| Investments | 11.4 | 12,248 | 11,592 | 57,239 | 50,955 | | | | |
| Property, plant and equipment, net | 12 | 342,267 | 280,095 | 227,302 | 189,775 | | | | |
| Intangible assets | 13 | 82,284 | 81,539 | 77,886 | 78,042 | Shareholders' equity | 23 | | |
| Deferred Charges | | | | 246 | 241 | Paid in capital | | 205,380 | 205,357 |
| | | 477,986 | 410,944 | 396,137 | 371,397 | Additional in paid-in-capital | | 563 | (6) |
| | | | | | | Capital reserves | | | |
| | | | | | | Profit reserves | | 122,623 | 101,324 |
| | | | | | | Accumulated other comprehensive income | | 1,273 | 90 |
| | | | | | | | | 329,839 | 306,765 |
| | | | | | | Non-controlling interests | | 2,385 | 3,063 |
| | | 599,150 | 516,846 | 494,181 | 466,655 | | | 332,224 | 309,828 |
| | | | | | | | | 599,150 | 516,846 |

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Income Statement

December 31, 2011 and 2010*(In millions of reais, except net income per share)*

| | | Consolidated | | Parent company | |
|---|-------------|---------------------|-----------------|-----------------------|-----------------|
| | Note | 2011 | 2010 | 2011 | 2010 |
| Sales revenues | 24 | 244,176 | 211,842 | 183,821 | 156,487 |
| Cost of sales | 25 | (166,939) | (135,617) | (124,320) | (96,134) |
| Gross profit | | 77,237 | 76,225 | 59,501 | 60,353 |
| Income (expenses) | | | | | |
| Selling expenses | 25 | (8,950) | (8,557) | (9,915) | (7,920) |
| Administrative and general expenses | 25 | (8,647) | (7,802) | (6,029) | (5,443) |
| Exploration costs | | (4,428) | (3,797) | (3,674) | (2,601) |
| Research and development expenses | | (2,444) | (1,739) | (2,361) | (1,641) |
| Other taxes | | (777) | (891) | (278) | (433) |
| Other operating income and expenses, net | 26 | (6,588) | (7,045) | (5,770) | (5,761) |
| | | (31,834) | (29,831) | (28,027) | (23,799) |
| Income before financial results, profit-sharing and income taxes | | 45,403 | 46,394 | 31,474 | 36,554 |
| Financial income (expenses), net | 27 | 122 | 2,620 | 5,581 | 1,634 |
| Equity in earnings of investments | | 386 | 585 | 5,808 | 7,039 |
| Profit sharing | 22 | (1,560) | (1,691) | (1,295) | (1,428) |
| Income before income taxes | | 44,351 | 47,908 | 41,568 | 43,799 |
| Income tax and social contribution | 20.5 | (11,241) | (12,027) | (8,467) | (8,763) |
| Net income for the year | | 33,110 | 35,881 | 33,101 | 35,036 |

Attributable to:

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| | | | | | |
|---|------|---------------|---------------|---------------|---------------|
| Shareholders of Petrobras | | 33,313 | 35,189 | 33,101 | 35,036 |
| Non-controlling interests | | (203) | 692 | | |
| | | 33,110 | 35,881 | 33,101 | 35,036 |
| Basic and diluted earnings per share | 23.6 | 2.55 | 3.57 | 2.54 | 3.55 |

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Statement of Comprehensive Income

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

| | Consolidated | | Parent company | |
|--|---------------------|---------------|-----------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | 33,110 | 35,881 | 33,101 | 35,036 |
| Other comprehensive income: | | | | |
| Cumulative translation adjustments | 1,423 | (234) | 1,123 | (33) |
| Deemed cost of affiliated company | 10 | 11 | 10 | 11 |
| Unrealized gains / (losses) on available for-sale securities | | | | |
| Recognized in shareholders' equity | 136 | 309 | 136 | 309 |
| Reclassified to profit or loss | 26 | (6) | 26 | (6) |
| Unrecognized gains / (losses) on cash flow hedge | | | | |
| Recognized in shareholders' equity | (54) | 13 | (54) | 13 |
| Reclassified to profit or loss | 8 | (12) | 8 | (12) |
| Deferred income tax and social contribution | (46) | (103) | (46) | (103) |
| | 1,503 | (22) | 1,203 | 179 |
| Total comprehensive income | 34,613 | 35,859 | 34,304 | 35,215 |
| Attributable to: | | | | |
| Shareholders of Petrobras | 34,516 | 35,368 | 34,304 | 35,215 |
| Non-controlling interests | 97 | 491 | | |
| Total comprehensive income | 34,613 | 35,859 | 34,304 | 35,215 |

See the accompanying notes to the financial statements.

Petróleo Brasileiro S.A. - Petrobras

Statement of Changes in Shareholders' Equity

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

| | Additional paid-in-capital | | Capital reserves | Other comprehensive income | | | | |
|---|---------------------------------------|------------------------------|---|-----------------------------------|--|-----------------------------------|---------------|--------------|
| | Subscribed and paid-in capital | Shares issuance costs | Change in interest in subsidiaries | Tax incentives | Cumulative translation adjustment | Other comprehensive income | Legal | Statu |
| Balances at January 1, 2010 | 78,967 | | 1,423 | 515 | (163) | 96 | 10,902 | |
| Capital increase with reserves | 6,141 | | | (515) | | | | |
| Capital increase with issuing of shares | 120,249 | (477) | | | | | | |
| Change in interest in subsidiaries | | | (952) | | | | | |
| Net income for the year | | | | | | | | |
| Other comprehensive income: | | | | | | | | |
| Cumulative translation adjustment | | | | | (33) | | | |

| | | | | | | |
|---|----------------|--------------|------------|--------------|------------|---------------|
| Unrealized results of available-for-sale securities and cash flow hedge | | | | | 201 | |
| Realization of deemed cost of an affiliated company | | | | | (11) | |
| Distributions: | | | | | | |
| Allocations of net income in reserves | | | | | | 1,752 |
| Dividends | | | | | | |
| Balances at December 31, 2010 | 205,357 | (477) | 471 | (196) | 286 | 12,654 |
| Capital increase with reserves | 23 | | | | | |
| Change in interest in subsidiaries | | | 865 | | | |
| Net income for the year | | | | | | |
| Other comprehensive income: | | | | | | |
| Cumulative translation adjustment | | | | 1,123 | | |
| Unrealized results of available-for-sale securities and cash flow hedge | | | | | | 70 |
| Realization of deemed cost of an affiliated company | | | | | | (10) |
| Distributions: | | | | | | |
| Allocations of net income in reserves | | | | | | 1,655 |
| Dividends | | | | | | |
| | 205,380 | (477) | 1,336 | 927 | 346 | 14,309 |
| | 205,380 | 859 | | 1,273 | | |

**Balances at
December 31,
2011**

See the accompanying notes to the financial statements.

9

Petróleo Brasileiro S.A. - Petrobras

Statement of Cash Flows

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

| | Consolidated | | Parent company | |
|---|---------------------|---------------|-----------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Cash flows from operating activities | | | | |
| Net income attributable to shareholders of Petrobras | 33,313 | 35,189 | 33,101 | 35,036 |
| Adjustments for: | | | | |
| 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 |
| Increase/decrease in assets | | | | |
| 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) |
| Increase/decrease in liabilities | | | | |
| 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 |
| Net cash provided by operating activities | 56,322 | 52,871 | 35,413 | 14,425 |
| Investment activities | | | | |

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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 |
| Cash flow used in investment activities | (57,838) | (105,184) | (32,946) | (85,363) |

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)*

| | Consolidated | | Parent company | |
|---|---------------------|---------------|-----------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Cash flows from financing activities | | | | |
| 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) |
| Net cash provided by/(used) in financing activities | 7,664 | 53,777 | (3,604) | 74,135 |
| Effect of exchange variation on cash and cash equivalents | 183 | (294) | | |
| Net increase/(decrease) in cash and cash equivalents in the year | 6,331 | 1,170 | (1,137) | 3,197 |
| Cash and cash equivalents at beginning of year | 29,416 | 28,246 | 19,995 | 16,798 |
| Cash and cash equivalents at end of year | 35,747 | 29,416 | 18,858 | 19,995 |

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 |
| | 7,401 | 7,589 | (3,801) | 6,034 |

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)*

| | Consolidated | | Parent company | |
|--|---------------------|-------------|-----------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Income | | | | |
| 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 |
| Inputs acquired from third parties | | | | |
| 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) |
| Gross added value | 190,971 | 165,677 | 155,734 | 135,561 |
| Retentions | | | | |
| Depreciation, depletion and amortization | (17,739) | (14,612) | (12,902) | (10,813) |
| Net added value produced by the Company | 173,232 | 151,065 | 142,832 | 124,748 |
| Transferred added value | | | | |

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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 | |
| Total added value to be distributed | 181,081 | | 157,053 | | 157,938 | | 137,117 | |
| Distribution of added value | | | | | | | | |
| Personnel and officers | | | | | | | | |
| Direct remuneration | | | | | | | | |
| 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 | |
| Benefits | | | | | | | | |
| 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% |
| FGTS | 861 | | 745 | 1% | 746 | 0% | 648 | 0% |
| | 20,464 | 10% | 18,250 | 13% | 16,153 | 10% | 14,344 | 10% |
| Taxes | | | | | | | | |
| 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% |
| Financial institutions and suppliers | | | | | | | | |
| 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% |
| Added value distributed | 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)*

| | 2011 | | | | | | | |
|---|----------------|---|--------------------------------|----------------|---------------------|----------------------|------------------|---------------------|
| | E&P | Refining, Transportation & Marketing | Gas & Power | Biofuel | Distribution | International | Corporate | Eliminations |
| Sales revenues | 124,028 | 198,516 | 16,295 | 535 | 73,633 | 28,374 | | (197,205) |
| 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 |
| Gross profit | 68,910 | (7,482) | 6,745 | (53) | 6,003 | 6,695 | | (3,581) |
| Income (expenses) | (7,058) | (7,026) | (2,533) | (222) | (4,118) | (3,169) | (8,008) | 300 |
| 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) | |
| Income before financial results, profit sharing and income taxes | 61,852 | (14,508) | 4,212 | (275) | 1,885 | 3,526 | (8,008) | (3,281) |
| 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) | |
| Income before income taxes | 61,438 | (15,021) | 4,549 | (251) | 1,776 | 3,514 | (8,373) | (3,281) |
| Income tax and social contribution | (20,863) | 5,051 | (1,411) | 94 | (601) | (1,547) | 6,920 | 1,116 |
| Net income | 40,575 | (9,970) | 3,138 | (157) | 1,175 | 1,967 | (1,453) | (2,165) |
| Net income attributable to: | | | | | | | | |
| 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)*

| | 2010 | | | | | | | |
|---|----------------|---|--------------------------------|----------------|---------------------|----------------------|------------------|--------------------|
| | E&P | Refining, Transportation & Marketing | Gas & Power | Biofuel | Distribution | International | Corporate | Elimination |
| Sales revenues | 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 |
| Gross profit | 51,149 | 11,971 | 3,981 | (2) | 5,661 | 5,203 | | (1,738) |
| Income (expenses) | (5,825) | (6,330) | (2,488) | (122) | (3,618) | (3,288) | (8,454) | 294 |
| 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 |
| Income before financial results, profit sharing and income taxes | 45,324 | 5,641 | 1,493 | (124) | 2,043 | 1,915 | (8,454) | (1,444) |
| Financial income (expenses), net | | | | | | | 2,620 | |
| Equity in earnings of | | 322 | 305 | (11) | 7 | (22) | (16) | |

| | | | | | | | | |
|--|---------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|
| investments | | | | | | | | |
| Profit sharing | (538) | (378) | (66) | | (120) | (48) | (541) | |
| Income before income taxes | 44,786 | 5,585 | 1,732 | (135) | 1,930 | 1,845 | (6,391) | (1,444) |
| Income tax and social contribution | (15,228) | (1,789) | (485) | 43 | (654) | (447) | 6,043 | 490 |
| Net income | 29,558 | 3,796 | 1,247 | (92) | 1,276 | 1,398 | (348) | (954) |
| Net income attributable to: | | | | | | | | |
| 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 | |
| | 29,558 | 3,796 | 1,247 | (92) | 1,276 | 1,398 | (348) | (954) |

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)*

| Assets | E&P | Refining, Transportation & Marketing | Gas & Power | Biofuel | Distribution | International | Corporate | Eliminations |
|------------------------------------|----------------|---|--------------------------------|----------------|---------------------|----------------------|------------------|---------------------|
| Current assets | 10,537 | 41,203 | 4,707 | 239 | 7,956 | 8,272 | 61,886 | (13,636) |
| Non-current assets | 254,164 | 116,982 | 47,150 | 2,180 | 6,835 | 28,167 | 23,138 | (630) |
| 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 | |
| At 12.31.2011 | 264,701 | 158,185 | 51,857 | 2,419 | 14,791 | 36,439 | 85,024 | (14,266) |
| Current assets | 6,133 | 28,722 | 5,086 | 210 | 6,581 | 5,513 | 63,611 | (9,954) |
| Non-current assets | 221,468 | 88,771 | 45,082 | 1,676 | 5,721 | 22,742 | 25,754 | (270) |
| 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 | |
| At 12.31.2010 | 227,601 | 117,493 | 50,168 | 1,886 | 12,302 | 28,255 | 89,365 | (10,224) |

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)*

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

| | 2010 | | | | | | Total |
|-------------------------|----------------|---|--------------------------------|---------------------|------------------|---------------------|---------------|
| | E&P | Refining, Transportation & Marketing | Gas & Power | Distribution | Corporate | Eliminations | |
| Income statement | | | | | | | |
| Sales revenues | 6,574 | 13,188 | 964 | 7,254 | | (4,203) | 23,777 |

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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 |
| Income (loss) before financial results, profit-sharing and income taxes | 2,148 | 64 | 116 | 10 | (408) | (15) | 1,915 |
| Net income attributable to shareholders of Petrobras | 1,527 | 78 | 142 | 10 | (465) | (15) | 1,277 |

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

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)*

| 1 - Calculation basis | 2011 | | 2010 | | | |
|--|---------------|---------------------|----------------|---------------|---------------------|----------------|
| 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 | | | |
| | | | | | | |
| 2 - Internal Social Indicators (i) | Amount | % of GP | % of NE | Amount | % of GP | % of NE |
| Meals | 845 | 6.49% | 0.35% | 741 | 6.46% | 0.35% |
| Compulsory payroll charges | 6,477 | 49.72% | 2.65% | 5,475 | 47.77% | 2.58% |
| Private pension | 328 | 2.52% | 0.13% | 350 | 3.05% | 0.17% |
| Health | 2,427 | 18.63% | 0.99% | 2,064 | 18.01% | 0.97% |
| Work security and medicine | 180 | 1.38% | 0.07% | 114 | 0.99% | 0.05% |
| Education | 133 | 1.02% | 0.05% | 118 | 1.03% | 0.06% |
| Culture | 11 | 0.09% | 0.00% | 10 | 0.09% | 0.00% |
| Professional training and development | 418 | 3.21% | 0.17% | 366 | 3.19% | 0.17% |
| Crèche or day-care assistance | 90 | 0.69% | 0.04% | 6 | 0.05% | 0.00% |
| Profit sharing | 1,560 | 11.98% | 0.64% | 1,691 | 14.75% | 0.80% |
| Other | 76 | 0.58% | 0.03% | 71 | 0.62% | 0.03% |
| Total - Internal social indicators | 12,545 | 96.34% | 5.13% | 11,006 | 96.02% | 5.19% |
| | | | | | | |
| 3 - External Social Indicators (i) | Amount | % of OI | % of NE | Amount | % of OI | % of NE |
| Generation of Income and Work Opportunity | 48 | 0.10% | 0.02% | 44 | 0.09% | 0.02% |
| Education for Professional Skills | 57 | 0.12% | 0.02% | 56 | 0.11% | 0.03% |
| Guarantee of Rights of Children and Adolescents (I) | 70 | 0.15% | 0.03% | 79 | 0.16% | 0.04% |
| Culture | 182 | 0.40% | 0.07% | 170 | 0.34% | 0.08% |
| Sport | 80 | 0.17% | 0.03% | 81 | 0.16% | 0.04% |
| Other | 33 | 0.07% | 0.00% | 20 | 0.04% | 0.01% |
| Total contributions for the company | 470 | 1.02% | 0.19% | 450 | 0.90% | 0.21% |
| Taxes (excluding payroll charges) | 97,826 | 213.08% | 40.06% | 82,971 | 167.28% | 39.17% |
| Total - External social indicators | 98,926 | 214.10% | 40.26% | 83,421 | 168.19% | 39.37% |
| | | | | | | |
| 4 - Environmental Indicators (i) | Amount | % of OI | % of NE | Amount | % of OI | % of NE |
| Investments related to the company's production/operation | 2,550 | 5.55% | 1.04% | 2,165 | 4.37% | 1.02% |
| Investments in external programs and/or projects | 172 | 0.37% | 0.07% | 258 | 0.52% | 0.12% |
| Total investments in the environment | 2,722 | 5.93% | 1.11% | 2,423 | 4.89% | 1.13% |
| | () does | | | () does | | |
| | not have | () attains from 51 | | not have | () does not have | |
| With respect to establishing "annual goals" for minimizing goals | | to 75% | | | 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 | |
| use of natural resources, the company: | 50% | to 100% | 50% | to 100% | 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)

| | 2011 | 2010 |
|--|-------------|-------------|
| 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)

| | 2011 | | | Goals 2012 | | |
|--|---------------------------|-------------|-----------|-------------------------------|-------------|-----------|
| 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 | | and | () all the | |
| | 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 | | | () will follow ILO standards | | |
| | () is not involved | | | () will not be involved | | |
| | () follows ILO standards | | | () will follow ILO standards | | |
| | () follows ILO standards | | | () will follow ILO standards | | |
| The private pension includes: | () directors | | | () directors | | |
| | () | and | (X) all | () | and | (X) all |
| | directors | managers | employees | directors | managers | employees |
| Profit-sharing and participation in results includes: | () directors | | | () directors | | |
| | () | and | (X) all | () | and | (X) all |
| | directors | managers | employees | directors | managers | employees |
| In the selection of suppliers, the same ethical standards and standards of social and environmental responsibility adopted by the company: | () are not considered | | | () will not be considered | | |
| | () are suggested | | | () will be suggested | | |
| | (X) are required | | | (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: | In 2011: 181,081 | | In 2010: 157,053 | | | |
| | 58% government employees | | 56% government employees | | | |
| | 7% shareholders | | 7% shareholders | | | |
| | 12% retained | | 15% retained | | | |
| Distribution of added value | 13% third parties | | 13% third parties | | | |

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)

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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.

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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:

| | Country | 2011 | Equity capital - Subscribed, paid in and voting% 2010 |
|--|-------------------|--------|---|
| Subsidiaries and jointly controlled | | | |
| 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.

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| Specific purpose entities - SPE | Country | Main activity |
|---|----------------|----------------------------|
| 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 |
| | 350,419 | (3,150) | 347,269 | 519,970 | (3,124) | 516,846 |
| 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 |
| | 350,419 | (3,150) | 347,269 | 519,970 | (3,124) | 516,846 |

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

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b) Consolidated income statement

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

c) Consolidated statement of cash flows

| | Disclosed | 2010 Effect of Proportional Consolidation | Adjusted Balance |
|---|------------------|--|-----------------------------|
| 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) |
| Net increase/(decrease) in cash for the year | 1,289 | (119) | 1,170 |
| Cash and cash equivalents at beginning of year | 29,034 | (788) | 28,246 |
| Cash and cash equivalents at end of year | 30,323 | (907) | 29,416 |

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

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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:

| Class of assets | Useful life average weighted |
|----------------------------|-------------------------------------|
| 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:

| Standards | Description | Term (*) |
|----------------------|--|-----------------|
| 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 |
| | 14,576 | 13,012 | 11,833 | 10,444 |
| - <i>Abroad</i> | 17,440 | 13,110 | 6,353 | 9,114 |
| Total financial investments | 32,016 | 26,122 | 18,186 | 19,558 |
| Total cash and cash equivalents | 35,747 | 29,416 | 18,858 | 19,995 |

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

6 Marketable securities

| | Consolidated | | Parent company | |
|--------------------|---------------|---------------|----------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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 |
| | 22,555 | 31,211 | 28,844 | 38,480 |
| Current | 16,808 | 26,013 | 23,625 | 33,731 |
| Non-current | 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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(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***7 Accounts receivable****7.1 Accounts receivable, net**

| | Consolidated | | Parent company | |
|---|---------------------|---------------|-----------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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 |
| | 30,946 | 26,182 | 34,313 | 49,196 |
| Allowance for uncollectible accounts | (2,790) | (2,681) | (402) | (466) |
| | 28,156 | 23,501 | 33,911 | 48,730 |
| Current | 22,053 | 18,069 | 21,068 | 17,701 |
| Non-current | 6,103 | 5,432 | 12,843 | 31,029 |

7.2 Changes in allowance for uncollectible accounts

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

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

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Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements
(Consolidated and Parent Company)

(In millions of reais, except when specifically indicated)

7.3 Accounts receivable - overdue

| | Consolidated | | Parent company | |
|---------------------|--------------|-------|----------------|------|
| | 2011 | 2010 | 2011 | 2010 |
| 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

| | Consolidated | | Parent company | |
|--|---------------|---------------|----------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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 |
| | 28,531 | 19,749 | 22,501 | 15,258 |
| Current | 28,447 | 19,675 | 22,434 | 15,199 |
| Non-current | 84 | 74 | 67 | 59 |

(*) It includes imports in transit.

9 Restrict deposits for legal proceedings and guarantees

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

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

(*) 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.

Petróleo Brasileiro S.A. - Petrobras

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

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 | 4,288 |
| Interest in the fair value of the net assets acquired | (425) | (16) | (2,240) | (799) | (89) | (3,569) |
| Goodwill for expectations of future profitability | 7 | 2 | 565 | 79 | 66 | 719 |
| 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.

Petróleo Brasileiro S.A. - Petrobras

Notes to the financial statements
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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:

| Date of option | Corporate name of SPE | % of shares | Additional paid-in-capital |
|-----------------------|---|--------------------|-----------------------------------|
| 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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Notes to the financial statements
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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:

| Date of the Special General Shareholders' Meeting | Corporate name of SPE |
|--|---|
| 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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Notes to the financial statements
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| | 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) | |
| Subsidiaries | | | | | |
| 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 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 Companhia de Desenvolvimento de Plantas Utilidades S.A. - CDPU 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 |
| Termoçu 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. 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 (*) | | | |
| Affiliated companies | | | | | |
| 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. Termoelétrica Potiguar S.A. - TEP | 270 | 16,500 | | 212 | (59) |
| | 37 | 6,159 | | 92 | 4 |
| Energética SUAPE II Energética Camaçari Muriçy I Ltda. | 140 | 139,977 | | 56 | (27) |
| | 67 | 67,260 | | 22 | (15) |
| Companhia Energética Potiguar S.A. | 8 | 1 | | 21 | 11 |
| Arembepe Energia S.A. Bioenergética Britarumã S.A. | 90 | 90,218 | | 11 | (34) |
| | | 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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11.2 Investments (Consolidated)

| | 2011 | 2010 |
|---|---------------|---------------|
| Affiliated and jointly controlled subsidiaries | | |
| 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 |
| | 12,018 | 11,409 |
| Other investments | 230 | 183 |
| | 12,248 | 11,592 |

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 |
| Subsidiaries | | | | | | | |
| Petrobras Argentina | 678,396 | 678,396 | ON | 2.70 | 4.46 | 1,832 | 3,026 |
| | | | | | | 1,832 | 3,026 |
| Affiliated companies | | | | | | | |
| 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 |
| | | | | | | 3,472 | 5,647 |

(*) 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**

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

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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:

| | 2011 | | | |
|------------------------------------|--|---------------|-----------------------------|---------------|
| | Jointly controlled subsidiaries | | Affiliated companies | |
| | In Brazil | Abroad | In Brazil | Abroad |
| 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 |
| Balance at January 1, 2010 | 7,260 | 69,241 | 116,423 | 31,262 | 224,186 | 149,447 |
| 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) | |
| Balance at December 31, 2010 | 8,756 | 97,174 | 138,578 | 35,587 | 280,095 | 189,775 |
| 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) |
| Balance at December 31, 2010 | 8,756 | 97,174 | 138,578 | 35,587 | 280,095 | 189,775 |
| 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 | |
| Balance at December 31, 2011 | 12,359 | 124,481 | 158,559 | 46,868 | 342,267 | 227,302 |
| 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) |
| Balance at December 31, 2011 | 12,359 | 124,481 | 158,559 | 46,868 | 342,267 | 227,302 |

| | | | |
|---|------------------------------|--------------|---------------------------|
| Weighted average of useful life in years | 25 (25 to 40) excluding land | 20 (3 to 31) | Unit of production method |
|---|------------------------------|--------------|---------------------------|

(*) 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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Notes to the financial statements

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*(In millions of reais, except when specifically indicated)***12.2 Breakdown by time of useful life - Consolidated**

| Buildings and improvements, equipment and other assets | | | |
|---|----------------|---------------------------------|------------------------------|
| Estimated useful life | Cost | Accumulated depreciation | Balance at 12/31/2011 |
| 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 |
| | 211,241 | (76,002) | 135,239 |
| Buildings and improvements | 15,264 | (4,506) | 10,758 |
| Equipment and other assets | 195,977 | (71,496) | 124,481 |

12.3 Depreciation

| | Consolidated | | Parent company | |
|--|---------------------|---------------|-----------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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 |
| | 15,731 | 12,860 | 11,398 | 9,405 |
| Portion recorded directly in the results | 1,403 | 1,138 | 946 | 744 |
| | 17,134 | 13,998 | 12,344 | 10,149 |

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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**

| | Consolidated | | | | Parent company | |
|---|------------------------|------------|--------------------|--|----------------|---------------|
| | | Software | | Goodwill from expectations of future profitability | Total | Total |
| | Rights and concessions | Acquired | Developed in-house | | | |
| Balance at January 1, 2010 | 4,237 | 368 | 1,355 | 829 | 6,789 | 3,216 |
| 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) | |
| Balance at December 31, 2010 | 78,952 | 320 | 1,361 | 906 | 81,539 | 78,042 |
| 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 | |
| Balance at December 31, 2011 | 79,654 | 337 | 1,344 | 949 | 82,284 | 77,886 |
| Estimated useful life - years | 25 | 5 | 5 | 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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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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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 |
| Capitalized balances in assets | | | | |
| Intangible assets | 78,167 | 78,400 | 75,990 | 76,221 |
| Property, plant and equipment, net | 19,623 | 15,729 | 11,145 | 9,309 |
| Total assets | 97,790 | 94,129 | 87,135 | 85,530 |
| Exploration costs recognized in results | | | | |
| 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 | | |
| Total expenses for the year | 4,397 | 3,804 | 3,643 | 2,608 |
| Cash used in activities | | | | |
| Operating | 1,856 | 1,395 | 1,400 | 1,113 |
| Investments | 10,736 | 15,600 | 8,942 | 14,297 |
| Total cash used for the year | 12,592 | 16,995 | 10,342 | 15,410 |

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 |
| | 22,252 | 17,374 | 22,601 | 23,747 |

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Notes to the financial statements

(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 |
| Abroad | | | | | | | | |
| 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 | | | | |
| | 14,456 | 11,787 | 77,226 | 49,105 | 344 | 948 | 15,345 | 11,973 |
| In Brazil | | | | | | | | |
| 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 | | | | |
| | 4,428 | 3,128 | 59,179 | 51,562 | 11,908 | 16,491 | 27,710 | 24,457 |
| | 18,884 | 14,915 | 136,405 | 100,667 | 12,252 | 17,439 | 43,055 | 36,430 |
| 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 | | |
| | 18,884 | 14,915 | | | 12,252 | 17,439 | | |

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

| | 2011 | |
|---------------------|----------------|----------------|
| | Consolidated | Parent company |
| 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 |
| Total | 136,405 | 43,055 |

16.2 Interest rates for debt in non-current liabilities

| | Consolidated | | Parent company | |
|------------------|----------------|----------------|----------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Abroad | | | | |
| 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 | | |
| | 77,226 | 49,105 | 15,345 | 11,973 |
| In Brazil | | | | |
| 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 | | | |
| | 59,179 | 51,562 | 27,710 | 24,457 |
| | 136,405 | 100,667 | 43,055 | 36,430 |

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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 | | |
| | 136,405 | 100,667 | 43,055 | 36,430 |

(*) 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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Notes to the financial statements

(Consolidated and Parent Company)

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

a) Abroad

| Company | Date | Amount (R\$ million equivalent) | Maturity | Description |
|----------------|-------------|--|------------------------|---|
| 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. |
| | | 23,508 | | |

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

| Company | Date | Amount (R\$ million) | Maturity | Description |
|---|---------------------|-------------------------------------|------------------|---|
| 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. |
| | | 5,510 | | |

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 |
| Estimated receipts/payments of commitments | 5,573 | 561 | 11,806 |
| Less amount of annual interest | (2,500) | (296) | (2,462) |
| Present value of the minimum receipts/payments | 3,073 | 265 | 9,344 |
| Current | 225 | 82 | 1,922 |
| Non-current | 2,848 | 183 | 7,422 |
| At December 31, 2011 | 3,073 | 265 | 9,344 |

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

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(In millions of reais, except when specifically indicated)

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

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

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 |
| <u>Subsidiaries and controlled companies</u> (*) | | | | | | | |
| 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) |
| | 101,267 | 13,083 | 11,665 | 24,748 | (10,918) | (4,644) | (15,562) |
| <u>Specific purpose entities (SPE)</u> | | | | | | | |
| 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) |
| | (180) | 970 | 168 | 1,138 | (1,382) | (5,135) | (6,517) |
| <u>Affiliated companies</u> | | | | | | | |
| | 14,293 | 253 | 7 | 260 | (89) | (58) | (147) |
| | 115,380 | 14,306 | 11,840 | 26,146 | (12,389) | (9,837) | (22,226) |

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

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(Consolidated and Parent Company)

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

| | Result | Parent company | | Total | Parent company | | Total |
|---|----------------|---------------------|--------------------------------|---------------|---------------------|-------------------------------------|-----------------|
| | | Current liabilities | Assets Non-current liabilities | | Current liabilities | Liabilities Non-current liabilities | |
| Result | | | | | | | |
| Operating income, mainly from sales | 115,522 | | | | | | |
| Exchange and monetary variations, net | 881 | | | | | | |
| Net financial income (expenses) | (1,023) | | | | | | |
| Assets | | | | | | | |
| Trade accounts receivable | | 14,306 | 11,840 | 26,146 | | | |
| 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 | | | |
| Liabilities | | | | | | | |
| Financial leases | | | | | (1,918) | (7,382) | (9,300) |
| Financing on credit operations | | | | | | (2,182) | (2,182) |
| Accounts payable to suppliers | | | | | (10,333) | | (10,333) |
| 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) |
| Other operations | | | | | (138) | (273) | (411) |
| In 2011 | 115,380 | 14,306 | 11,840 | 26,146 | (12,389) | (9,837) | 22,226 |

| | | | | | | | |
|----------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|
| In 2010 | 97,553 | 10,239 | 29,888 | 40,127 | (17,520) | (15,328) | (32,848) |
|----------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|

18.1.3 Rates for intercompany loans

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

| | Index | Parent Company | |
|----------------------|--------------|-----------------------|---------------|
| | | 2011 | 2010 |
| 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 |
| | | 9,908 | 28,085 |

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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.

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

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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(In millions of reais, except when specifically indicated)

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 | | | | | Total | 2010 Total |
|-------------------------------|---------------|---------------|--------------|-------------------------|---------------|---------------|---------------|
| | PNBV | PifCo | PIB-BV | Ref. Abreu e Lima | TAG | | |
| 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 |
| | 26,649 | 45,130 | 1,079 | 9,773 | 11,736 | 94,367 | 56,032 |

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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(Consolidated and Parent Company)

(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:

| | Consolidated | | | |
|--|---------------------|--------------------|---------------|--------------------|
| | 2011 | | 2010 | |
| | Assets | Liabilities | Assets | Liabilities |
| Jointly controlled subsidiaries and affiliated companies | 1,314 | 783 | 1,282 | 714 |
| 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 |
| Government entities and pension funds | 41,934 | 67,795 | 42,825 | 56,007 |
| 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 |
| | 43,248 | 68,578 | 44,107 | 56,721 |

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

| | Consolidated | | | |
|--|---------------------|--------------------|---------------|--------------------|
| | 2011 | | 2010 | |
| | Assets | Liabilities | Assets | Liabilities |
| Current assets | 33,266 | | 35,444 | |
| 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 | |
| Non-current | 9,982 | | 8,663 | |
| 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 | |
| Current liabilities | | 11,677 | | 8,963 |
| Current debt | | 4,726 | | 3,667 |
| Proposed dividends | | 1,848 | | 1,596 |
| Other current liabilities | | 5,103 | | 3,700 |
| Non-Current Liabilities | | 56,901 | | 47,758 |
| Non-current debt | | 56,786 | | 47,634 |
| Other non-current liabilities | | 115 | | 124 |
| | 43,248 | 68,578 | 44,107 | 56,721 |

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(In millions of reais, except when specifically indicated)

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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Notes to the financial statements

(Consolidated and Parent Company)

(In millions of reais, except when specifically indicated)

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:

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

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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(Consolidated and Parent Company)

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

| Non-current liabilities | Consolidated | | Parent company | |
|--------------------------------|---------------------|--------------|-----------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Opening balance | 6,505 | 4,790 | 6,072 | 4,419 |
| 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 | | |
| Closing balance | 8,839 | 6,505 | 8,241 | 6,072 |

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

| Current assets | Consolidated | | Parent company | |
|-----------------------|---------------------|--------------|-----------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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 |
| | 11,764 | 8,279 | 9,372 | 5,911 |
| Abroad | 1,082 | 488 | | |
| | 12,846 | 8,767 | 9,372 | 5,911 |

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

| Current liabilities | Consolidated | | Parent company | |
|---|---------------------|---------------|-----------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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 |
| | 10,969 | 10,060 | 9,258 | 7,837 |

20.3 Deferred income tax and social contribution

| | Consolidated | | Parent company | |
|---|---------------------|---------------|-----------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Non-current assets | | | | |
| 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 | | |
| | 17,256 | 17,038 | 9,505 | 11,790 |
| Non-current liabilities | | | | |
| Deferred income tax and social contribution | 33,230 | 25,863 | 29,408 | 21,808 |
| Other | 38 | 35 | | |
| | 33,268 | 25,898 | 29,408 | 21,808 |

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(In millions of reais, except when specifically indicated)

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 (*) | | Accounts receivable / payable, loans and financing | Financial leases | Provision for legal proceedings | Tax losses | Inventories | Interest on shareholders' equity | Other | Total |
| | Exploration costs | Other | | | | | | | | |
| At January 1, 2010 | (14,206) | (88) | (449) | (1,411) | 203 | 530 | 995 | 358 | 466 | (13,000) |
| Recognized in the results for the year | (3,276) | (1,901) | (1,476) | 264 | 155 | 229 | (154) | 396 | (21) | (5,000) |
| Recognized in shareholders' equity | | | | | | | | | (168) | (168) |
| Cumulative translation adjustment | | 52 | 1 | | 51 | (55) | | | (14) | (14) |
| Other | | 40 | 72 | 24 | 88 | 7 | | | (210) | (210) |
| At December 31, 2010 | (17,482) | (1,897) | (1,852) | (1,123) | 497 | 711 | 841 | 754 | 53 | (19,000) |

| | | | | | | | | | | | |
|--|-----------------|----------------|--------------|----------------|------------|------------|--------------|------------|--------------|-----------------|-----------------|
| Recognized in the results for the year | (3,854) | (2,321) | 815 | (201) | 150 | (57) | 349 | 133 | (1,171) | (6,365) | 2,321 |
| Recognized in shareholders' equity | | | | 44 | | | | | | (50) | |
| Cumulative translation adjustment | | (100) | (6) | | 15 | 32 | | | | (76) | (6,365) |
| Other | | 186 | 246 | (303) | (33) | (42) | | | | 554 | (6,365) |
| At December 31, 2011 | (21,336) | (4,132) | (797) | (1,583) | 629 | 644 | 1,190 | 887 | (690) | (25,188) | (26,509) |
| | | | | | | | | | | 6,365 | 2,321 |
| | | | | | | | | | | (25,863) | (21,542) |
| | | | | | | | | | | (19,498) | (18,221) |
| | | | | | | | | | | 8,042 | 3,279 |
| | | | | | | | | | | (33,230) | (29,268) |
| | | | | | | | | | | (25,188) | (26,509) |

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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:

| | Deferred income tax and social contribution | | | |
|--|--|--------------------|-----------------------|--------------------|
| | Consolidated | | Parent company | |
| | Assets | Liabilities | Assets | Liabilities |
| 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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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:

| | Consolidated | | Parent company | |
|---|-----------------|-----------------|----------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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 | (11,241) | (12,027) | (8,467) | (8,763) |
| 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) |
| | (11,241) | (12,027) | (8,467) | (8,763) |
| 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 |
| Liabilities | | | | |
| Pension plans | 5,059 | 4,795 | 4,568 | 4,377 |
| Healthcare plan | 13,021 | 11,786 | 12,125 | 10,994 |
| | 18,080 | 16,581 | 16,693 | 15,371 |
| Current | 1,427 | 1,303 | 1,341 | 1,209 |
| Non-current | 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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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) | |
| Fixed income | 16,158 | 7,240 | | 23,398 | 47% | 24,677 | 54% |
| Corporate bonds | | 7,075 | | 7,075 | | 8,755 | |
| Government bonds | 16,158 | | | 16,158 | | 15,800 | |
| Other investments | | 165 | | 165 | | 122 | |
| Variable income | 13,023 | 3,093 | 6,586 | 22,702 | 46% | 18,274 | 40% |
| 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 | |
| Real estate | | 1,800 | 1,800 | 4% | 1,462 | 4% |
| | | | 47,900 | 97% | 44,413 | 98% |
| Loans granted to participants | | | 1,441 | 3% | 1,131 | 2% |
| | | | 49,341 | 100% | 45,544 | 100% |

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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:

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

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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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 | | |
| Changes in the present value of the benefit obligations | | | | | | | | | | |
| 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 | |
| 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) | |
| Net actuarial obligations at December 31 | 4,445 | 614 | 13,021 | 18,080 | 16,693 | 4,510 | 285 | 11,786 | 16,581 | 1 |
| Changes in net actuarial liabilities | | | | | | | | | | |
| 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) | |
| Balance at December 31 | 4,445 | 614 | 13,021 | 18,080 | 16,693 | 4,510 | 285 | 11,786 | 16,581 | 1 |

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*(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 Total | | Consolidated Pension plan | | | Health care plan Total | |
| | 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 | |
| Net cost for the year | 686 | 361 | 1,846 | 2,893 | 2,635 | 837 | 143 | 1,533 | 2,513 | 2,298 |

Related to present employees:

| | | | | | | | | | | |
|---|------------|------------|--------------|--------------|--------------|------------|------------|--------------|--------------|--------------|
| 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 |
| Net cost for the year | 686 | 361 | 1,846 | 2,893 | 2,635 | 837 | 143 | 1,533 | 2,513 | 2,298 |

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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 |
| Pension plan gains/(losses) | | | | | | |
| Actuarial liability | (125) | 118 | (381) | 109 | 28 | (417) |
| Pension plan assets | (886) | 1,996 | 3,423 | (1,100) | 1,928 | 3,357 |
| Health care plan gains/(losses) | | | | | | |
| 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 (1) + Interest: 5.58% p.a (2) | Inflation 5.3% to 4.3% p.a (1) + Interest: 5.91% p.a (2) |
| Growth rate for salaries | Inflation 5.6% to 4.34% p.a.(1) + 2.080% to 3.188% p.a | Inflation 5.3% to 4.3% p.a(1) + 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 (3) | 0.660% p.a (3) |
| Turnover rate of the pension plans | Null | Null |
| Variation rate for hospital medical costs | 8.96% to 4.34%p.a (4) | 7.89% to 4.3%p.a (4) |
| Mortality table | AT 2000, sex specific TASA 1927/ Zimmermann ajusted (5) | AT 2000, sex specific TASA 1927/ Zimmermann ajusted (5) |
| Disability table | | |
| Mortality table for disabled persons | AT 49, sex specific | AT 49, sex specific |

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

(2) 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.

(3) Average turnover which varies according to age and time of service.

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

(5) Disability table: Zimmermann adjusted to the Petros 2 plan.

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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:

| | 2011 | 2010 |
|--|---------------|---------------|
| 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 |
| Income before interest - calculation basis | 34,670 | 37,592 |
| Established percentage | 4.5% | 4.5% |
| Profit sharing | 1,560 | 1,691 |

(*) 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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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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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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Statement of basic profit for calculating the dividends:

| | 2011 | 2010 |
|---|---------------|---------------|
| 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 | |
| Basic profit for determining dividend | 31,375 | 33,034 |
| 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 |
| Total proposed dividends | 12,001 | 11,728 |
| Less: | | |
| Interest on shareholders' equity paid in advance | (7,827) | (7,945) |
| Updating of interest on shareholders' equity paid in advance | (296) | (188) |
| Balance of proposed dividends | 3,878 | 3,595 |

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:

| Payment | Date of approval by Board of Directors | Date of shareholder position | Date of payment | Amount of payment | Gross amount per share (ON and PN) (R\$) |
|---|---|-------------------------------------|------------------------|--------------------------|---|
| 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 |
| | | | | 12,001 | 0.92 |

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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

| | Consolidated | | Parent company | |
|--|----------------|---------------|----------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income attributable to shareholders of Petrobras | 33.313 | 35.189 | 33.101 | 35.036 |
| Weighted average of the number of common and referred 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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| | Consolidated | | Parent company | |
|----------------------------|---------------------|----------------|-----------------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Gross sales revenue | 306,234 | 266,060 | 241,042 | 204,595 |
| Sales charges | (62,058) | (54,218) | (57,221) | (48,108) |
| Sales revenues | 244,176 | 211,842 | 183,821 | 156,487 |

25 Expenses by nature

| | Consolidated | | Parent company | |
|---|---------------------|------------------|-----------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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) |
| | (184,536) | (151,976) | (140,264) | (109,497) |
| 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) |
| | (184,536) | (151,976) | (140,264) | (109,497) |

Notes to the financial statements
(Consolidated and Parent Company)

(In millions of reais, except when specifically indicated)

26 Other operating expenses, net

| | Consolidated | | Parent company | |
|--|---------------------|----------------|-----------------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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 |
| | (6,588) | (7,049) | (5,770) | (5,761) |

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

| | Consolidated | | Parent company | |
|--|----------------|----------------|----------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Exchange variation on cash and cash equivalents | 971 | (693) | 924 | (784) |
| Exchange variation on debt (*) | (5,453) | 1,683 | (2,809) | 1,271 |
| Exchange variation on net debt | (4,482) | 990 | (1,885) | 487 |
| Exchange variation on debt | (102) | (276) | (76) | (253) |
| 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 |
| Net financial expenses | (3,240) | (4,578) | (1,693) | (5,525) |
| Financial result on net debt | (7,824) | (3,864) | (3,654) | (5,291) |
| 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 |
| Financial income (expenses), net | 122 | 2,620 | 5,581 | 1,634 |
| Financial income (expenses), net (**) | | | | |
| 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 |
| | 122 | 2,620 | 5,581 | 1,634 |

(*) 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:

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

| | Consolidated | | Parent company | |
|------------------------|---------------------|--------------|-----------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Opening balance | 1,265 | 837 | 425 | 252 |
| 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) | |
| Closing balance | 1,361 | 1,265 | 437 | 425 |

28.2 Legal proceedings not accrued for:

| Nature | Consolidated | estimate for 2011 |
|----------------------|---------------------|--------------------------|
| Tax | | 34,137 |
| Civil- General | | 8,858 |
| Civil- Environmental | | 989 |
| Other | | 1,560 |
| | | 45,544 |

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(In millions of reais, except when specifically indicated)

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 |
|---|----------|
| Plaintiff: Federal Revenue Department of Brazil | |
| 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 |
| Plaintiff: Federal Revenue Department of Rio de Janeiro | |
| 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 |
| Plaintiff: Department of Finance of the State of Rio de Janeiro | |
| 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 |
| Plaintiff: Federal Revenue Department of Brazil | |
| I) Non payment of CIDE (Contribution for Intervention in the Economic Domain) by Petrobras on | 2,793 |

imports of naphtha resold to Braskem.

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 |
|---|---------------|
| <p>Plaintiff: Municipal governments of Anchieta, Aracruz, Guarapari, Itapemirim, Marataízes, Linhares, Vila Velha and Vitória.</p> <p>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.</p> <p>Plaintiff: Federal Revenue Department of Brazil</p> | 1,624 |
| <p>IOF (tax on financial operations) credit on intercompany loans</p> <p>Plaintiff: Federal Revenue Department of Brazil</p> | 1,181 |
| <p>IRRF (Income tax withheld at source) - Remittances abroad for payment of oil imports</p> <p>Plaintiff: Departments of Finance of the States of Rio de Janeiro and Sergipe</p> | 924 |
| <p>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.</p> <p>Other processes of a tax nature</p> | 817 |
| <p>Total for processes of a tax nature</p> | 34,137 |

b) Proceedings of a civil nature - General

| Description - Civil Nature | Estimate |
|---|----------|
| <p>Plaintiff: Porto Seguro Imóveis Ltda.</p> <p>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</p> | 5,615 |

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 |
| Other processes of a civil nature | 2,031 |
| Total for processes of a civil nature | 8,858 |

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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 m³ 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 m³ of natural gas, equivalent to 24.06 million m³ 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 |
| Futures contracts | (6,217) | (8,570) | 34 | (40) | 2012 | (1) | |
| Purchase commitments | 30,193 | 19,921 | | | | | |
| Sale commitments | (36,410) | (28,491) | | | | | |
| Options contracts | (2,130) | (1,679) | (4) | (3) | 2012 | | |
| Buy | (730) | 1,446 | (3) | 1 | | | |
| Bidding position | 6,728 | 1,646 | | | | | |
| Short sale | (7,458) | (200) | | | | | |
| Sale | (1,400) | (3,125) | (1) | (4) | | | |
| Bidding position | 3,990 | 2,070 | | | | | |
| Short sale | (5,390) | (5,195) | | | | | |
| Forward contracts | 275 | 354 | | (1) | 2012 | | |
| Long position | 275 | 979 | | | | | |
| Short position | | (625) | | | | | |
| Total recorded in other current assets and liabilities | | | 30 | (44) | | (1) | |

* 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

| Derivatives for oil and oil products | Consolidated | | Parent company | |
|---|---------------------|-------------|-----------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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.

| 2011 | Consolidated | 2010 | 2011 | Parent company | 2010 |
|-------------|---------------------|-------------|-------------|-----------------------|-------------|
| | 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.

| Market derivatives for oil and oil products | Risk | Consolidated | | |
|--|-------------------|----------------------------------|-------------------------------------|-----------------------------------|
| | | Probable scenario in 2011 | Possible Scenario (Δ of 25%) | Remote Scenario (Δ of 50%) |
| 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:

| | | Notional value in thousands of m³ | Fair value | Maturity |
|-----------------------------|--|---|--|--|
| Forward contracts | | | | |
| Long position | | 715 | 49 | 2016 |
| Embedded derivatives | | | | |
| | Risk | Probable scenario in 2011 | Possible Scenario (Δ of 25%) | Remote Scenario (Δ of 50%) |
| 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 | |
| Dollar forward contracts | | | | | |
| Short position | USD 87 | USD 61 | (3) | 4 | 2012 |
| | USD 87 | USD 61 | (3) | 4 | |
| Swaps | | | 32 | | 2012 |
| Asset position | | | | | |
| Foreign currency (US dollar) | USD 127 | | 241 | | |
| Liability position | | | | | |
| CDI reais | BRL 199 | | (209) | | |
| Cross Currency Swap | | | 243 | 192 | 2016 |
| Asset position | | | | | |
| Average rate of receipt (JPY) = 2.15% p.a. | JPY 35.000 | JPY 35.000 | 926 | 783 | |
| Liability position | | | | | |
| Average rate of payment (USD) = 5.69% p.a. | USD 298 | USD 298 | (683) | (591) | |
| Total recorded in other current assets and liabilities | | | 272 | 196 | |

** 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

| Foreign currency derivatives | Consolidated | | Parent company | |
|--|---------------------|-------------|-----------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| 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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Notes to the financial statements
(Consolidated and Parent Company)*(In millions of reais, except when specifically indicated)***f) Foreign currency sensitivity analysis for derivatives, loans and financial investments**

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.

| Foreign Currency Derivatives | Risk | Probable scenario at 12.31.2011 | Consolidated Possible Scenario (Δ of 25%) | Remote Scenario (Δ of 50%) |
|-------------------------------------|---------------------------------------|--|--|-----------------------------------|
| 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) |
| Foreign currency debt * | Risk | Probable scenario at 12.31.2011 | Consolidated Possible Scenario (Δ of 25%) | Remote Scenario (Δ of 50%) |
| Real ¹ | 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 |
| | | 102,211 | 25,552 | 51,105 |

¹ Financing in local currency parameterized to the variation of the dollar.

| Financial investment* | Risk | Probable scenario at 12.31.2011 | Consolidated Possible Scenario (Δ of 25%) | Remote Scenario (Δ of 50%) |
|------------------------------|-------------------------------------|--|--|-----------------------------------|
| 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 | |
| Swaps contracts | | | | | |
| Liability position | USD 478 | USD 487 | (67) | 14 | 2020 |
| Swaps contracts | | | (3) | | 2015 |
| Asset position | | | | | |
| Euribor 1M | EUR20 | | 1 | | |
| Liability position | | | | | |
| Fixed rate of 4.19% | EUR20 | | (4) | - | |
| Total recorded in other current assets and liabilities | | | (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

| | | | Consolidated | |
|-------------------------------------|---------------------|--------------------|---------------------|-------------------|
| | Risk | Probable | Possible | Remote |
| Foreign Currency Derivatives | | scenario at | Scenario | Scenario |
| | | 12.31.2011 | (Δ of 25%) | (Δ of 50%) |
| 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:

| | |
|------------------------------|-------------|
| | 2012 |
| Guarantees | 4,019 |
| Derivatives | 344 |
| Financial investments | 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

| Maturity | Consolidated | Parent company |
|------------------------------|---------------------|-----------------------|
| 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 |
| Balance at 12/31/2011 | 251,595 | 65,283 |
| Balance at 12/31/2010 | 175,129 | 59,076 |

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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 |
|-----------------------------|-----------------|----------------|-------------|--------------|
| <u>Future DI</u> | (39,957) | (3,244) | | |
| Long position | 31,724 | 2,652 | 1 | 2012 to 2014 |
| Short position | (71,681) | (5,896) | (1) | 2012 to 2014 |
| <u>Future dollar</u> | 147 | 14 | | 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) | |
| Assets | | | | |
| Marketable securities | 22,264 | | | 22,264 |
| Foreign Currency Derivatives | 32 | 243 | | 275 |
| Commodity derivatives | 66 | | 49 | 115 |
| Balance at December 31, 2011 | 22,362 | 243 | 49 | 22,654 |
| Balance at December 31, 2010 | 30,984 | 198 | 53 | 31,235 |
| Liabilities | | | | |
| Foreign Currency Derivatives | | (3) | | (3) |
| Commodity derivatives | (36) | | | (36) |
| Interest derivatives | (70) | | | (70) |
| Balance at December 31, 2011 | (106) | (3) | | (109) |
| Balance at December 31, 2010 | (63) | (3) | | (66) |

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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(In millions of reais, except when specifically indicated)

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 |
| Total | | 294,328 | 166,376 |

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 ³) (*) | | | 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

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 |
| (*) Unaudited | | | | | | | | | |

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

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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: February 23, 2012

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By:

/s/ Almir Guilherme Barbassa

Almir Guilherme Barbassa
Chief Financial Officer and Investor Relations
Officer

FORWARD-LOOKING STATEMENTS

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

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