

PETROBRAS INTERNATIONAL FINANCE CO  
Form 20-F  
April 02, 2012

**As filed with the Securities and Exchange Commission on March 30, 2012**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 20-F  
ANNUAL REPORT  
PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**for the fiscal year ended December 31, 2011**

**Commission File Number 001-15106**

**Commission File Number: 001-33121**

**Petróleo Brasileiro S.A.—Petrobras**

**Petrobras International Finance Company**

**(Exact name of registrant as specified in  
its charter)**

**(Exact name of registrant as specified in  
its charter)**

**Brazilian Petroleum Corporation—Petrobras**

**(Translation of registrant's name into  
English)**

**The Federative Republic of Brazil**

**Cayman Islands**

**(Jurisdiction of incorporation or  
organization)**

**(Jurisdiction of incorporation or  
organization)**

**Avenida República do Chile, 65**

**4th Floor, Harbour Place**

**20031-912 - Rio de Janeiro - RJ**

**103 South Church Street**

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**(Name, telephone, e-mail and/or facsimile number and address of company contact person)**

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 20031-912 – Rio de Janeiro – RJ**

**Brazil**

**(Name, telephone, e-mail and/or facsimile number and address of company contact person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<u>of each</u> <b>class:</b>	<u>Title</u>	<u>Name of each exchange on which registered:</u>
Petrobras Common Shares, without par value* Petrobras American Depositary Shares, or ADSs (evidenced by American Depositary Receipts, or ADRs), each representing two Common Shares		New York Stock Exchange*
Petrobras Preferred Shares, without par value* Petrobras American Depositary Shares (as evidenced by American Depositary Receipts), each representing two Preferred Shares		New York Stock Exchange New York Stock Exchange*
2.875% Global Notes due 2015, issued by PifCo		New York Stock Exchange
6.125% Global Notes due 2016, issued by PifCo		New York Stock Exchange
3.875% Global Notes due 2016, issued by PifCo		New York Stock Exchange
3.500% Global Notes due 2017, issued by PifCo		New York Stock Exchange
5.875% Global Notes due 2018, issued by PifCo		New York Stock Exchange
7.875% Global Notes due 2019, issued by PifCo		New York Stock Exchange
5.75% Global Notes due 2020, issued by PifCo		New York Stock Exchange
5.375% Global Notes due 2021, issued by PifCo		New York Stock Exchange
6.875% Global Notes due 2040, issued by PifCo		New York Stock Exchange
6.750% Global Notes due 2041, issued by PifCo		New York Stock Exchange

\* Not for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**TITLE OF EACH CLASS:**

9.125% Global Notes due 2013, issued by PifCo

7.75% Global Notes due 2014, issued by PifCo

8.375% Global Notes due 2018, issued by PifCo

4.875% Global Notes due 2018, issued by PifCo

5.875% Global Notes due 2022, issued by PifCo

6.250% Global Notes due 2026, issued by PifCo

**The number of outstanding shares of each class of stock of Petrobras and PifCo as of December 31, 2011 was:**

7,442,454,142 Petrobras Common Shares, without par value

5,602,042,788 Petrobras Preferred Shares, without par value

300,050,000 PifCo Common Shares, at par value U.S.\$1 per share

**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.**

**Yes R No**

**If this report is an annual or transitional report, indicate by check mark if the registrant is not required to file reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.**

**Yes  No R**

**Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.**

**Yes R No**

**Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).**

**Yes R (Petrobras) No**

**Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):**

**Large accelerated filer R (Petrobras) Accelerated filer  Non-accelerated filer  
R (PifCo)**

**Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:**

**U.S.GAAP**  **International Financial Reporting Standards as issued by**  
**the International Accounting Standards Board**  **Other**

**If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.**

**Item 17**  **Item 18**

**If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).**

**Yes**  **No**

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**FORWARD-LOOKING STATEMENTS**

Many statements made in this annual report are 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. Many of the forward-looking statements contained in this annual report may be identified by the use of forward-looking words, such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimate” and “potential,” among others. We have made forward-looking statements that address, among other things:

- our marketing and expansion strategy;
- our exploration and production activities, including drilling;
- our activities related to refining, import, export, transportation of petroleum, natural gas and oil products, petrochemicals, power generation, biofuels and other sources of renewable energy;
- our projected and targeted capital expenditures and investments and other costs, commitments and revenues;
- our liquidity and sources of funding;
- development of additional revenue sources; and
- the impact, including cost, of acquisitions.

Our forward-looking statements are not guarantees of future performance and are subject to assumptions that may prove incorrect and to risks and uncertainties that are difficult to predict. Our actual results could differ materially from those expressed or forecast in any forward-looking statements as a result of a variety of factors. These factors include, among other things:

- our ability to obtain financing;
- general economic and business conditions, including crude oil and other commodity prices, refining margins and prevailing exchange rates;
- our ability to find, acquire or gain access to additional reserves and to develop our current reserves successfully;
- global economic conditions;

- uncertainties inherent in making estimates of our oil and gas reserves, including recently discovered oil and gas reserves;
- competition;
- technical difficulties in the operation of our equipment and the provision of our services;
- changes in, or failure to comply with, laws or regulations;
- receipt of governmental approvals and licenses;
- international and Brazilian political, economic and social developments;
- natural disasters, accidents, military operations, acts of sabotage, wars or embargoes;

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- the cost and availability of adequate insurance coverage; and
- other factors discussed below under “Risk Factors.”

For additional information on factors that could cause our actual results to differ from expectations reflected in forward-looking statements, please see “Risk Factors” in this annual report.

All forward-looking statements attributed to us or a person acting on our behalf are qualified in their entirety by this cautionary statement. 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.

The crude oil and natural gas reserve data presented or described in this annual report are only estimates and our actual production, revenues and expenditures with respect to our reserves may materially differ from these estimates.

This is the annual report of both Petr leo Brasileiro S.A.—Petrobras (Petrobras) and its direct wholly owned Cayman Islands subsidiary, Petrobras International Finance Company (PifCo). PifCo has become our finance subsidiary functioning as a vehicle to raise funds for us primarily through the issuance of debt securities in the international capital markets, among other means.

Unless the context otherwise requires, the terms “Petrobras,” “we,” “us,” and “our” refer to Petr leo Brasileiro S.A.—Petrobras and its consolidated subsidiaries and special purpose companies, including Petrobras International Finance Company. The term “PifCo” refers to Petrobras International Finance Company and its subsidiaries.

**TABLE OF CONTENTS****GLOSSARY OF PETROLEUM INDUSTRY TERMS**

Unless the context indicates otherwise, the following terms have the meanings shown below:

ANEEL	The <i>Agência Nacional de Energia Elétrica</i> (National Electrical Energy Agency), or ANEEL, is the federal agency that regulates the electricity industry in Brazil.
ANP	The <i>Agência Nacional de Petróleo, Gás Natural e Biocombustíveis</i> (National Petroleum, Natural Gas and Biofuels Agency), or ANP, is the federal agency that regulates the oil, natural gas and renewable fuels industry in Brazil.
°API	Standard measure of oil density developed by the American Petroleum Institute.
Barrels	Barrels of crude oil.
BSW	Basic sediment and water, a measurement of the water and sediment content of flowing crude oil.
Catalytic cracking	A process by which hydrocarbon molecules are broken down (cracked) into lighter fractions by the action of a catalyst.
Coker	A vessel in which bitumen is cracked into its fractions.
Condensate	Light hydrocarbon substances produced with natural gas, which condense into liquid at normal temperature and pressure.
CNPE	The <i>Conselho Nacional de Política Energética</i> (National Energy Policy Council), or CNPE, is an advisory body of the President of the Republic responsible for formulating energy policies and guidelines.
Deep water	Between 300 and 1,500 meters (984 and 4,921 feet) deep.
Distillation	A process by which liquids are separated or refined by vaporization followed by condensation.
EWT	Extended well test.
Exploration Area	A region in Brazil under a regulatory contract without a known hydrocarbon accumulation or with a hydrocarbon accumulation that has not yet been declared commercial.
FPSO	Floating Production, Storage and Offloading Unit.
Heavy crude oil	Crude oil with API density less than or equal to 22°.
Intermediate crude oil	Crude oil with API density higher than 22° and less than or equal to 31°.
Light crude oil	Crude oil with API density higher than 31°.
LNG	Liquefied natural gas.
LPG	Liquefied petroleum gas, which is a mixture of saturated and unsaturated hydrocarbons, with up to five carbon atoms, used as domestic fuel.

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MME	The federal Ministry of Mines and Energy, or MME.
NGLs	Natural gas liquids, which are light hydrocarbon substances produced with natural gas, which condense into liquid at normal temperature and pressure.
Oil	Crude oil, including NGLs and condensates.
Pre-salt reservoir	A geological formation containing oil or natural gas deposits located beneath a salt layer.
Post-salt reservoir	A geological formation containing oil or natural gas deposits located above a salt layer.
Proved reserves	Consistent with the definitions in the SEC's Amended Rule 4-10(a) of Regulation S-X, proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price is the average price during the 12-month period prior to December 31, 2011, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The project to extract the hydrocarbons must have commenced or we must be reasonably certain that we will commence the project within a reasonable time.
Proved developed reserves.	Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based. Proved developed reserves are reserves that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
Proved undeveloped reserves	Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.  Undrilled locations are classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Proved undeveloped reserves do not include reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.

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SS	Semi-submersible unit.
Synthetic oil and synthetic gas	A mixture of hydrocarbons derived by upgrading (i.e., chemically altering) natural bitumen from oil sands, kerogen from oil shales, or processing of other substances such as natural gas or coal. Synthetic oil may contain sulfur or other non-hydrocarbon compounds and has many similarities to crude oil.
TLWP	Tension Leg Wellhead Platform.
Total depth	Total depth of a well, including vertical distance through water and below the mudline.
Ultra-deep water	Over 1,500 meters (4,921 feet) deep.

**CONVERSION TABLE**

1 acre	=	0.004047 km <sup>2</sup>	
1 barrel	=	42 U.S. gallons	= Approximately 0.13 t of oil
1 boe	=	1 barrel of crude oil equivalent	= 6,000 cf of natural gas
1 m <sup>3</sup> of natural gas	=	35.315 cf	= 0.0059 boe
1 km	=	0.6214 miles	
1 km <sup>2</sup>	=	247 acres	
1 meter	=	3.2808 feet	
1 t of crude oil	=	1,000 kilograms of crude oil	= Approximately 7.5 barrels of crude oil (assuming an atmospheric pressure index gravity of 37° API)

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bbl	Barrels
bn	Billion (thousand million)
bnbbl	Billion barrels
bncf	Billion cubic feet
bnm <sup>3</sup>	Billion cubic meters
boe	Barrels of oil equivalent
bbl/d	Barrels per day
cf	Cubic feet
GOM	Gulf of Mexico
GW	Gigawatts
GWh	One gigawatt of power supplied or demanded for one hour
km	Kilometer
km <sup>2</sup>	Square kilometers
m <sup>3</sup>	Cubic meter
mdbl	Thousand barrels
mdbl/d	Thousand barrels per day
mboe	Thousand barrels of oil equivalent
mboe/d	Thousand barrels of oil equivalent per day
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
mm <sup>3</sup>	Thousand cubic meters
mm <sup>3</sup> /d	Thousand cubic meters per day
mmbbl	Million barrels
mmbbl/d	Million barrels per day
mmbboe	Million barrels of oil equivalent
mmbboe/d	Million barrels of oil equivalent per day
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
mmm <sup>3</sup>	Million cubic meters
mmm <sup>3</sup> /d	Million cubic meters per day
mmt/y	Million metric tons per year
MW	Megawatts
MWavg	Amount of energy (in MWh) divided by the time (in hours) in which such energy is produced or consumed
MWh	One megawatt of power supplied or demanded for one hour
ppm	Parts per million
P\$	Argentine pesos
R\$	Brazilian <i>reais</i>
t	Metric ton
Tcf	Trillion cubic feet
U.S.\$	United States dollars
/d	Per day
/y	Per year





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**PRESENTATION OF FINANCIAL INFORMATION**

In this annual report, references to “real,” “reais” or “R\$” are to Brazilian reais and references to “U.S. dollars” or “U.S.\$” are to the United States dollars. Certain figures included in this annual report have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

**Petrobras**

The audited consolidated financial statements of Petrobras and our consolidated subsidiaries as of and for each of the three years ended December 31, 2011, 2010 and 2009 and the accompanying notes contained in this annual report have been presented in U.S. dollars and prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). See Item 5. “Operating and Financial Review and Prospects” and Note 2.1 to our audited consolidated financial statements. Petrobras applies IFRS in its statutory financial statements prepared in accordance with Brazilian Corporate Law and regulations promulgated by the *Comissão de Valores Mobiliários* (Securities and Exchange Commission of Brazil, or CVM). Brazilian Corporate Law was amended in 2007 to permit accounting practices adopted in Brazil (Brazilian GAAP) to converge with IFRS.

We discontinued U.S. GAAP and adopted IFRS, as issued by the IASB, as the basis for the preparation and presentation of our financial statements and reporting with the SEC beginning with our financial statements as of and for the year ending December 31, 2011 presented in this annual report. This annual report on Form 20-F and all of our future reports filed with the SEC will only present financial information prepared in accordance with IFRS.

We first adopted IFRS, as issued by IASB, for our financial statements for the year December 31, 2010, which were filed with the local securities regulator in Brazil and made available to the public. Our transition date from Brazilian GAAP to IFRS was January 1, 2009 and we used certain elective transitional treatments under IFRS 1 in such financial statements filed with the local securities regulator in Brazil.

Since we have previously adopted IFRS in Brazil, we are not a “first time adopter” of IFRS for purposes of this annual report on Form 20-F. We are presenting bridging disclosures to IFRS in the form of a reconciliation from U.S. GAAP to IFRS as issued by the IASB of our net income for the years ended December 31, 2010 and 2009 and our shareholders’ equity at December 31, 2010. This reconciliation is included in Note 36 in our audited consolidated financial statements.

Our IFRS financial statements filed with the local securities regulator in Brazil use the *real* as its presentation currency, while the financial statements included herein use the U.S. Dollar as its presentation currency. As described more fully in Note 2.3 to our audited consolidated financial statements, the U.S. dollar amounts as of the dates and for the periods presented in our audited consolidated financial statements have been recalculated or translated from the real amounts in accordance with the criteria set forth in IAS 21 – “The effects of changes in

foreign exchange rates.” U.S. dollar amounts presented in this annual report have been translated from reais at the period-end exchange rate for balance sheet items and the average exchange rate prevailing during the period for income statement and cash flow items.

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Unless the context otherwise indicates:

- historical data contained in this annual report that were not derived from the audited consolidated financial statements have been translated from reais on a similar basis;
- forward-looking amounts, including estimated future capital expenditures and investments, have all been based on our Petrobras 2020 Strategic Plan, which covers the period from 2009 to 2020, and on our 2011-2015 Business Plan, and have been projected on a constant basis and have been translated from reais at an estimated average exchange rate of R\$1.73 to U.S.\$1.00, in accordance with our 2011-2015 Business Plan. In addition, in accordance with our 2011-2015 Business Plan, future calculations involving an assumed price of crude oil have been calculated using a Brent crude oil price of between U.S.\$80 and U.S.\$95 from 2012 through 2015, adjusted for our quality and location differences, unless otherwise stated; and
- estimated future capital expenditures and investments are based on the most recently budgeted amounts, which may not have been adjusted to reflect all factors that could affect such amounts.

**PifCo**

PifCo has in the past engaged in both commercial operations and in financing activities for us. In August 2011, as part of its transition to become our finance subsidiary, PifCo transferred two of its wholly owned subsidiaries – Petrobras Europe Limited (PEL) and Petrobras Singapore Private Limited (PSPL) – to Petrobras International Braspetro B.V (PIB BV). PifCo ceased its commercial operations altogether and has become our finance subsidiary, functioning as a vehicle to raise funds for us primarily through the issuance of debt securities in the international capital markets, among other means.

PifCo's functional currency is the U.S. dollar. PifCo's audited consolidated financial statements as of and for each of the years ended December 31, 2011, 2010 and 2009 and the accompanying notes contained in this annual report have been presented in U.S. dollars and prepared in accordance with IFRS and include PifCo's two wholly owned subsidiaries: Petrobras Finance Limited (PFL) and Bear Insurance Company (BEAR).

**PRESENTATION OF INFORMATION CONCERNING RESERVES**

Petrobras continues to utilize the SEC rules for estimating and disclosing oil and gas reserve quantities included in this annual report. In accordance with these rules, adopted by Petrobras at year-end 2009, the year-end 2011 and 2010 reserve volumes have been estimated using the average prices calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period and include non-traditional reserves, such as synthetic oil and gas. In addition, the amended rules also adopted a reliable technology definition that permits reserves to be added based on field-tested technologies. The adoption of the SEC's rules for estimating and disclosing oil and gas reserves and the FASB's issuance of the Accounting Standards Update No. 2010-03 "Oil and Gas Reserve Estimation and Disclosure" in January 2010

generated no material impact on our reported reserves or on our consolidated financial position or results of operations.

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DeGolyer and MacNaughton (D&M) used our reserves estimates to conduct a reserves audit of 95.5% of the net proved crude oil, condensate and natural gas reserves as of December 31, 2011 from certain properties we own in Brazil and offshore from Brazil. In addition, D&M used its own estimates of our reserves to conduct a reserves evaluation of 53% of the net proved crude oil, NGL and natural gas reserves as of December 31, 2011 from certain properties we own in South America (outside of Brazil). The reserves estimates were prepared in accordance with the reserves definitions of Rule 4-10(a) of Regulation S-X of the SEC. All reserves estimates involve some degree of uncertainty. See Item 3. “Key Information—Risk Factors—Risks Relating to Our Operations” for a description of the risks relating to our reserves and our reserve estimates.

On January 13, 2012, we filed reserve estimates for Brazil with the ANP, in accordance with Brazilian rules and regulations, totaling net volumes of 13.22 billion barrels of crude oil and condensate and 14.93 trillion cubic feet of natural gas. The reserve estimates filed with the ANP and those provided herein differ by approximately 28% in terms of oil equivalent. This difference is due to: (i) the ANP requirement to estimate proved reserves through the technical-economical abandonment of production wells, as opposed to limiting reserve estimates to the life of the concession contracts as required by Rule 4-10 of Regulation S-X; and (ii) different technical criteria for booking proved reserves, including the use of current oil prices as opposed to the SEC requirement that the 12-month average price be used to determine the economic producibility of reserves in Brazil.

We also file reserve estimates from our international operations with various governmental agencies under the guidelines of the Society of Petroleum Engineers, or SPE. The aggregate reserve estimates from our international operations, under SPE guidelines, amounted to 0.471 billion barrels of crude oil and NGLs and 1.406 billion cubic feet of natural gas, which is approximately 14% higher than the reserve estimates calculated under Regulation S-X, as provided herein. This difference occurs because of different technical criteria for booking proved reserves, including the use of current oil prices as opposed to the SEC requirement that the 12-month average price be used to determine the economic producibility of international reserves. In addition, we have not yet included the volumes from the Gulf of Mexico fields that do not have a production history available for analogous reservoirs.

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**Selected Financial Data**

We discontinued U.S. GAAP and adopted IFRS, as issued by the IASB, as the basis for the preparation and presentation of our financial statements and reporting with the SEC beginning with our financial statements as of and for the year ending December 31, 2011 presented in this annual report. This annual report on Form 20-F and all of our future reports filed with the SEC will only present financial information prepared in accordance with IFRS.

We first adopted IFRS, as issued by IASB, for our financial statements for the year December 31, 2010, which were filed with the local securities regulator in Brazil and made available to the public. Our transition date from Brazilian GAAP to IFRS was January 1, 2009 and we used certain elective transitional treatments under IFRS 1 in such financial statements filed with the local securities regulator in Brazil.

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Since we have previously adopted IFRS in Brazil, we are not a “first time adopter” of IFRS for purposes of this annual report on Form 20-F. We are presenting bridging disclosures to IFRS in the form of a reconciliation from U.S. GAAP to IFRS as issued by the IASB of our net income for the years ended December 31, 2010 and 2009 and our shareholders’ equity at December 31, 2010. This reconciliation is included in Note 36 in our audited consolidated financial statements.

Our IFRS financial statements filed with the local securities regulator in Brazil use the *real* as its presentation currency, while the financial statements included herein use the U.S. Dollar as its presentation currency.

This section contains selected consolidated financial data, presented in U.S. dollars and prepared in accordance with IFRS as of and for each of the three years ended December 31, 2011, 2010 and 2009, derived from our audited consolidated financial statements, which were audited by KPMG Auditores Independentes.

The summary financial data prepared in accordance with IFRS is not comparable to the summary financial data prepared in accordance with U.S. GAAP in our prior annual reports on Form 20-F.

The information below should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements and the accompanying notes and Item 5. “Operating and Financial Review and Prospects.”

**BALANCE SHEET DATA - PETROBRAS****IFRS Summary Financial Data**

	<b>As of December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
<b>Assets:</b>			
Cash and cash equivalents	19,057	17,655	16,222
Accounts receivable, net	11,756	10,845	8,147
Inventories	15,165	11,808	11,103
Other current assets	18,614	23,251	6,706
Non-current assets	21,957	22,637	19,991
Investments in non-consolidated companies and other investments	6,530	6,957	4,620
Property, plant and equipment, net	182,465	168,104	128,754
Intangible assets	43,866	48,937	3,899
<b>Total assets</b>	<b>319,410</b>	<b>310,194</b>	<b>199,442</b>
<b>Liabilities and shareholders’ equity:</b>			
Total current liabilities	36,364	33,577	31,067
Total long-term liabilities(1)	33,218	30,251	23,809
Long-term debt(2)	72,718	60,417	48,963
<b>Total liabilities</b>	<b>142,300</b>	<b>124,245</b>	<b>103,839</b>
<b>Shareholders’ equity</b>			
Shares authorized and issued:			
Paid in capital	107,355	107,341	33,790



Reserves and other comprehensive income	68,483	76,769	60,579
Petrobras' shareholders' equity	175,838	184,110	94,369
Non-controlling interest	1,272	1,839	1,234
Total equity	<b>177,110</b>	<b>185,949</b>	<b>95,603</b>
Total liabilities and shareholders' equity	<b>319,410</b>	<b>310,194</b>	<b>199,442</b>

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(1) Excludes long-term debt.

(2) Excludes current portion of long-term debt.

TABLE OF CONTENTS**INCOME STATEMENT DATA - PETROBRAS****IFRS Summary Financial Data**

	<b>For the Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million, except for share and per share data)</b>		
Sales revenues	145,915	120,452	91,146
Net income before financial results, profit sharing and income taxes	27,285	26,372	22,923
Net income for the year(1)(2)	20,121	20,055	15,308
Weighted average number of shares outstanding:			
Common	7,442,454,142	5,683,061,430	5,073,347,344
Preferred	5,602,042,788	4,189,764,635	3,700,729,396
Net income before financial results, profit sharing and income taxes per:			
Common and Preferred Shares	2.09	2.67	2.61
Common and Preferred ADS	4.18	5.34	5.22
Basic and diluted earnings per:(1)			
Common and Preferred Shares	1.54	2.03	1.74
Common and Preferred ADS	3.08	4.06	3.48
Cash dividends per:(3)			
Common and Preferred shares	0.53	0.70	0.59
Common and Preferred ADS	1.06	1.40	1.18

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(1) Our net income represents our income from continuing operations.

(2) Excluding non-controlling interests.

(3) Represents dividends paid during the year.

**PifCo**

PifCo discontinued U.S. GAAP and adopted IFRS, as issued by the IASB, as the basis for the preparation and presentation of its financial statements and reporting with the SEC beginning with its financial statements as of and for the year ending December 31, 2011 presented in this annual report. This annual report on Form 20-F and all of PifCo's future reports filed with the SEC will only present financial information prepared in accordance with IFRS. As our wholly-owned subsidiary, PifCo prepared financial statements in accordance with IFRS, as issued by the IASB, for purposes of our financial statements as of and for the year ended

December 31, 2010 which were filed with the local securities regulator in Brazil. There was no effect on PifCo's stockholder's deficit as a result of the transition from U.S. GAAP to IFRS as described in Note 1 in PifCo's audited consolidated financial statements.

The summary financial data prepared in accordance with IFRS is not comparable to the summary financial data prepared in accordance with U.S. GAAP in PifCo's prior annual reports on Form 20-F.

This section contains selected consolidated financial data, presented in U.S. dollars and prepared in accordance with IFRS as of and for each of the three years ended December 31, 2011, 2010 and 2009, derived from PifCo's audited consolidated financial statements, which were audited by KPMG Auditores Independentes.

The information below should be read in conjunction with, and is qualified in its entirety by reference to, PifCo's audited consolidated financial statements and the accompanying notes and Item 5. "Operating and Financial Review and Prospects."

**TABLE OF CONTENTS****BALANCE SHEET DATA - PifCo****IFRS Summary Financial Data**

	<b>As of December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
<b>Assets:</b>			
Total current assets	6,516	11,800	21,773
Property and equipment, net- discontinued operations	-	1	1
Total non-current assets	16,998	6,125	4,523
Total assets	23,514	17,926	26,297
<b>Liabilities and stockholders' deficit:</b>			
Total current liabilities	3,311	5,891	13,174
Total long-term liabilities(1)	20,930	12,377	13,203
Total liabilities	24,241	18,268	26,377
Total stockholder's deficit	(727)	(342)	(80)
Total liabilities and stockholder's deficit	23,514	17,926	26,297

(1) Excludes current portion of long-term debt.

**INCOME STATEMENT DATA - PifCo****IFRS Summary Financial Data**

	<b>For the Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
Financial results, net	(477)	(724)	(1,296)
Net income from discontinuing operations	119	476	1,794
Net (loss)/income for the year	(376)	(261)	487

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**RISK FACTORS**

**Risks Relating to Our Operations**

***Exploration and production of oil in deep and ultra-deep waters involves risks.***

Exploration and production of oil involves risks that are increased when carried out in deep and ultra-deep waters. The majority of our exploration and production activities are carried out in deep and ultra-deep waters, and the proportion of our deepwater activities will remain constant or increase due to the location of our pre-salt reservoirs in deep and ultra-deep waters. Our activities, particularly in deep and ultra-deep waters, present several risks, such as the risk of oil spills, explosions in platforms and drilling operations and natural disasters. The occurrence of any of these events or other incidents could result in personal injuries, loss of life, severe environmental damage with the resulting containment, clean-up and repair expenses, equipment damage and liability in civil and administrative proceedings.

Our insurance policies do not cover all liabilities, and insurance may not be available for all risks. There can be no assurance that incidents will not occur in the future, that insurance will adequately cover the entire scope or extent of our losses or that we will not be found liable in connection with claims arising from these and other events.

***International prices of crude oil, oil products and natural gas may impact us differently than our competitors and may cause our results to differ from our competitors in periods of higher international prices.***

The majority of our revenue is derived primarily from sales of crude oil and oil products in Brazil and, to a lesser extent, natural gas. Changes in crude oil prices typically result in changes in prices for oil products and natural gas. Historically, international prices for crude oil, oil products and natural gas have fluctuated widely as a result of many factors. These factors include:

- global and regional economic and geopolitical developments in crude oil producing regions, particularly in the Middle East and Africa;
- the ability of the Organization of Petroleum Exporting Countries (OPEC) to set and maintain crude oil production levels and defend prices;
- global and regional supply and demand for crude oil, oil products and natural gas;
- global financial crises, such as the global financial crisis of 2008;
- competition from other energy sources;
- domestic and foreign government regulations; and
- weather conditions.



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Our pricing policy in Brazil is intended to be at parity with international product prices over the long term, but we do not adjust our prices for diesel, gasoline and LPG to immediately reflect price changes in the international markets. Significant and sustained decreases in the price of crude oil could have a negative impact on our revenues and may cause us to reduce or alter the timing of our capital expenditures and investments, and this could adversely affect our production forecasts in the medium term and our reserves estimates in the future. Thus, substantial or extended declines in international crude oil prices may have a material adverse effect on our business, results of operations and financial condition and the value of our proved reserves. When, however, we are a net importer by volume of oil and oil products, increases in the price of crude oil may have a negative impact on our costs of sales and margins if we are required to import oil and oil products to meet Brazilian demand, since the cost to acquire such products may exceed the selling price in Brazil. Additionally, material rapid or sustained increases in the international price of crude oil and oil products may also result in reduced downstream margins for us and negatively affect our results. We are also exposed to this risk during periods of depreciation of the real in relation to the U.S. dollar, as we sell oil and oil products in Brazil in reais and international prices for crude oil and oil products are set in U.S. dollars. A depreciation of the real reduces our prices in U.S. dollar terms.

***Our ability to maintain our long-term growth objectives for oil production depends on our ability to successfully develop our reserves, and failure to do so could prevent us from achieving our long-term goals for growth in production.***

Our ability to maintain our long-term growth objectives for oil production, including those defined in our 2011-2015 Business Plan, is highly dependent upon our ability to successfully develop our existing reserves and, in the long term, upon our ability to obtain additional reserves. The development of the sizable reservoirs in deep and ultra-deep waters, including the pre-salt reservoirs that have been assigned to us by the Brazilian federal government, has demanded and will continue to demand significant capital investments. A primary operational challenge, particularly for the pre-salt reservoirs, will be allocating our resources to build the necessary infrastructure at considerable distances from the shore and securing a qualified labor force and offshore oil services to develop reservoirs of such size and magnitude in a timely manner, a challenge that is particularly heightened by the fact that we are required to acquire a minimum level of goods and services from Brazilian providers. We cannot guarantee that we will have or will be able to obtain, in the time frame that we expect, sufficient resources necessary to exploit the reservoirs in deep and ultra-deep waters that the Brazilian federal government has licensed and assigned to us, or that it may license to us in the future, including as a result of the enactment of the new regulatory model for the oil and gas industry in Brazil.

Our exploration activities also expose us to the inherent risks of drilling, including the risk that we will not discover commercially productive crude oil or natural gas reserves. The costs of drilling wells are often uncertain, and numerous factors beyond our control (such as unexpected drilling conditions, equipment failures or incidents, and shortages or delays in the availability of drilling rigs and the delivery of equipment) may cause drilling operations to be curtailed, delayed or cancelled. These risks are heightened when we drill in deep and

ultra-deep waters. In addition, increased competition in the oil and gas sector in Brazil may increase the costs of obtaining additional acreage in bidding rounds for new concessions. We may not be able to maintain our long-term growth objectives for oil production unless we conduct successful exploration and development activities of our large reservoirs in a timely manner.



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***We may not obtain, or it may be difficult for us to obtain, financing for our planned investments, which may have a material adverse effect on us.***

Under our 2011-2015 Business Plan, we intend to invest U.S.\$224.7 billion between 2011 and 2015. In addition, approximately 27% of our existing debt, or U.S.\$22.2 billion, will mature in the next three years. In order to implement our 2011-2015 Business Plan, including the development of our oil and natural gas exploration activities in the pre- and post-salt layers and the development of refining capacity sufficient to process increasing production volumes, we will need to raise significant amounts of debt capital in the financial and capital markets, including by, among other means, loans and issuing debt securities. We cannot guarantee that we will be able to obtain the necessary financing to implement our Business Plan and to roll-over our existing debt in a timely and advantageous manner in order to implement our 2011-2015 Business Plan.

***Our crude oil and natural gas reserve estimates involve some degree of uncertainty, which could adversely affect our ability to generate income.***

The proved crude oil and natural gas reserves set forth in this annual report are our estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made) according to applicable regulations. Our proved developed crude oil and natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. There are uncertainties in estimating quantities of proved reserves related to prevailing crude oil and natural gas prices applicable to our production, which may lead us to make revisions to our reserve estimates. Downward revisions in our reserve estimates could lead to lower future production, which could have an adverse effect on our results of operations and financial condition.

***We do not own any of the subsoil accumulations of crude oil and natural gas in Brazil.***

Under Brazilian law, the Brazilian federal government owns all subsoil accumulations of crude oil and natural gas in Brazil and the concessionaire owns the oil and gas it produces from those subsoil accumulations pursuant to concession agreements. We possess the exclusive right to develop the volumes of crude oil and natural gas included in our reserves pursuant to concession agreements awarded to us by the Brazilian federal government and we own the hydrocarbons we produce under those concession agreements. Access to crude oil and natural gas reserves is essential to an oil and gas company's sustained production and generation of income, and our ability to generate income would be adversely affected if the Brazilian federal government were to restrict or prevent us from exploiting these crude oil and natural gas reserves. In addition, we may be subject to fines by the ANP and our concessions may be revoked if we do not comply with our obligations under our concessions.

***The Assignment Agreement we entered into with the Brazilian federal government is a related party transaction.***

The transfer of oil and gas exploration and production rights to us related to specific pre-salt areas is governed by the Assignment Agreement, which is a contract between the Brazilian federal government, our controlling shareholder, and us. The negotiation of the Assignment Agreement involved significant issues, including negotiations regarding (1) the area covered by the transfer of rights, consisting of exploratory blocks; (2) the price to be paid for the transfer of rights; and (3) the terms of the subsequent revision of the contract price and volume under the Assignment Agreement.

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This contract includes provisions for a subsequent revision of the contract terms, which are subject to oil and industry prices at the time the revision is made. At the time the Assignment Agreement was negotiated, the initial contract price paid by us was based on an assumed Brent oil crude price of U.S.\$80. Once the revision process is concluded pursuant to the terms of the Assignment Agreement, if it is determined that the revised contract price is higher than the initial contract price, we will either make an additional payment to the Brazilian federal government or reduce the amount of barrels of oil equivalent subject to the Assignment Agreement. See Item 10. “Material contracts—Petrobras—Assignment Agreement.” Over the course of the life of the Assignment Agreement, novel issues may arise in the implementation of the revision process and other provisions that will require negotiations between related parties.

***We are subject to numerous environmental, health and safety regulations and industry standards that are becoming more stringent and may result in increased capital and operating expenditures and decreased production.***

Our activities are subject to a wide variety of federal, state and local laws, regulations and permit requirements relating to the protection of human health, safety and the environment, both in Brazil and in other jurisdictions in which we operate, as well as to evolving industry standards and best practices. Particularly in Brazil, our oil and gas business is subject to extensive regulation by several governmental agencies, including the ANP, the ANEEL, the Brazilian Water Transportation Agency (*Agência Nacional de Transportes Aquaviários*) and the Brazilian Land Transportation Agency (*Agência Nacional de Transportes Terrestres*).

Failure to observe or comply with these laws and regulations could result in penalties that could adversely affect our operations. In Brazil, for example, we could be exposed to administrative and criminal sanctions, including warnings, fines and closure orders for non-compliance with these environmental, health and safety regulations, which, among other things, limit or prohibit emissions or spills of toxic substances produced in connection with our operations. Waste disposal and emissions regulations may also require us to clean up or retrofit our facilities at substantial cost and could result in substantial liabilities. The *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* (Brazilian Institute of the Environment and Renewable Natural Resources, or IBAMA) and the ANP routinely inspect our facilities, and may impose fines, restrictions on operations, or other sanctions in connection with its inspections, including unexpected, temporary production shutdowns. In addition, we are subject to environmental laws that require us to incur significant costs to cover damage that a project may cause to the environment. These additional costs may have a negative impact on the profitability of the projects we intend to implement or may make such projects economically unfeasible.

As environmental, health and safety regulations become more stringent, and as new laws and regulations relating to climate change, including carbon controls, become applicable to us, and as industry standards evolve, it is probable that our capital expenditures and investments for compliance with such laws and regulations and industry standards will increase substantially in the future. In addition, if compliance with such laws and regulations and industry standards results in significant unplanned production shutdowns, this may have a

material adverse effect on our production. We also cannot guarantee that we will be able to maintain or renew our licenses and permits if they are revoked or if the applicable environmental authorities oppose or delay their issuance or renewal. Increased expenditures to comply with environmental, health and safety regulations, to mitigate the environmental impact of our operations or to restore the biological and geological characteristics of the areas in which we operate may result in reductions in other strategic investments. Any substantial increase in expenditures for compliance with environmental, health or safety regulations or reduction in strategic investments and significant decreases in our production from unplanned shutdowns may have a material adverse effect on our results of operations or financial condition.

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***We may incur losses and spend time and money defending pending litigations and arbitrations.***

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. See Item 8. “Financial Information—Legal Proceedings” and Note 28 to our audited consolidated financial statements included in this annual report for a description of the legal proceedings to which we are subject. In the event that claims involving a material amount and for which we have no provisions were to be decided against us, or in the event that the losses estimated turn out to be significantly higher than the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on our financial condition and results of operations. We may also be subject to litigation and administrative proceedings in connection with our concessions and other government authorizations, which could result in the revocation of such concessions and government authorizations. In addition, our management may be required to direct its time and attention to defending these claims, which could preclude them from focusing on our core business. Depending on the outcome, certain litigation could result in restrictions on our operations and have a material adverse effect on certain of our businesses.

***We are vulnerable to increased financing expenses resulting from increases in prevailing market interest rates and exchange rate fluctuation.***

Fluctuations in exchange rates, especially a depreciation of the *real* in relation to the U.S. dollar rate, may increase our financing expenses as most of our revenues have been denominated in *reals*, while some of our operating expenses and capital expenditures and investments and a substantial portion of our indebtedness are, and are expected to continue to be, denominated in or indexed to U.S. dollars and other foreign currencies.

As of December 31, 2011, approximately 55.9% — U.S.\$45,905 million of our total indebtedness — consisted of floating rate debt. In light of cost considerations and market analysis, we decided not to enter into derivative contracts or make other arrangements to hedge against the risk of an increase in interest rates. Accordingly, if market interest rates rise, our financing expenses will increase, which could have an adverse effect on our results of operations and financial condition. In addition, as we refinance our existing debt in the coming years, the mix of our indebtedness may change, specifically as it relates to the ratio of fixed to floating interest rates, the ratio of short-term to long-term debt, and the currencies in which our debt is denominated in or indexed to. We cannot assure you that such changes will not result in increased financing expenses borne by us.

***We are not insured against business interruption for our Brazilian operations and most of our assets are not insured against war or sabotage.***

We do not maintain coverage for business interruptions of any nature for our Brazilian operations, including business interruptions caused by labor action. If, for instance, our workers were to strike, the resulting work stoppages could have an adverse effect on us. In

addition, we do not insure most of our assets against war or sabotage. Therefore, an attack or an operational incident causing an interruption of our business could have a material adverse effect on our financial condition or results of operations.

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***Our international operations are subject to substantial risks.***

We operate in several countries, particularly in South America and West Africa. Political, economic and social instability in these countries can have a material adverse effect on us. The results of operations and financial condition of our subsidiaries in these countries may be adversely affected by fluctuations in their local economies, political instability and governmental actions relating to the economy, including:

- the imposition of price controls;
- the imposition of restrictions on hydrocarbon exports;
- the fluctuation of local currencies against the *real*;
- the nationalization of oil and gas reserves;
- increases in export tax and income tax rates for crude oil and oil products; and
- unilateral (governmental) institutional and contractual changes, including controls on investments and limitations on new projects.

If one or more of the risks described above were to materialize we may lose part or all of our reserves in the affected country and we may not achieve our strategic objectives in these countries or in our international operations as a whole, which may result in a material adverse effect on our results of operations and financial condition. For more information about our operations outside Brazil, see Item 4. “Information on the Company—International.”

**Risks Relating to PifCo**

***PifCo’s operations and debt servicing capabilities are dependent on us.***

PifCo’s financial position and results of operations are directly affected by our decisions. PifCo is a direct, wholly-owned finance subsidiary of Petrobras incorporated in the Cayman Islands as an exempted company with limited liability. PifCo functions as a vehicle for us to raise capital for our operations through the issuance of debt securities in the international capital markets, among other means. PifCo’s ability to service and repay its indebtedness is consequently dependent on our own operations. Our support of PifCo’s debt obligations has been and will continue to be made through unconditional and irrevocable guaranties of payment. Our own financial condition and results of operations, as well as our financial support of PifCo, directly affect PifCo’s operational results and debt servicing capabilities. For a more detailed description of certain risks that may have a material adverse impact on our financial condition or results of operations and therefore affect PifCo’s ability to meet its debt obligations, see “Risks Relating to Our Operations.”

**Risks Relating to Our Relationship with the Brazilian Federal Government**

***The Brazilian federal government, as our controlling shareholder, may cause us to pursue certain macroeconomic and social objectives that may have a material adverse effect on us.***

As our controlling shareholder, the Brazilian federal government has pursued, and may pursue in the future, certain of its macroeconomic and social objectives through us, as permitted by law. Brazilian law requires the Brazilian federal government to own a majority of our voting stock, and so long as it does, the Brazilian federal government will have the power to elect a majority of the members of our board of directors and, through them, a majority of the executive officers who are responsible for our day-to-day management. As a result, we may engage in activities that give preference to the objectives of the Brazilian federal government rather than to our own economic and business objectives.



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In particular, we continue to assist the Brazilian federal government to ensure that the supply and pricing of crude oil and oil products in Brazil meets Brazilian consumption requirements. Accordingly, we may make investments, incur costs and engage in sales on terms that may have an adverse effect on our results of operations and financial condition. Prior to January 2002, prices for crude oil and oil products were regulated by the Brazilian federal government, occasionally set below prices prevailing in the world oil markets. We cannot assure you that price controls will not be reinstated in Brazil.

***Our investment budget is subject to approval by the Brazilian federal government, and failure to obtain approval of our planned investments could adversely affect our operating results and financial condition.***

The Brazilian federal government maintains control over our investment budget and establishes limits on our investments and long-term debt. As a state-controlled entity, we must submit our proposed annual budgets to the Ministry of Planning, Budget and Management, the MME and the Brazilian Congress for approval. If our approved budget reduces our proposed investments and incurrence of new debt and we cannot obtain financing that does not require Brazilian federal government approval, we may not be able to make all the investments we envision, including those we have agreed to make to expand and develop our crude oil and natural gas fields. If we are unable to make these investments, our operating results and financial condition may be adversely affected.

**Risks Relating to Brazil**

***Brazilian political and economic conditions have a direct impact on our business and may have a material adverse effect on us.***

The Brazilian federal government's economic policies may have important effects on Brazilian companies, including us, and on market conditions and prices of Brazilian securities. Our financial condition and results of operations may be adversely affected by the following factors and the Brazilian federal government's response to these factors:

- devaluations and other exchange rate movements;
- inflation;
- exchange control policies;
- price instability;
- interest rates;
- liquidity of domestic capital and lending markets;
- tax policy;

- regulatory policy for the oil and gas industry, including pricing policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement changes in policy or regulations that may affect any of the factors mentioned above or other factors in the future may lead to economic uncertainty in Brazil and increase the volatility of the Brazilian securities market and securities issued abroad by Brazilian companies, which may have a material adverse effect on our results of operations and financial condition.

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**Risks Relating to Our Equity and Debt Securities**

***The size, volatility, liquidity and/or regulation of the Brazilian securities markets may curb the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs.***

Petrobras shares are among the most liquid in the São Paulo Stock Exchange (BM&FBOVESPA), but overall, the Brazilian securities markets are smaller, more volatile and less liquid than the major securities markets in the United States and other jurisdictions, and may be regulated differently from the way in which U.S. investors are accustomed. Factors that may specifically affect the Brazilian equity markets may limit the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs at the price and time they desire.

***The market for PifCo's notes may not be liquid.***

Some of PifCo's notes are not listed on any securities exchange and are not quoted through an automated quotation system. We can make no assurance as to the liquidity of or trading markets for PifCo's notes. We cannot guarantee that the holders of PifCo's notes will be able to sell their notes in the future. If a market for PifCo's notes does not develop, holders of PifCo's notes may not be able to resell the notes for an extended period of time, if at all.

***Holders of ADSs may be unable to exercise preemptive rights with respect to the common or preferred shares underlying the ADSs.***

Holders of ADSs who are residents of the United States may not be able to exercise the preemptive rights relating to the common or preferred shares underlying our ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the common or preferred shares relating to these preemptive rights, and therefore we may not file any such registration statement. If a registration statement is not filed and an exemption from registration does not exist, The Bank of New York Mellon, as depositary, will attempt to sell the preemptive rights, and holders of ADSs will be entitled to receive the proceeds of the sale. However, the preemptive rights will expire if the depositary cannot sell them. For a more complete description of preemptive rights with respect to the common or preferred shares, see Item 10. "Additional Information—Memorandum and Articles of Association of Petrobras—Preemptive Rights."

***If holders of our ADSs exchange their ADSs for common or preferred shares, they risk losing the ability to remit foreign currency abroad and forfeiting Brazilian tax advantages.***

The Brazilian custodian for our common or preferred shares underlying our ADSs must obtain a certificate of registration from the Central Bank of Brazil to be entitled to remit U.S. dollars abroad for payments of dividends and other distributions relating to our preferred and

common shares or upon the disposition of the common or preferred shares. If holders of ADSs decide to exchange their ADSs for the underlying common or preferred shares, they will be entitled to continue to rely, for five Brazilian business days from the date of exchange, on the custodian's certificate of registration. After that period, such holders may not be able to obtain and remit U.S. dollars abroad upon the disposition of the common or preferred shares, or distributions relating to the common or preferred shares, unless they obtain their own certificate of registration or register under Resolution No. 2,689, of January 26, 2000, of the National Monetary Council (*Conselho Monetário Nacional*, or CMN), which entitles registered foreign investors to buy and sell on the BM&FBOVESPA. In addition, if such holders do not obtain a certificate of registration or register under Resolution No. 2,689, they may be subject to less favorable tax treatment on gains with respect to the common or preferred shares.

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If such holders attempt to obtain their own certificate of registration, they may incur expenses or suffer delays in the application process, which could delay their ability to receive dividends or distributions relating to the common or preferred shares or the return of their capital in a timely manner. The custodian's certificate of registration or any foreign capital registration obtained by such holders may be affected by future legislative or regulatory changes and we cannot assure such holders that additional restrictions applicable to them, the disposition of the underlying common or preferred shares, or the repatriation of the proceeds from the process will not be imposed in the future.

***Holders of ADSs may face difficulties in protecting their interests.***

Our corporate affairs are governed by our bylaws and Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or elsewhere outside Brazil. In addition, the rights of an ADS holder, which are derivative of the rights of holders of our common or preferred shares, as the case may be, to protect their interests against actions by our board of directors are different under Brazilian Corporate Law than under the laws of other jurisdictions. Rules against insider trading and self-dealing and the preservation of shareholder interests may also be different in Brazil than in the United States. In addition, shareholders in Brazilian companies ordinarily do not have standing to bring a class action.

We are a state-controlled company organized under the laws of Brazil and all of our directors and officers reside in Brazil. Substantially all of our assets and those of our directors and officers are located in Brazil. As a result, it may not be possible for holders of ADSs to effect service of process upon us or our directors and officers within the United States or other jurisdictions outside Brazil or to enforce against us or our directors and officers judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain requirements are met, holders of ADSs may face greater difficulties in protecting their interest in actions against us or our directors and officers than would shareholders of a corporation incorporated in a state or other jurisdiction of the United States.

***Holders of our ADSs may encounter difficulties in the exercise of voting rights and preferred shares and the ADSs representing preferred shares generally do not give holders of ADSs voting rights.***

Holders of ADSs may encounter difficulties in the exercise of some of their rights as a shareholder if they hold our ADS rather than the underlying shares. For example, if we fail to provide the depository with voting materials on a timely basis, holders of ADSs may not be able to vote by giving instructions to the depository on how to vote for them.

In addition, a portion of our ADSs represents our preferred shares. Under Brazilian law and our bylaws, holders of preferred shares generally do not have the right to vote in meetings of our stockholders. This means, among other things, that holders of ADSs representing preferred shares are not entitled to vote on important corporate transactions or decisions. See Item 10. "Additional Information—Memorandum and Articles of Incorporation of

Petrobras—Voting Rights” for a discussion of the limited voting rights of our preferred shares.

***We would be required to pay judgments of Brazilian courts enforcing our obligations under the guaranty relating to PifCo’s notes only in reais.***

If proceedings were brought in Brazil seeking to enforce our obligations in respect of the guaranty relating to PifCo’s notes, we would be required to discharge our obligations only in *reais*. Under the Brazilian exchange control rules, an obligation to pay amounts denominated in a currency other than *reais*, which is payable in Brazil pursuant to a decision of a Brazilian court, may be satisfied in *reais* at the rate of exchange, as determined by the Central Bank of Brazil, in effect on the date of payment.

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***A finding that we are subject to U.S. bankruptcy laws and that the guaranty executed by us were a fraudulent conveyance could result in PifCo noteholders losing their legal claim against us.***

PifCo's obligation to make payments on the PifCo notes is supported by our obligation under the corresponding guaranty. We have been advised by our external U.S. counsel that the guaranty is valid and enforceable in accordance with the laws of the State of New York and the United States. In addition, we have been advised by our general counsel that the laws of Brazil do not prevent the guaranty from being valid, binding and enforceable against us in accordance with its terms. In the event that U.S. federal fraudulent conveyance or similar laws are applied to the guaranty, and we, at the time we entered into the relevant guaranty:

- were or are insolvent or rendered insolvent by reason of our entry into such guaranty;
- were or are engaged in business or transactions for which the assets remaining with us constituted unreasonably small capital; or
- intended to incur or incurred, or believed or believe that we would incur, debts beyond our ability to pay such debts as they mature; and
- in each case, intended to receive or received less than reasonably equivalent value or fair consideration therefor,

then our obligations under the guaranty could be avoided, or claims with respect to that agreement could be subordinated to the claims of other creditors. Among other things, a legal challenge to the guaranty on fraudulent conveyance grounds may focus on the benefits, if any, realized by us as a result of PifCo's issuance of these notes. To the extent that the guaranty is held to be a fraudulent conveyance or unenforceable for any other reason, the holders of the PifCo notes would not have a claim against us under the relevant guaranty and will solely have a claim against PifCo. We cannot assure you that, after providing for all prior claims, there will be sufficient assets to satisfy the claims of the PifCo noteholders relating to any avoided portion of the guaranty.

***Concerns regarding the European credit crisis and market perceptions with respect to both the financial stability of Eurozone countries and the stability of the euro could adversely affect the value of our euro notes and the general availability and cost of financing.***

There are persistent concerns regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro to function as a single currency given the diverse economic and political circumstances in individual Eurozone countries. The risks and prevalent concerns about the credit crisis in Europe could have a detrimental impact on global economic recovery as well as on sovereign and non-sovereign debt in the Eurozone countries. There can be no assurance that the market disruptions in Europe will not spread, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize

affected countries and markets in Europe or elsewhere. These and other concerns could lead to the re-introduction of individual currencies in one or more Eurozone countries, or, in more extreme circumstances, the possible dissolution of the euro entirely.

Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. It is difficult to predict the real impact of the European sovereign crisis; however, to the extent uncertainty regarding the economic recovery continues to negatively impact the global economy, concerns regarding the effect of this financial crisis globally could also have an adverse impact on the capital and financial markets generally. These potential developments, or market perceptions concerning these and related issues, could negatively impact the value of our euro notes and the general availability and cost of financing.



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**Item 4. Information on the Company**

**History and Development**

Petróleo Brasileiro S.A.—Petrobras—was incorporated in 1953 to conduct the Brazilian federal government’s hydrocarbon activities. We began operations in 1954 and have been carrying out crude oil and natural gas production and refining activities in Brazil on behalf of the government. As of December 31, 2011, the Brazilian federal government owned 28.66% of our outstanding capital stock and 50.24% of our voting shares. Our common and preferred shares have been traded on the BM&FBOVESPA since 1968 and on the NYSE since 2000.

As part of a comprehensive reform of the oil and gas regulatory system, the Brazilian Congress amended the Brazilian Constitution in 1995 to authorize the Brazilian federal government to contract with any state or privately-owned company to carry out upstream, oil refining, cross-border commercialization and transportation activities in Brazil of oil, natural gas and their respective products. On August 6, 1997, Brazil enacted Law No. 9,478, which established a concession-based regulatory framework, ended our exclusive right to carry out oil and gas activities, and allowed competition in all aspects of the oil and gas industry in Brazil. Since that time, we have been operating in an increasingly deregulated and competitive environment. Law No. 9,478 also created an independent regulatory agency, the ANP, to regulate the oil, natural gas and renewable fuel industry in Brazil and to create a competitive environment in the oil and gas sector. Effective January 2, 2002, Brazil deregulated prices for crude oil, oil products and natural gas. See “Regulation of the Oil and Gas Industry in Brazil—Price Regulation.”

In 2010, new laws were enacted to regulate exploration and production activities in pre-salt areas not subject to existing concessions. Pursuant to this new legislation, we entered into an agreement with the Brazilian federal government on September 3, 2010 (Assignment Agreement), under which the government assigned to us the right to activities for the exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. The initial purchase price for our rights under the Assignment Agreement was R\$74,807,616,407, which was equivalent to U.S.\$42,533,327,500 as of September 1, 2010. On September 29, 2010, we issued new shares (including shares in the form of ADSs) in a global public offering consisting of a registered offering in Brazil and an international offering that included a registered offering in the United States. We applied part of the net proceeds from the global offering to pay the initial purchase price under the Assignment Agreement.

We operate through subsidiaries, joint ventures, and associated companies established in Brazil and many other countries. Our principal executive office is located at Avenida República do Chile 65, 20031-912 Rio de Janeiro, RJ, Brazil and our telephone number is (55-21) 3224-4477.

**Overview of the Group**

We are an integrated oil and gas company that is the largest corporation in Brazil and one of the largest companies in Latin America in terms of revenues. As a result of our legacy as Brazil's former sole supplier of crude oil and oil products and our ongoing commitment to development and growth, we operate most of Brazil's producing oil and gas fields and hold a large base of proved reserves and a fully developed operational infrastructure. In 2011, our average domestic daily oil production was 2,022.0 mbb/d, an estimated 92% of Brazil's total. Over 76% of our domestic proved reserves are in large, contiguous and highly productive fields in the offshore Campos Basin, which allows us to optimize our infrastructure and limit our costs of exploration, development and production. In 43 years of developing Brazil's offshore basins we have developed special expertise in deepwater exploration and production, which we exploit both in Brazil and in other offshore oil provinces.

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As of December 31, 2011, we had proved developed oil and gas reserves of 8,124 mmboe, including synthetic oil and synthetic gas from oil shale and proved undeveloped reserves of 4,143 mmboe in Brazil. The exploration and development of this large reserve based and the new pre-salt areas granted to us by the Brazilian Government under the Assignment Agreement has demanded, and will continue to demand, significant investments and the rapid growth of our operations. To support this growth, we have ordered the construction of 22 new FPSOs and 33 drilling rigs and are also making necessary investments in infrastructure. We have planned capital expenditures and investments of U.S.\$50.6 billion for 2012 and of U.S.\$224.7 billion for the period from 2011 through 2015.

We operate substantially all of the refining capacity in Brazil. Most of our refineries are located in Southeastern Brazil, within the country's most populated and industrialized markets and adjacent to the Campos Basin that provides most of our crude oil. Our domestic refining capacity of 2,013 mbb/d is well balanced with our domestic refining throughput of 1,862 mbb/d and sales of oil products to domestic markets of 2,131 mbb/d. We are also involved in the production of petrochemicals. We distribute oil products through our own "BR" network of retailers and to wholesalers.

We participate in most aspects of the Brazilian natural gas market. We expect the percentage of natural gas in Brazil's energy matrix to grow in the future as a result of the expansion of Brazil's gas transportation infrastructure which began in 2005 and was largely completed in 2011 and as we expand our production of both associated and non-associated gas, mainly from offshore fields in the Campos, Espírito Santo and Santos Basins. We import natural gas from Bolivia and use LNG terminals to meet demand and diversify our supply. We also participate in the domestic power market primarily through our investments in gas-fired thermoelectric power plants. In addition, we participate in the fertilizer business, which is another important source of natural gas demand.

Outside of Brazil, we operate in 24 countries. In South America, our operations extend from exploration and production to refining, marketing, retail services and natural gas pipelines. In North America, we produce oil and gas and have refining operations in the United States. In Africa, we produce oil in Angola and Nigeria, and in Asia, we have refining operations in Japan. In other countries, we are engaged mainly in oil and gas exploration.

Comprehensive information and tables on reserves and production is presented at the end of Item 4. See "—Additional Reserves and Production Information."

Our activities comprise six business segments:

- **Exploration and Production:** oil and gas exploration, development and production in Brazil;
- **Refining, Transportation and Marketing:** includes refining, logistics, transportation, oil products and crude oil exports and imports, as well as petrochemical sector in Brazil;

- **Distribution:** distribution of oil products to wholesalers and through our “BR” retail network in Brazil;
- **Gas and Power:** transportation and trading of natural gas and LNG , as well as, generation and trading of electric power;
- **Biofuel:** production of biodiesel and its co-products and ethanol activities, through equity investments, production and marketing of ethanol, sugar and the excess electric power generated from sugarcane bagasse; and
- **International:** exploration and production, refining, transportation and marketing, distribution and gas and power operations outside of Brazil.

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Our Corporate segment comprises our financing activities not attributable to other segments, including corporate financial management, central administrative overhead and actuarial expenses related to our pension and health care plans for inactive participants. As of 2011, the results of our Biofuels segment have been presented separately from our Corporate segment. The 2010 and 2009 financial information related to our Corporate and Biofuel segments were reclassified accordingly.

The following table sets forth key information for each business segment in 2011:

	<b>Key Information by Business Segment, 2011</b>						
	<b>Exploration and Production</b>	<b>Refining, Transportation and Marketing</b>	<b>Gas and Power</b>	<b>Biofuel</b>	<b>Distribution</b>	<b>International</b>	<b>Corporate E&amp;P</b>
	<b>(U.S.\$ million)</b>						
Income before income taxes	74,117	118,630	9,738	320	44,001	16,956	-
Income taxes	36,809	(8,753)	2,725	(151)	1,134	2,117	(5,003)
Total assets at December 31	141,113	84,330	27,645	1,289	7,885	19,427	45,326
Capital expenditures and investments	20,405	16,133	2,293	294	679	2,631	729

**Exploration and Production****Exploration and Production Key Statistics**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
<b>Exploration and Production:</b>			
Sales revenues	74,117	54,273	38,759
Income (loss) before income taxes	36,809	25,439	14,707
Total assets at December 31	141,113	136,600	75,908
Capital expenditures and investments	20,405	18,621	16,162

Oil and gas exploration and production activities in Brazil are the largest component of our portfolio. We have gradually increased production over the past four decades, from 164 mbbbl/d of crude oil, condensate and natural gas liquids in Brazil in 1970 to 2,022 mbbbl/d in 2011. We aim to grow oil and gas reserves and production sustainably and be recognized for excellence in Exploration and Production operations.

The primary focus of our E&P segment is to:

- Continue to explore and develop the Campos Basin, leveraging the current infrastructure to drill in deeper horizons in existing concessions, including pre-salt reservoirs, and using new technologies for secondary recovery in producing fields;

- Explore and develop Brazil's two other most promising offshore basins, Espírito Santo (light oil, heavy oil and gas) and Santos (gas and light oil), with a particular focus on pre-salt development;
- Explore light oil and natural gas in new frontiers, including Brazil's equatorial margin and eastern and northeastern regions;
- Develop associated and non-associated gas resources in the Santos Basin and elsewhere to meet Brazil's growing demand for gas and to increase the contribution of Brazilian gas production as a proportion of total domestic gas supply; and
- Sustain and increase production from onshore and shallow fields through drilling and enhanced recovery operations.

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During 2011, our oil and gas production from Brazil averaged 2,220.5 mboe/d, of which 91% was oil and 9% was natural gas. On December 31, 2011, our estimated net proved crude oil and natural gas reserves in Brazil were 12.26 billion boe, of which 85% was crude oil and 15% was natural gas. Brazil provided 90.7% of our worldwide production in 2011 and accounted for 95% of our worldwide reserves at December 31, 2011 on a barrels of oil equivalent basis. Historically, approximately 85% of our total Brazilian production has been oil. In connection with the development of the pre-salt, the contribution of natural gas to total hydrocarbon production is expected to grow. In 2011, we drilled a total of 398 development wells, of which 84 were offshore and 314 were onshore.

As of December 31, 2011, we had 132 exploration agreements covering 194 blocks, corresponding to a gross exploratory acreage of 119,132 km<sup>2</sup> (29.4 million acres), or a net exploratory acreage of 95,672.2 km<sup>2</sup> (23.6 million acres), and 51 evaluation plans. We are exclusively responsible for conducting the exploration activities in 98 of the 132 exploration agreements. As of December 31, 2011, we had exploration partnerships with 20 foreign and domestic companies. We conduct exploration activities under 111 of our 132 partnership agreements.

We focus much of our exploration effort on deepwater drilling, where the discoveries are substantially larger and our technology and expertise create a competitive advantage. In 2011, we invested a total of U.S.\$5.3 billion in exploration activities in Brazil. We drilled a total of 123 exploratory wells in 2011, of which 47 were offshore and 76 onshore.

Brazil's richest oil fields are located offshore, most of them in deep waters. Since 1971, when we started exploration in the Campos Basin, we have been active in these waters and we have become globally recognized as innovators in the technology required to explore and produce hydrocarbons in deep and ultra-deep water. We operate more production (on a boe basis) from fields in deep and ultra-deep water than any other company. In 2011, offshore production accounted for 89% of our production and deepwater production accounted for 77% of our production in Brazil. In 2011, we operated 226 wells in water deeper than 1,000 meters (3,281 feet), and we drilled around 26 exploratory wells in water deeper than 1,000 meters (3,281 feet).

Offshore exploration, development and production costs are generally higher than those onshore, but we have been able to offset these higher costs by higher drilling success ratios, larger discoveries and greater production volumes. We have historically been successful in finding and developing significant oil reservoirs offshore, which has allowed us to achieve economies of scale by spreading the total costs of exploration, development and production over a large base. By focusing on opportunities that are close to existing production infrastructure, we limit the incremental capital requirements of new field development.

Historically, our offshore exploration and production activities were focused on post-salt reservoirs. In recent years, we have focused our offshore exploration efforts on pre-salt reservoirs located in a region of approximately 149,000 km<sup>2</sup> (36.8 million acres) stretching from the Campos to the Santos Basins. Our existing contracts in this area cover 26.6% (approximately 39,615 km<sup>2</sup> or 9.8 million acres) of the pre-salt areas, including the pre-salt

areas assigned to us under Concession Contracts and the Assignment Agreement. An additional 4% (approximately 6,000 km<sup>2</sup> or 1.5 million acres) is under concession to other oil companies for exploration. The remaining 69.4% (approximately 103,000 km<sup>2</sup> or 25.4 million acres) of the pre-salt region is open acreage area, not licensed yet, and the licensing of new pre-salt areas will be made under a production-sharing regime under Law No. 12,351, enacted on December 22, 2010.



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Since 2005, we have drilled 60 exploratory wells that yielded hydrocarbon discoveries within the pre-salt area. We hold interests ranging from 20% to 100% in the pre-salt exploration areas under concession to us. In the southern part of the Santos Basin, where the salt layer is thick and the hydrocarbons have been more perfectly preserved, we have made several particularly promising discoveries since 2006, including those made in Blocks BM-S-11 (Iara and Lula) and BM-S-9 (Carioca and Sapinhoá, formerly Guará). In the northern part of the region, we made significant discoveries in 2008 and early 2010 in the area known as Parque das Baleias and in the Barracuda, Marlim and Caratinga fields, all of which are in the Campos Basin. As a result, we are committing substantial resources to develop these pre-salt discoveries, which are located in deep and ultra-deep waters and reservoirs at total depths of up to 7,000 meters (22,965 feet).

Our 2011-2015 Business Plan, which was released in July 2011, foresees investments in our Brazilian exploration and production activities of U.S.\$117.7 billion from 2011 to 2015 (not including investments by our partners). Of this amount, 54.6% will be applied to the exploration, production and development of necessary infrastructure in connection with our post-salt reserves, and 45.4% will be applied to the corresponding investments in our pre-salt reserves.

We have also implemented a variety of programs designed to increase oil recovery from existing fields and reduce natural declines from producing fields.

Our exploration and production activities outside Brazil are included in our International business segment. See “—International.”

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Information about our principal oil and gas producing fields in Brazil is summarized in the table below.

<b>Principal Oil and Gas Producing Fields in Brazil</b>				
<b>Basin</b>	<b>Fields</b>	<b>Petrobras %</b>	<b>Type</b>	<b>Fluid(1)</b>
Alagoas	Pilar	100%	Onshore	Light Oil/Natural Gas
Camamu	Manati	35%	Shallow	Natural Gas
Campos	Albacora	100%	Shallow	Intermediate Oil
			Deepwater	Intermediate Oil
	Albacora Leste	90%	Deepwater	Intermediate Oil
			Ultra-deepwater	
	Baleia Azul	100%	Deepwater	Intermediate Oil
	Baleia Franca	100%	Deepwater	Intermediate Oil
	Barracuda	100%	Deepwater	Intermediate Oil
	Bijupirá/Salema	22.4%(2)	Deepwater	Intermediate Oil
	Cachalote	100%	Deepwater	Intermediate Oil
	Caratinga	100%	Deepwater	Intermediate Oil
	Espadarte	100%	Deepwater	Intermediate Oil
	Jubarte	100%	Deepwater	Heavy Oil
	Maromba	62.5%	Deepwater	Heavy Oil
	Marlim	100%	Deepwater	Heavy Oil
	Marlim Leste	100%	Deepwater	Intermediate Oil
	Marlim Sul	100%	Deepwater	Intermediate Oil
	Espírito Santo			Ultra-deepwater
Namorado		100%	Shallow	Intermediate Oil
Ostra		35%(2)	Deepwater	Heavy Oil
Pampo		100%	Shallow	Intermediate Oil
Pargo		100%	Shallow	Intermediate Oil
Roncador		100%	Ultra-deepwater	Intermediate Oil
Voador		100%	Deepwater	Heavy Oil
Fazenda Alegre		100%	Onshore	Heavy Oil
Peroá		100%	Shallow	Light Oil
Golfinho		100%	Deepwater	Intermediate Oil
Potiguar			Ultra-deepwater	Intermediate Oil
	Canapu	100%	Deepwater	Natural Gas
	Camarupim	76%	Deepwater	Natural Gas
	Canto do Amaro	100%	Onshore	Intermediate Oil/Natural Gas Heavy Oil/Natural Gas
Recôncavo	Jandaia	100%	Onshore	Light Oil
	Miranga	100%	Onshore	Light Oil/Natural Gas
Santos	Merluza	100%	Shallow	Natural Gas
	Mexilhão	100%	Shallow	Natural Gas

	Uruguá	100%	Deepwater	Intermediate Oil/Natural Gas
	Tambaú	100%	Deepwater	Natural Gas
	Lula	65%	Ultra-deepwater	Intermediate Oil
	Sapinhoá	45%	Ultra-deepwater	Intermediate Oil
Sergipe	Carmópolis	100%	Onshore	Intermediate Oil
	Sirirízinho	100%	Onshore	Intermediate Oil
Solimões	Leste do Urucu	100%	Onshore	Light Oil/Natural Gas
	Rio Urucu	100%	Onshore	Light Oil/Natural Gas

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(1) Heavy oil = up to 22° API; intermediate oil = 22° API to 31° API; light oil = greater than 31° API

(2) Petrobras is not the operator in this field.

We have historically conducted exploration, development and production activities in Brazil through concession contracts, which we have obtained through participation in bid rounds conducted by the ANP. Some of our existing concessions were granted by the ANP without an auction in 1998, as provided by Law No. 9,478. These are known as the “Round Zero” concession contracts. Since such time, we have participated in all of the auction rounds, most recently in December 2008.

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Our domestic oil and gas exploration and production efforts are primarily focused on three major basins offshore in Southeastern Brazil: Campos, Espírito Santo and Santos. The following map shows our concession areas in Brazil as of December 2011.

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The map below shows the location of the pre-salt reservoirs as well as the status of our exploratory activities there.

*Campos Basin*

The Campos Basin, which covers approximately 115,000 km<sup>2</sup> (28.4 million acres), is the most prolific oil and gas basin in Brazil as measured by proved hydrocarbon reserves and annual production. Since we began exploring this area in 1971, over 60 hydrocarbon accumulations have been discovered, including eight large oil fields in deep water and ultra-deep water. The Campos Basin is our largest oil- and gas-producing region, producing an average 1,677.0 mbbbl/d of oil and 12.9 mmm<sup>3</sup>/d (487.4 mmcf/d) of associated natural gas during 2011, 79% of our total production from Brazil.

In 2011, we produced oil at an average rate of 1,677.0 mbbbl/d from 44 fields in the Campos Basin and held proved crude oil reserves representing 82% of our total proved crude oil reserves in Brazil. In addition, the start-up of operations in 2011 of the P-56 platform located in the Marlim Sul field in the offshore Campos Basin added a capacity of 100 mbbbl/d of oil and 6.0 mmm<sup>3</sup>/d of natural gas. We held proved natural gas reserves in the Campos Basin representing 45% of our total proved natural gas reserves in Brazil. We operated 40 floating production systems, 14 fixed platforms and 6,749 km (4,194 miles) of pipeline and flexible pipes in water depths from 80 to 1,886 meters (262 to 6,188 feet), delivering oil with an average API gravity of 22.9° and an average BSW of 1%. As of December 31, 2011, we held rights to 10 exploratory blocks and 13 evaluation plans in the Campos Basin, comprising a total of 7,975.6 km<sup>2</sup> (1.97 million acres).

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Production growth in the Campos Basin originates mainly from the installation of new platforms to develop our proved reserves in the region. In 2011, the start-up of operations at the P-56 platform located in the Marlim Sul field in the offshore Campos Basin added a capacity of 100 mbb/d of oil and 6.0 mmm<sup>3</sup>/d of natural gas. The connection of new wells to previously installed platforms is also a significant contributor to production increases in the Campos Basin. The interconnection of new wells in the P-48 and P-57 platforms and the FPSO Capixaba added 68.9 mbb/d to our average production in the Campos Basin in 2011.

We expect that the source of future production from the Campos Basin will be predominantly from deepwater oil fields. We are currently developing nine major projects in the Campos Basin: Marlim Sul Module 3, Roncador Modules 3 and 4, Papa-Terra Modules 1 and 2, Aruanã (BM-C-36) - EWT, Jubarte Phase II, Parque das Baleias and the pre-salt reservoirs of Baleia Azul.

**Principal Campos Basin Development Projects**

<b>Field</b>	<b>Unit Type</b>	<b>Unit</b>	<b>Crude Oil Nominal Production Capacity (bbl/d)</b>	<b>Natural Gas Nominal Capacity (mcf/d)</b>	<b>Water Depth (meters)</b>	<b>Start Up (year)</b>
Baleia Azul & Pirambu	FPSO	Anchieta	100,000	88,285	1,220	2012
Roncador–Module 3	SS	P-55	180,000	211,884	1,790	2013
Papa-Terra–Module 1	TLWP	P-61	0	0	1,180	2013
Papa-Terra–Module 2	FPSO	P-63	150,000	31,783	1,170	2013
Baleia Azul, Jubarte, Cachalote, Baleia Anã & Baleia Franca	FPSO	P-58	180,000	211,884	1,400	2013
Roncador–Module 4	FPSO	P-62	180,000	211,884	1,550	2013

We have also made important progress in the pre-salt reservoirs of the Campos Basin, where we have drilled a total of 30 wells. Of particular note are the discoveries in the Parque das Baleias area, in the northern part of Campos Basin off the coast of the State of Espírito Santo. The first pre-salt oil production in Parque das Baleias was at the Jubarte field in 2008. We started producing from the Baleia Franca field in the second half of 2010 using the existing FPSO Capixaba. In 2012, we expect to start up a pilot system exclusively dedicated to pre-salt exploration in the Baleia Azul region using the FPSO Cidade de Anchieta, with a capacity to produce 100,000 bpd of oil and 3.5 mmm<sup>3</sup>/d of gas. We have also made promising discoveries near existing infrastructure in our Campos Basin concessions. Specifically, we have discovered pre-salt reserves of Brava, Carimbe and Tracaja in the

pre-salt layers of the Marlim, Caratinga and Marlim Leste concessions. These discoveries represent opportunities to increase pre-salt production in the Campos Basin in the coming years while taking advantage of the existing infrastructure in the area.

### *Santos Basin*

The Santos Basin, which covers approximately 348,900 km<sup>2</sup> (86 million acres) off the city of Santos, in the State of São Paulo, is one of the most promising exploration and production areas offshore Brazil. In the Santos Basin in 2011, we produced oil at an average rate of 66.9 mbbbl/d and natural gas at an average rate of 4.1 mmm<sup>3</sup>/d (156.4 mmcf/d). In the Santos Basin, we held proved crude oil reserves representing 10% of our total proved crude oil reserves in Brazil and held natural gas reserves representing 29% of our total proved natural gas reserves in Brazil. On December 31, 2011, we held exploration rights to 38 blocks in the Santos Basin, comprising 23,625.4 km<sup>2</sup> (5,835.5 million acres).

The Santos Basin pre-salt was a central focus of E&P activities in 2011. We continue to concentrate our efforts on gathering information about the pre-salt reserves through extended well tests (EWTs) and testing drilling technologies to improve efficiency and to plan the definitive design of production platforms. Throughout the year, we drilled 14 new wells, increasing to 37 the number of wells in the Santos Basin pre-salt. In addition, we expect to drill up to 21 new wells in this region in 2012.

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We currently have two platforms, the FPSO Cidade de São Vicente and the FPSO Dynamic Producer, that are dedicated to perform EWTs in the Santos Basin pre-salt. Since 2009, two EWTs have been performed in the Lula and Guará areas. We are currently performing EWTs in the Iracema and Carioca Northeast areas, and have three additional EWTs in other areas planned for 2012. From 2013 through 2017, we plan to install at least 17 FPSOs in the Santos Basin pre-salt to develop the production in the region. These FPSOs are currently being designed or constructed. The subsequent phase, beginning in 2017, will include the application of improved technologies and engineering specifically designed for the pre-salt fields.

The first productive field in the Santos Basin pre-salt was Lula (formerly Tupi), which began producing oil in May 2009 following an 18-month EWT. In November 2010, we replaced the EWT with a long-term production system, the FPSO Cidade de Angra dos Reis, which has a production capacity of 100 mbb/d. By the end of 2011, we had drilled and connected three production wells to this FPSO, which was producing 65 mbb/d of oil. A gas injection well was also drilled in the Lula area and was the first injection well to be tested in the pre-salt reservoirs. In 2012, we plan to drill two additional production wells and one injector in the Lula system.

In December 2011, the Declaration of Commerciality for the Guará area was submitted to the ANP for approval. Located in the Santos Basin pre-salt area called Sapinhoá Pilot, the FPSO Cidade de São Paulo has an expected capacity of 120,000 mbb/d of oil and 5 mmm<sup>3</sup>/d of gas and is expected to come online in 2012.

Under the Assignment Agreement, we have six blocks and one contingent block which comprise our rights to explore, evaluate and produce up to five billion barrels of oil equivalent in the pre-salt area of the Santos Basin. We are developing these blocks in an integrated manner with the areas we already have under concession. In 2011, we drilled our first exploratory well under the Assignment Agreement in the Franco area and we have an EWT planned for that area in 2012. With a view to further develop these blocks, we have acquired four tanker hulls that will be converted into FPSOs. Over the next four years, we will proceed with our exploration program and are currently targeting the production of oil in the Franco area in 2015.

**Principal Santos Basin Development Projects**

Field	Unit Type	Production Unit	Natural Gas		Water Depth (meters)	Start Up (year)	Notes
			Crude Oil Nominal Capacity (bbl/d)	Nominal Capacity (mcf/d)			
Bauna & Piracaba (BM-S-40)	FPSO	Cidade de Itajai	80,000	70,628	200	2012	Chartered from Teekay
Sapinhoá Pilot (Guará)	FPSO	Cidade de São Paulo	120,000	176,573	2,141	2012	Chartered from Schahin/Modeco
Lula (Nordeste) Pilot	FPSO	Cidade de Paraty	120,000	176,573	2,200	2013	Chartered from Queiroz Galvão/SBM
Sapinhoá (Norte) – Module 2	FPSO	Cidade de Ilha Bela	150,000	211,884	2,100	2014	Chartered from Queiroz Galvão/SBM



Lula Iracema Area	FPSO	Cidade de Mangaratiba	150,000	282,520	2,100	2014	Chartered from Schahin/Modeco
Franco 1 Transfer of Rights	FPSO	P-74	150,000	247,205	2,100	2015	Owned
Lula (Central)	FPSO	P-66	150,000	247,205	2,100	2015	Owned
Lula (High)	FPSO	P-67	150,000	176,575	2,100	2015	Owned

Santos is also the focus of our plans to develop domestic natural gas. Our average natural gas production in this basin in 2011 was 4.1 mmm<sup>3</sup>/d (156.4 mmcf/d) and our proved natural gas reserves in the Santos Basin represented 29% of our total proved natural gas reserves in Brazil.

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In recent years we have been carrying out plans to increase our gas production and build supporting infrastructure in the Santos and Espírito Santo Basins. These plans are now reaching fruition, and we expect that they will increase our average gas production capacity in the Santos Basin from 5.8 mmm<sup>3</sup>/d (204.8 mmcf/d) in 2011 to 17.8 mmm<sup>3</sup>/d (628.6 mmcf/d) by the end of 2012. In 2010, we started up post-salt operations at the FPSO Cidade de Santos platform located in the Uruguá field, which produced 0.8 mmm<sup>3</sup>/d (28.3 mmcf/d) of gas in 2011 and is expected to produce 6.8 mmm<sup>3</sup>/d (240.1 mmcf/d) by the end of 2012, when the Tambaú field will start production using the same platform. Mexilhão, located in shallow waters in the Santos Basin Block BS-400, started its production in March 2011, and produced 1.7 mmm<sup>3</sup>/d (60.0 mmcf/d). This production may increase to 8.6 mmm<sup>3</sup>/d (303.7 mmcf/d) in 2012 in light of the potential production from new wells.

In addition to the foregoing activities, we have made light oil discoveries in shallow water post-salt reservoirs in the BM-S-40 block, called Tiro and Sidon. In 2010, we commenced an EWT in these fields using the SS-11 Atlantic Zephyr platform. We are using the results of that EWT to develop a long-term production system for this block, including a plan to install the FPSO Cidade de Itajaí, with an expected capacity of 80 mbbbl/d of oil and 2 mmm<sup>3</sup>/d of gas. The FPSO Cidade de Itajaí is expected to come online in 2012. In February, 2012 we submitted to the ANP the Declaration of Commerciality for Tiro and Sidon, which were renamed Bauna and Piracaba, respectively.

*Espírito Santo Basin*

We have made several discoveries of light oil and natural gas in the Espírito Santo Basin, which covers approximately 75,000 km<sup>2</sup> (18.5 million acres) offshore and 14,000 km<sup>2</sup> (3.5 million acres) onshore. At December 31, 2011, we were producing oil at an average rate of 54.4 mbbbl/d from 46 fields and held proved crude oil reserves representing 1% of our total proved crude oil reserves in Brazil. At December 31, 2011, we were producing natural gas at an average rate of 6.9 mmm<sup>3</sup>/d (261.2 mmcf/d) and held proved natural gas reserves representing 4% of our total proved natural gas reserves in Brazil.

In addition to developing new production projects, we are also optimizing existing resources in the Espírito Santo area by constructing the Sul Norte Capixaba gas pipeline with capacity to transport 7 mmm<sup>3</sup>/d (247.2 mmcf/d). The pipeline, which runs from the Parque das Baleias area to the Cacimbas gas treatment unit, is expected to come online in 2012.

On December 31, 2011, we held exploration rights to 20 blocks, one onshore and 19 offshore (five of which are evaluation areas), comprising a total of 8,217.5 km<sup>2</sup> (2,029.7 million acres).

*Other Basins*

We produce hydrocarbons and hold exploration acreage in 19 other basins in Brazil. Of these, the most significant are the shallow offshore Camamu Basin and the onshore Potiguar,

Recôncavo, Sergipe, Alagoas and Solimões Basins. While our onshore production is primarily in mature fields, we plan to sustain and slightly increase production from these fields in the future by using enhanced recovery methods.

We had a total of 297 production agreements as of December 31, 2011, and were the 100% owner in 256 of them. We are operators under 12 of our 27 partnership agreements.

### *Critical Resources in Exploration and Production*

We have sought to ensure that critical service sector resources are sufficient to permit us to move ahead with our E&P plans. Because offshore Brazil is geographically isolated from other offshore drilling areas, and because we often drill in unusually deep waters, we plan carefully for our future drilling rig needs. By using a combination of our own rigs and units that we contract for periods of three years or longer, we have historically ensured the availability of drilling units to meet our needs, and paid lower average daily rates than if we had contracted the units on a spot basis. We continually evaluate our need for rigs, renew our drilling contracts, contract ahead for rigs as needed, and stimulate new rig construction by signing long-term operating leases with drilling contractors for rigs that are not yet built.

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In the last three years we have successfully eased pressures related to a limited supply of deepwater rigs. Whereas in 2008 we only had three rigs capable of drilling in water depths greater than 2000 meters (6,560 feet), we had 19 as of December 31, 2011, and we expect to have 33 by 2013.

More specifically, we have entered into long-term contracts for 16 drilling rigs to engage in deepwater exploration and production development of our offshore fields in Brazil in 2012 and 2013. Of these 16 rigs, one will be capable of operating in water depths of up to 1,500 meters (4,621 feet), and 15 will be capable of drilling in water deeper than 2,000 meters (6,562 feet). All of these rigs will be chartered by us and have been built or are being built in shipyards outside of Brazil. Of the 19 drilling rigs that we had capable of drilling in water depths greater than 2,000 meters (6,562 feet) as of December 31, 2011, two have contracts that expire by 2013.

In addition to these 16 new drilling rigs, we have also announced plans for 33 rigs to be built in Brazil to meet our long-term needs, including satisfying Brazilian local content requirements arising out of the Assignment Agreement and existing concession agreements. To this end, we have awarded contracts for seven drilling rigs to be built by Sete Brasil S.A. (Sete BR), a Brazilian company in which we hold a 10% interest. We are currently negotiating contracts for an additional 21 drilling rigs to be built by Sete BR and five drilling rigs to be built by Ocean Rig UDW Inc. (Ocean Rig). We expect to fulfill our future drilling requirements with a combination of rigs built in Brazil, supplemented when needed by the international fleet of deepwater rigs.

**Drilling Units in Use by Exploration and Production on December 31 of Each Year**

	2011		2010		2009	
	Leased	Owned	Leased	Owned	Leased	Owned
Onshore	17	11	22	12	31	13
Offshore, by water depth (WD)						
Jack-up rigs	54	8	44	8	36	8
Floating rigs:	1	4	1	4	2	4
500 to 1000 meters WD	53	4	43	4	34	4
1001 to 2000 meters WD	8	2	11	2	9	2
2001 to 3000 meters WD	26	2	19	2	20	2
	19	0	13	0	5	0

**Refining, Transportation and Marketing****Refining, Transportation and Marketing Key Statistics**

	2011	2010	2009
	(U.S.\$ million)		
<b>Refining, Transportation and Marketing:</b>			
Sales revenues	118,630	97,936	74,381
Income (loss) before income taxes	(8,753)	3,141	10,239
Total assets at December 31	84,330	70,515	50,920
Capital expenditures and investments	16,133	16,198	9,694

We are an integrated company with a dominant market share in our home market. We own and operate 12 refineries in Brazil, with a total net distillation capacity of 2,013 mbb/d, and are one of the world's largest refiners. As of December 31, 2011, we operated substantially

all of Brazil's total refining capacity. We supplied almost all of the refined product needs of third-party wholesalers, exporters and petrochemical companies, in addition to the needs of our Distribution segment. We operate a large and complex infrastructure of pipelines and terminals and a shipping fleet to transport oil products and crude oil to domestic and export markets. Most of our refineries are located near our crude oil pipelines, storage facilities, refined product pipelines and major petrochemical facilities, facilitating access to crude oil supplies and end-users.

We also import and export crude oil and oil products. The demand for oil products in Brazil is increasing rapidly, driven primarily by economic growth. Particularly in 2011, we met this incremental growth in demand by increasing imports as our refining capacity was not sufficient to meet the increased demand. This increase in imports increased our cost of sales and decreased our margins in 2011. See Item 5. "Operating and Financial Review and Prospects." We expect the need for imports to decline in the future as we build additional refining capacity and upgrade our refineries to facilitate the processing of domestically produced crudes.

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Our Refining, Transportation and Marketing segment also includes petrochemical operations that add value to the hydrocarbons we produce and meet the needs of the growing Brazilian economy.

We participate in refining, transportation and marketing operations outside of Brazil through our International business segment. See “—International.”

*Refining*

Our refining capacity in Brazil as of December 31, 2011, was 2,013 mbb/d and our average throughput during 2011 was 1,862 mbb/d.

The following table shows the installed capacity of our Brazilian refineries as of December 31, 2011, and the average daily throughputs of our refineries in Brazil and production volumes of principal oil products in 2011, 2010 and 2009.

Name (Alternative Name)	Location	Capacity and Average Throughput of Refineries			
		Crude Distillation Capacity at December 31, 2011 (mbbl/d)	Average Throughput		
		2011	2011	2010	2009
		(mbbl/d)	(mbbl/d)	(mbbl/d)	
LUBNOR	Fortaleza (CE)	8	7	8	7
RECAP (Capuava)	Capuava (SP)	49	43	36	44
REDUC (Duque de Caxias)	Rio de Janeiro (RJ)	239	254	256	238
REFAP (Alberto Pasqualini)	Canoas (RS)	189	148	145	169
REGAP (Gabriel Passos)	Betim (MG)	151	129	143	140
REMAN (Isaac Sabbá)	Manaus (AM)	46	42	42	41
REPAR (Presidente Getúlio Vargas)	Araucária (PR)	195	193	170	185
REPLAN (Paulínia)	Paulínia (SP) São Jose dos	396	373	316	341
REVAP (Henrique Lage)	Campos (SP)	252	240	238	241
RLAM (Landulpho Alves)	Mataripe (BA)	281	233	250	220
RPBC (Presidente Bernardes)	Cubatão (SP)	172	166	160	165
RPCC (Potiguar Clara Camarão)	Guamaré (RN)	35	34	33	
Total		2,013	1,862	1,798	1,791

In recent years, we have made substantial investments in our refinery system for the following purposes:

- Improve gasoline and diesel quality to comply with stricter environmental regulations;
- Increase crude slate flexibility to process more Brazilian crude, taking advantage of light/heavy crude price differentials;
- Increase residuum conversion; and
- Reduce the environmental impact of our refining operations.

In 2011, we invested a total of U.S.\$5,613.75 million in our refineries, of which U.S.\$2,108.89 million was invested for hydrotreating units to improve the quality of our diesel and gasoline and U.S.\$1,039.19 million for coking units to convert heavy oil into lighter products. In 2011, as a result of investments that allowed for more flexibility in our refineries, we reduced the need for additional imports of middle distillates by 23 million barrels (or 63 mbb/d).

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During 2012, we expect to complete the following investment projects at our refineries:

- Diesel quality upgrades at REPAR, REGAP and RLAM;
- Gasoline quality upgrades at REPAR, REPLAN, REFAP, RPBC, REVAP, RLAM and RECAP; and
- Delayed coking units at REPAR.

The following refinery upgrades are underway for expected completion between 2013 and 2014:

- Diesel quality upgrades at REGAP, REDUC, REPLAN and RPBC;
- Gasoline quality upgrades at REPLAN; and
- Delayed coking units at REPAR.

The following refinery upgrade projects are scheduled for completion after 2014:

- Diesel quality upgrades at REDUC; and
- Mild thermal cracking units to improve diesel and quality upgrades for diesel and gasoline at REMAN.

By the end of 2013, we will reduce the maximum sulfur content of the diesel produced in our refineries from 1800 ppm to 500 ppm, and nine of our refineries (RLAM, REGAP, REDUC, REPLAN, RPBC, RECAP, REVAP, REPAR, RNEST) are expected to be able to produce 10 ppm sulfur diesel. By the beginning of 2014, we will reduce the maximum sulfur content of the gasoline produced in our refineries from 1,000 ppm to 50 ppm.

*Major Refinery Projects*

Brazil has one of the world's most dynamic economies with above average rates of demand growth for transportation fuels, particularly gasoline, diesel and jet fuel. We are planning capacity expansions to meet the needs of this growing market and add value to our growing volumes of crude oil production in Brazil. We are currently building three new refining facilities:

- Complexo Petroquímico do Rio de Janeiro—Comperj, an integrated refining and petrochemical complex. We broke ground in 2008, and began construction in 2010. The 165 mbb/d refining operation is scheduled to start up in 2014. A second phase, scheduled for 2018, will increase capacity to 330 mbb/d and add petrochemicals production.
- Abreu e Lima, a refinery in Northeastern Brazil is designed to process 230 mbb/d of crude oil to produce 162 mbb/d of low sulfur diesel (10 ppm) as well as LPG, naphtha, bunker fuel and petroleum coke. We expect operations to come on stream in 2013, in a proposed



partnership with Petróleos de Venezuela S.A. (PDVSA), the Venezuelan state oil company.

- Premium I in the State of Maranhão is designed to process 20° API heavy crude oil, maximize production of low sulfur diesel, and also produce LPG, naphtha, low sulfur kerosene, bunker fuel and petroleum coke. This refinery will be built in two phases of 300 mbb/d each. We broke ground in 2011 and expect operations to come on stream in 2016 (Phase I) and 2019 (Phase II).

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We are also in the planning stage for another new refinery in Northeastern Brazil:

- Premium II in the State of Ceará will have a processing capacity of 300 mbb/d and will follow the same specifications as Premium I. The Premium facilities will be able to reduce costs and achieve efficiencies through simplification and standardization of the projects.

The following tables summarize output of oil products and sales by product in Brazil for the last three years.

<b>Domestic Output of Oil Products: Refining and marketing operations, mbb/d<sup>(3)</sup></b>			
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Diesel	745	716	737
Gasoline	395	351	331
Fuel oil	234	243	243
Naphtha	109	133	143
LPG	137	132	135
Jet fuel	93	80	74
Other	183	177	160
<b>Total domestic output of oil products</b>	<b>1,896</b>	<b>1,832</b>	<b>1,823</b>
Installed capacity	2,013	2,007	1,942
Utilization (%)	92	90	92
<b>Domestic crude oil as % of total feedstock processed</b>	<b>82</b>	<b>82</b>	<b>79</b>

(1) Unaudited.

(2) As registered by the ANP.

(3) Output volumes are larger than throughput volumes as a result of gains during the refining process

<b>Domestic Sales Volumes, mbb/d</b>			
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Diesel	880	809	740
Gasoline	489	394	338
Fuel oil	82	100	101
Naphtha	167	167	164
LPG	224	218	210
Jet fuel	101	90	77
Other	188	180	140
<b>Total oil products</b>	<b>2,131</b>	<b>1,958</b>	<b>1,770</b>
Ethanol and other products	86	99	96
Natural gas	304	312	240
<b>Total domestic market</b>	<b>2,521</b>	<b>2,369</b>	<b>2,106</b>
Exports	655	698	707

International sales and other operations	540	581	541
<b>Total international market</b>	1,195	1,279	1,248
<b>Total sales volumes</b>	3,716	3,648	3,354

### *Delivery Commitments*

We sell crude oil through long-term and spot-market contracts. Our long-term contracts specify the delivery of fixed and determinable quantities, subject to a price negotiation with third parties on a delivery-by-delivery basis. We are committed through long-term contracts to deliver a total of approximately 350 mbbbl/d in 2012. We believe our domestic proved reserves will be sufficient to allow us to continue to deliver all contracted volumes. For 2012, approximately 68% of our exported crude oil will be committed to meeting our contractual delivery commitments to third parties.

### *Imports and Exports*

We use exports and imports of crude oil and oil products to balance our domestic production and refinery capacity with market needs and optimize our refining margins. Much of the crude oil we produce in Brazil is heavy or intermediate, and we import some light crude to balance the slate for our refineries, which were originally designed to run on lighter imported crude, and export heavier crude that is surplus to our needs.

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We import oil products, for which there is insufficient production capacity in our Brazilian refineries. Our imports and exports of oil products depend on production capacity, demand levels and relative pricing in the Brazilian market. The table below shows our exports and imports of crude oil and oil products in 2011, 2010 and 2009:

**Exports and Imports of Crude Oil and Oil Products, mbb/d**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Exports(1)</b>			
Crude oil	435	497	478
Fuel oil (including bunker fuel)	173	153	150
Gasoline	3	14	38
Other	41	33	39
Total exports	652	697	705
<b>Imports</b>			
Crude oil	362	316	396
Diesel and other distillates	199	177	78
LPG	61	58	45
Gasoline	43	9	0
Naphtha	64	42	25
Other	20	13	3
Total imports	749	615	547

(1) Includes sales made by PifCo to unaffiliated third parties, including sales of oil and oil products purchased internationally.

***Logistics and Infrastructure for oil and oil products***

We own and operate an extensive network of crude oil and oil products pipelines in Brazil that connect our terminals, refineries and other primary distribution points. On December 31, 2011, our onshore and offshore, crude oil and oil products pipelines extended 15,436 km (9,593 miles). We operate 28 marine storage terminals and 20 other tank farms with nominal aggregate storage capacity of 65 million barrels. Our marine terminals handle an average 10,643 tankers annually. We are working in partnership with other companies to develop and expand Brazil's ethanol pipeline and logistics network.

Until 1998, we held the monopoly on oil and natural gas pipelines in Brazil and shipping oil products to and from Brazil. The deregulation of the Brazilian oil sector in that year provided for open competition in the construction and operation of pipeline facilities and gave the ANP the power to authorize entities other than Petrobras to transport crude oil, natural gas and oil products. In accordance with this deregulation, we transferred our transportation and storage network and fleet to a separate wholly owned subsidiary, Petrobras Transporte S.A.—Transpetro, to allow third parties to access our excess capacity on a non-discriminatory

basis. We enjoy preferred access to the Transpetro network based on our historical usage levels and, in practice, third parties make very limited use of this network.

We operate a fleet of owned and chartered vessels. These provide shuttle services between our producing basins offshore Brazil and the Brazilian mainland, and shipping to other parts of South America and internationally. The fleet includes double-hulled vessels, which operate internationally where required by law, and single-hulled vessels, which operate in South America and Africa only. We are increasing our fleet of owned vessels to replace older vessels, decrease our dependency on chartered vessels and exposure to charter rates tied to the U.S. dollar, and accommodate growing production volumes. Upgrades will include replacing single-hulled tankers with double-hulled vessels and replacing vessels nearing the end of their 25-year useful life. Our long-term strategy continues to focus on the flexibility afforded by operating a combination of owned and chartered vessels.

We plan to take delivery of another 48 new vessels by 2016, all to be built in Brazilian shipyards. We have ongoing contracts with five shipyards for delivery of 40 large oil tankers, bunkering vessels and LPG carriers between 2011 and 2016. We expect to contract an additional eight product tankers in the beginning of 2012. The first product vessel, the MV Celso Furtado, was delivered on November 25, 2011.

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The table below shows our operating fleet and vessels under contract as of December 31, 2011.

**Owned and Chartered Vessels in Operation and Under Construction Contracts at December 31, 2011**

	In Operation		Under Contract/Construction	
	Number	Tons Deadweight Capacity	Number	Tons Deadweight Capacity
Owned fleet:				
Tankers	44	2,815,719	32	3,440,450
LPG tankers	6	40,171	8	38,600
Anchor Handling Tug Supply (AHTS)	1	2,163	0	0
Floating, Storage and Offloading (FSO)	1	28,903	0	0
Layed-up vessel	3	129,623	0	0
<b>Total</b>	<b>55</b>	<b>3,016,579</b>	<b>40</b>	<b>3,479,050</b>
Chartered vessels:				
Tankers	174	16,260,464	0	0
LPG tankers	12	225,744	0	0
<b>Total</b>	<b>186</b>	<b>16,486,208</b>	<b>0</b>	<b>0</b>

***Petrochemicals***

Our petrochemicals operations provide an outlet for our growing production volumes of gas and other refined products, which increases our value added and provides domestic sources for products that would otherwise be imported. Our strategy is to increase domestic production of basic petrochemicals and engage in second generation and biopolymer activities through investments in companies in Brazil and abroad, capturing synergies within all our businesses.

In the past, the Brazilian petrochemicals industry was fragmented, with a large number of small companies that were not internationally competitive. We participated in consolidating and restructuring the Brazilian petrochemicals industry in a series of mergers and capital subscriptions, creating Brazil's largest petrochemicals company – Braskem S.A. (Braskem) – a publically traded company in which we hold a 36.1% interest. Braskem operates 35 petrochemical plants, produces basic petrochemical and plastics and conducts related distribution and waste processing operations.

The table below sets forth the primary production capacities of Braskem as of December 31, 2011:

**Braskem: Nominal Capacity by Petrochemical Type**

(mmt/y)

**Braskem**

Ethylene	3.95
Propylene	1.54
Polyethylene	3.24
Polypropylene	3.97
PVC	0.51
Cumene	0.32

On April 1, 2011, we announced the acquisition of Innova S.A., which produces, among other products, styrene, polystyrene and ethylbenzene.

We have three new petrochemical projects under construction or in various stages of engineering or design:

- **Complexo Petroquímico do Rio de Janeiro—Comperj:** In the second phase of Comperj, scheduled for 2018, we have plans to develop a petrochemicals complex to be integrated with the Comperj refinery to produce materials for the plastics industry;
- **PetroquímicaSuape Complex in Pernambuco:** to produce purified terephthalic acid (PTA), polyethylene terephthalate (PET) resin, and polymer and polyester filament textiles; and
- **Companhia de Coque Calcinado de Petróleo—Coquepar:** calcined petroleum coke plant in the State of Paraná, with a capacity of 0.35 million t/y.

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	<b>Distribution Key Statistics</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
<b>Distribution:</b>			
Sales revenues	44,001	37,282	29,652
Income (loss) before income taxes	1,134	1,081	914
Total assets at December 31	7,885	7,384	6,304
Capital expenditures and investments	679	515	331

We are Brazil's leading oil products distributor, operating through our own retail network, through our own wholesale channels, and by supplying other fuel wholesalers and retailers. Our Distribution segment sells oil products that are primarily produced by our Refining, Transportation and Marketing segment (RTM), and works to expand the domestic market for these oil products and for other fuels, including LPG, ethanol and biodiesel.

The primary focus of our Distribution segment is to:

- Lead the market in the domestic distribution of oil products and biofuels, increasing our market share and profit through an integrated supply chain; and
- Be the preferred brand of our consumers while upholding and promoting social and environmental responsibility.

We supply and operate Petrobras Distribuidora S.A.—BR, which accounts for 39.2% of the total Brazilian retail and wholesale distribution market. BR distributes oil products, ethanol and biodiesel, and vehicular natural gas to retail, commercial and industrial customers. In 2011, BR sold the equivalent of 846.1 mbb/d of oil products and other fuels to wholesale and retail customers, of which the largest portion (44.1%) was diesel.

At December 31, 2011, our BR branded service station network was Brazil's leading retail marketer, with 7,485 service stations, or 19.2% of the stations in Brazil. BR-owned and franchised stations make up 31.9% of Brazil's retail sales of diesel, gasoline, ethanol, vehicular natural gas and lubricants.

Most BR stations are owned by franchisees that use the BR brand name under license and purchase exclusively from us; we also provide franchisees with technical support, training and advertising. We own 723 of the BR stations and are required by law to subcontract the operation of these owned stations to third parties. We believe that our market share position is supported by a strong BR brand image and by the remodeling of service stations and addition of lubrication centers and convenience stores.



Our wholesale distribution of oil products and biofuels under the BR brand to commercial and industrial customers accounts for 55.4% of the total Brazilian wholesale market. Our customers include aviation, transportation and industrial companies, as well as utilities and government entities.

We also sell oil products produced by RTM to other retailers and to wholesalers.

Our LPG distribution business, Liquigas Distribuidora, held a 22.8% market share and ranked second in LPG sales in Brazil in 2011, according to the ANP.

Oil products sales in Brazil increased 3.4% in 2011 compared to 2010. This increase was due mainly to Brazil's economic growth and its corresponding growth in household income and consumer credit.

We participate in the retail sector in other South American countries through our International business segment. See "—International."

**TABLE OF CONTENTS****Gas and Power**

	<b>Gas and Power Key Statistics</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
<b>Gas and Power:</b>			
Sales revenues	9,738	8,492	4,923
Income (loss) before income taxes	2,725	990	738
Total assets at December 31	27,645	30,109	24,926
Capital expenditures and investments	2,293	3,964	5,398

For more than two decades, we have been working actively to simultaneously develop Brazil's natural gas reserves, production, infrastructure and markets. As a result of our efforts, natural gas in 2010 supplied 10.3% of Brazil's total energy needs, compared to 3.7% in 1998, and is projected to supply 14.2% of Brazil's total energy needs by 2020, according to Empresa de Pesquisa Energética, a branch of the MME.

In 2011, we supplied, through our own production and imports, 62.8 mmm<sup>3</sup>/d (2,218.2 mmcf/d). This volume is directed to the market and our refineries, fertilizer operations and gas-fired power plants. The development plans for our Exploration and Production operations are expected to result in substantial increases in gas production from the Espírito Santo and Santos Basins off the Brazilian coast, including from pre-salt reservoirs. We expect domestic gas production to play an increasingly important role in the supply mix, but we will continue to import gas from Bolivia and use LNG imports selectively to provide supplemental supplies, particularly to meet surges in demand from the power sector.

Our Gas and Power segment is responsible for monetizing and delivering the gas produced by our Exploration and Production segment, and gas purchased from other sources, including imported LNG. The segment comprises gas transmission and distribution, LNG regasification, the manufacture of nitrogen-based fertilizers, gas-fired power generation, and power generation from renewable sources, including solar, wind and small-scale hydroelectric.

The primary focus on our Gas and Power segment is to:

- Add value by monetizing Petrobras' natural gas resources;
- Assure flexibility and reliability in the commercialization of natural gas;
- Expand the use of LNG to meet Brazilian gas demand and diversify our supply of natural gas;
- Optimize our thermoelectric power plant portfolio and supplement it with power generation from renewables; and

- Create an additional flexible means of monetizing our natural gas resources by investing in capacity to manufacture nitrogen fertilizers.

### *Natural Gas*

Natural gas consumption in Brazil by industrial, commercial and retail customers increased 7% in 2011 compared to 2010. This increase was due mainly to Brazil's economic growth and more flexible contractual forms. Natural gas consumption in the power generation industry decreased 34% from 2010 to 2011 due to favorable rainfall, which improved the reservoir storage levels of Brazilian hydroelectric power plants. Natural gas consumption by refineries and fertilizer plants increased 18%.

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Following a multi-year infrastructure development program, including investments of approximately U.S.\$15 billion (R\$29.74 billion) in the last five years, we have built an integrated system centered around two main, interlinked pipeline networks that allow us to deliver natural gas from our main offshore natural gas producing fields in the Santos, Campos and Espírito Santo Basins, as well as from two LNG terminals and a gas pipeline connection with Bolivia.

In 2011, we completed four natural gas pipelines, adding 221.2 km (137.5 miles) to our integrated network. The most significant of these pipeline additions was GASTAU, which connected our natural gas production in the Santos Basin to our integrated network. Our natural gas pipelines span 9,251 km (5,748 miles).

In 2011, we invested U.S.\$1,670 million in our pipeline network, and in 2012, we plan to invest a further U.S.\$904 million for incremental additions to our gas transportation system.

The map below shows our gas pipeline networks and LNG terminals.

We own and operate two LNG terminals, one in Rio de Janeiro with a send-out capacity of 20 mmm<sup>3</sup>/d (706 mmcf/d), and the other in Pecém (Ceará) in Northeastern Brazil with a send-out capacity of 7 mmm<sup>3</sup>/d (247 mmcf/d). The terminals are supported by two LNG regasification vessels with capacities of 14 mmm<sup>3</sup>/d (494 mmcf/d) and 7 mmm<sup>3</sup>/d (247 mmcf/d). These terminals and regasification ships give us the flexibility to import gas to supplement domestic natural gas supplies. In 2011, we purchased 14 LNG cargoes, of which 12 were imported into Brazil and two were sold in international markets, which comprises two re-exports from Brazil. In addition, we will build a third LNG terminal in the State of Bahia, the construction of which will begin in 2012 and which we expect to be completed in 2013.

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We hold interests ranging from 24% to 100% in 21 of Brazil's 27 local gas distribution companies. In particular, we acquired a 100% interest in Gas Brasileiro Distribuidora S.A., granting us access to São Paulo, the largest natural gas market in Brazil. We had approximately a 25% net equity interest in the combined 47.6 mmm<sup>3</sup>/d (1,682 mmcf/d) of natural gas distributed by Brazil's local distribution companies in 2011.

According to our estimates, our two most significant holdings, CEG Rio and Bahiagás, are Brazil's third and fourth largest gas distributors. These companies, together with independent distributors Comgás and CEG supply 59% of the Brazilian market.

**Principal Natural Gas Local Distribution Holdings**

Name	State	Group Share %	Average Gas Sales		Customers
			in 2011 (mmm <sup>3</sup> /d)		
CEG RIO	Rio de Janeiro	37.41	4,307		28,082
BAHIAGAS	Bahia	41.50	3,843		8,571
PETROBRAS DISTRIBUIDORA	Espírito Santo	100.0	2,942		24,295
GASMIG	Minas Gerais	40.00	2,919		405

The table below shows the sources of our natural gas supply, our sales and internal consumption of natural gas, and revenues in our local gas distribution operations for each of the past three years.

**Supply and Sales of Natural Gas in Brazil, mmm<sup>3</sup>/d**

	2011	2010	2009
<b>Sources of natural gas supply</b>			
Domestic production	34.1	28.6	23.0
Imported from Bolivia	27.1	27.1	22.4
LNG	1.6	7.6	0.7
Total natural gas supply	<b>62.8</b>	<b>63.3</b>	46.1
<b>Sales of natural gas</b>			
Sales to local gas distribution companies(1)	39.8	37.2	32.4
Sales to gas-fired power plants	8.2	12.2	4.1
Total sales of natural gas	<b>48.0</b>	<b>49.4</b>	36.5
<b>Internal consumption</b> (refineries, fertilizer and gas-fired power plants)(2)			
	14.8	13.9	9.6
<b>Revenues</b> (U.S.\$ billion)(3)	5.9	4.7	3.5

(1) Includes sales to local gas distribution companies in which we have an equity interest.

(2) Includes gas used in the transport system.

(3) Excludes internal consumption.

**Long-Term Natural Gas Commitments**

When we began investment in the Bolivia-Brazil pipeline in 1996, we entered into long-term contracts with three companies:

- Gas Supply Agreement (GSA) with the Bolivian state-owned company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), to purchase certain minimum volumes of natural gas at prices linked to the international fuel oil price through 2019, after which the agreement may be extended until all contracted volume has been delivered. On December 18, 2009, Petrobras and YPFB signed the fourth amendment to the GSA, which provides for additional payments to YPFB for liquids contained in the natural gas purchased by Petrobras through the GSA, of between U.S.\$100 million and U.S.\$180 million per year, retroactive to May 2007. As of February 2010, Petrobras has paid all obligations owed for 2007. Additional payments for subsequent years will only be paid with the fulfillment by YPFB of conditions precedent established in the amendment. For the remaining contractual period of the GSA, Petrobras considers that the fulfillment of such conditions precedent is unachievable. Accordingly, such payment obligations have not been considered in our contractual GSA obligations forecast;

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- Ship-or-Pay agreement with Gás Transboliviano (GTB), owner and operator of the Bolivian portion of the pipeline to transport certain minimum volumes of natural gas through 2019; and
- Ship-or-Pay agreement with Transportadora Brasileira Gasoduto Bolivia-Brasil (TBG), owner and operator of the Brazilian portion of the pipeline to transport certain minimum volumes of natural gas through 2019.

Our volume obligations under the ship-or-pay arrangements were generally designed to match our gas purchase obligations under the GSA. The tables below show our contractual commitments under these agreements for the five-year period from 2012 through 2016.

**Commitments to Purchase and Transport Natural Gas in Connection with Bolivia-Brazil Pipeline**

	2012	2013	2014	2015	2016
<b>Purchase commitments to YPFB</b>					
Volume obligation (mmm <sup>3</sup> /d)(1)	24.06	24.06	24.06	24.06	24.06
Volume obligation (mmcf/d)(1)	850.00	850.00	850.00	850.00	850.00
Brent crude oil projection (U.S.\$)(2)	80.0	80.0	80.0	80.0	75.0
Estimated payments (U.S.\$ million)(3)	2,391.9	2,012.3	1,981.9	1,975.1	1,906.3
<b>Ship-or-pay contract with GTB</b>					
Volume commitment (mmm <sup>3</sup> /d)	30.00	30.00	30.00	30.00	30.00
Volume commitment (mmcf/d)	1,059.00	1,059.00	1,059.00	1,059.00	1,059.00
Estimated payments (U.S.\$ million)(5)	137.78	138.46	139.14	139.82	140.51
<b>Ship-or-pay contract with TBG</b>					
Volume commitment (mmm <sup>3</sup> /d)(4)	35.28	35.28	35.28	35.28	35.28
Volume commitment (mmcf/d)	1,246.09	1,246.09	1,246.09	1,246.09	1,246.09
Estimated payments (U.S.\$ million)(5)	501.32	510.42	526.34	526.87	527.40

(1) 25.3% of contracted volume supplied by Petrobras Bolivia.

(2) Brent price forecast based on our 2020 Strategic Plan.

(3) Estimated payments are calculated using gas prices expected for each year based on our Brent price forecast. Gas prices may be adjusted in the future based on contract clauses and amounts of natural gas purchased by Petrobras may vary annually.

(4) Includes ship-or-pay contracts relating to TBG's capacity increase.

(5) Amounts calculated based on current prices defined in natural gas transport contracts.

### *Gas Sales Contracts*

In recent years, we introduced a variety of supply contracts designed to create flexibility in matching customer demand with our gas supply capabilities. These include flexible and interruptible long-term gas supply contracts, auction mechanisms for short-term contracts and weekly electronic auctions.

In 2011, a new gas sale contract – a seller delivery option aiming to help balance natural gas supply and demand – was introduced by us. Whenever there is a low dispatch of natural gas from gas-fired power plants, the excess natural gas volumes are offered to end consumers who ordinarily use energy sources other than natural gas. In this context, prices of gas are a function of the alternative energy source that is being replaced. Existing long-term natural gas sales contracts were also renegotiated in 2011 with local distribution company (LDCs) of natural gas in order to promote adjustments tailored to specific market demands. These negotiations encompassed term extensions for some contracts, prolonging our natural gas procurement portfolio. We continued offering contracts for short-term volumes (for both weekly and four-month periods) through electronic auctions.



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The table below shows our future gas supply commitments from 2012 to 2016, including sales to both local gas distribution companies and gas-fired power plants.

	<b>Future Commitments under Natural Gas Sales Contracts, mmm<sup>3</sup>/d</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>To local gas distribution companies:</b>					
Related parties(1)	19.68	20.86	21.88	21.02	21.54
Third parties	17.32	17.05	16.83	16.83	16.83
<b>To gas-fired power plants:</b>					
Related parties(1)	4.46	3.27	3.15	3.13	3.12
Third parties	5.93	7.30	8.06	7.92	7.78
Total(2)	<b>47.39</b>	<b>48.48</b>	<b>49.92</b>	<b>48.90</b>	<b>49.27</b>
Estimated contract revenues (U.S.\$ billion)(3)(4)	6.3	6.5	6.6	6.5	6.5

(1) For purposes of this table, “related parties” include all local gas distribution companies and power generation plants in which we have an equity interest and “third parties” refer to those in which we do not have an equity interest.

(2) Estimated volumes are based on “take or pay” agreements in our contracts, expected volumes and contracts under negotiation (including renewals of existing contracts), not maximum sales.

(3) Figures show revenues net of taxes. Estimates are based on outside sales and do not include internal consumption or transfers.

(4) Prices may be adjusted in the future and actual amounts may vary.

### *Short-Term Natural Gas Commitments*

In 2009, we contributed to the development of a short-term market for natural gas sales, focusing on the industrial market as an alternative to the market for power generation when the power plants are not being dispatched. Sales under these short-term contracts were accomplished by an electronic auction system conducted by means of the Internet. These auctions commercialized natural gas volumes reserved for but not otherwise utilized by local gas distributors, and allowed us to offer end users more competitive prices. On average, 4.4 mmm<sup>3</sup>/d of natural gas were sold under these short-term contracts in 2009, with volumes reaching 7.8 mmm<sup>3</sup>/d in 2010 and 6.7 mmm<sup>3</sup>/d in 2011. The last auction resulted in a sales record of 8.8 mmm<sup>3</sup>/d for a four-month delivery period.

In April 2010, we implemented a new method for selling short-term natural gas. On a weekly basis, we offer for sale to the non-thermoelectric market volumes of natural gas that had been originally reserved for gas-fired power plants but that were not dispatched. Under this method, weekly sales begin with orders from gas distribution companies for deliveries to be made within the subsequent four-week period. Depending on the availability and cost of natural gas during that period, we have the option of either accepting or rejecting the orders. This new method allowed us to sell an average of 348,000 m<sup>3</sup>/d of natural gas in 2010 and 70,000 m<sup>3</sup>/d of natural gas in 2011, with a sales record of 500,000 m<sup>3</sup>/d in December 2011.

*Fertilizers*

We are expanding production of nitrogenous fertilizers in order to meet the growing needs of Brazilian agriculture, to substitute for imports, and to expand the market for natural gas.

Our fertilizer plants in Bahia and Sergipe produce ammonia and urea for the Brazilian market. In 2011, these plants sold a combined 240,665 t of ammonia and 831,642 t of urea.

	<b>Nitrogenous Sales (ton)</b>		<b>%</b>
	<b>2010</b>	<b>2011</b>	
Ammonia	235,739	240,665	+2.1
Urea	772,059	831,642	+7.7

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We are also expanding production of nitrogenous fertilizers. To this end, we are conducting feasibility studies for four additional facilities:

- UFN III, with the ability to sell 1.22 million t/y of urea and 70 million t/y of ammonia from 2.2 mmm<sup>3</sup>/d of natural gas, expected to start up in September 2014;
- UFN IV, with the ability to sell 755,000 t/y of urea and 721,000 t/y of methanol from 3.5 mmm<sup>3</sup>/d of natural gas, expected to start up in June 2017. 42,000 t/y of melamine will be produced from the foregoing quantity of urea, and 211,000 t/y of acetic acid and 26,000 t/y of formic acid will be produced from the foregoing quantity of methanol;
- UFN V, with the ability to sell 519,000 t/y of ammonia from 1.3 mmm<sup>3</sup>/d of natural gas, expected to start up in September 2015; and
- Sergipe, with the ability to sell 303,000 t/y of ammonium sulfate from 226 t/d of ammonia, expected to start up in May 2013.

These facilities would reduce Brazil's deficit in these fertilizers while increasing the demand for our natural gas produced offshore.

**Power**

To further our goal of developing natural gas demand in Brazil, we have invested in power plants and the associated system of gas supply contracts. These plants are designed to supplement power from the hydroelectric stations that supply an average of 90% of the country's electric power needs in a given year. Gas-fired power is particularly needed during times of peak demand, high economic growth, and drought.

We own interests in 28 thermoelectric power plants with a combined installed capacity at year-end 2011 of 6,385 MW, equivalent to 73% of Brazil's total thermoelectric gas capacity. Of this total, 6,009 MW was in thermoelectric plants controlled by us and 97% (or 5,806 MW) was in the *Sistema Interligado Nacional*—SIN (National Interconnected Power Grid).

Under Brazil's power pricing regime, we may sell only power-generating capacity that is certified by the MME. At year-end 2011, due to gas supply constraints, the MME certified 3,776 MWavg of commercial capacity, or 65% of the installed capacity controlled by us in the SIN.

In 2011, the Brazilian hydroelectric system generated 51,397 MWavg of electricity, or 90% of the country's needs. The SIN was called upon to supplement this power with an average 4,971 MW, of which we generated an average 653 MW of electricity in 2011, compared to 1,837 MW in 2010.

We also export energy to neighboring countries. In 2011, we exported 113 MWavg to Argentina and Uruguay compared to 110.2 MWavg in 2010.

*Commitments for Future Generation Capacity and Electricity Sales*

Under a 2007 agreement with the ANEEL, we are committed to increasing our ability to supply power to the grid by increasing natural gas supplies, including LNG, converting some existing power plants to dual-fuel operation and leasing backup oil-fired power plants. By 2012, we are committed to supply up to 5,938 MW of installed capacity and expect to have an average 3,970 MW certified capacity available for sale, exclusive of our own power requirements.

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The table below shows the installed capacity and commercial capacity of the thermoelectric power plants controlled by us for 2011 through 2014 under our agreement with the ANEEL:

	<b>Installed Power Capacity and Utilization</b>			
	<b>2011</b>	<b>2012(2)</b>	<b>2013</b>	<b>2014</b>
Gross installed capacity (MW)	5,609	5,938	5,537	5,855
Certified commercial capacity(1) (MWavg)	3,776	3,970	3,826	4,084

(1) Weighted average of certified commercial capacity for the year.

(2) Our installed and commercial capacity will be reduced in 2013 due to the termination of our lease of the Araucaria thermoelectric power plant.

In 2011, we invested U.S.\$359.9 million (R\$599.9 million) in thermoelectric generation.

We sell our power output under long-term contracts for “standby availability” and long-term bilateral contracts, primarily with power distribution companies. Of the total 4,172 MWavg of power available for sale in 2012 (including the certified commercial capacity of our plants and 202 MWavg of power purchased from third parties), approximately 46% has already been sold as standby availability in the 2005 and 2006 auctions, and approximately 54% has been committed under bilateral contracts. We also have the option to fulfill our contractual commitments by purchasing power from third parties.

In the 2005 and 2006 auctions, we sold standby availability of 1,391 and 205 MWavg, respectively, on 15-year contracts beginning in 2008 to 2011. This represented most of our capacity that is eligible to be sold through the auction system. Under the terms of these contracts, we will be compensated a fixed amount whether or not we generate any power. Additionally, we receive an extra amount for the energy we actually generate at a price that is set on the date of the auction and revised annually based on an inflation-adjusted fuel oil basket. We have been compensated for the standby availability from the 2005 and 2006 auctions since 2008, with the capacity compensation stepping up through 2011, at which time it stabilizes.

In addition, in the new energy auction (*Leilão de Energia Nova*) held on August 17, 2011, we committed to selling 416.4 MWavg from our Baixada Fluminense plant for the period of March 2014 through December 2033.

Our future commitments under bilateral contracts are 1,899 MWavg in 2012, 1,590 MWavg in 2013 and 1,604 MWavg in 2014. The agreements will run off gradually, with the last contract expiring in 2028. As existing bilateral contracts run-off, we will sell our remaining certified power-generation capacity under short- and medium-term bilateral contracts and auctions conducted by us and by the MME.

The following table summarizes our commitments under standby availability and bilateral contracts, power purchased from third parties, and the power we expect to be available for sale.

<b>Power Available for Sale and Power Commitments</b>				
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
			<b>(MWavg)</b>	<b>2014</b>

**Total available for sale:**

Commercial capacity (MW)(1)	3,619	3,776	3,970	3,826	4,084
Purchased from third parties	234	214	202	200	200

**Commitments:**

Standby availability auctions	1,391	1,596	1,596	1,596	1,847
Bilateral contracts	2,442	2,394	1,899	1,590	1,604

<b>Remaining available for sale (1)(2)</b>	20	0	677	840	833
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(1) Projections based on existing capacity and expected supply of gas.

(2) Represents the remaining commercial capacity available for sale beginning in 2011.

**TABLE OF CONTENTS*****Renewable Energy***

We have invested, alone and in partnership with other companies, in renewable power generation sources in Brazil including wind and small hydroelectric plants. Our net interests are equivalent to 316.5 MW of hydroelectric capacity and 105.8 MW of wind capacity. We and our partners sell energy from these plants directly to the Brazilian federal government via “reserve energy” auctions.

**International**

	<b>International Key Statistics</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
		<b>(U.S.\$ million)</b>	
<b>International:</b>			
Sales revenues	16,956	13,519	10,239
Income (loss) before income taxes	2,117	1,053	207
Total assets at December 31	19,427	16,958	15,293
Capital expenditures and investments	2,631	2,712	3,436

We have operations in 24 countries outside of Brazil, encompassing all phases of the energy business. The primary focus of our international operations is to:

- Use our technical expertise in deepwater exploration and production to participate in high-potential and frontier offshore regions; and
- Integrate international downstream operations aligned with our domestic activities.

***International Upstream Activities***

Most of our international activities are in exploration and production of oil and gas. We have long been active in Latin America. In the Gulf of Mexico and West Africa, we focus on opportunities to leverage the deepwater expertise we have developed in Brazil. We have preliminary exploratory efforts underway in other regions.

In 2011, our net production outside Brazil averaged 144.88 mbbbl/d of crude oil and NGLs and 16.54 mmm<sup>3</sup>/d (584.01 mmcf/d) of natural gas, representing 9.8% of our total production on a barrels of oil equivalent basis.

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The table below shows our main exploration and production projects being developed worldwide, as of December 31, 2011. Additional information about certain of these projects and our exploration and production activities is provided in the text that follows.

<b>Main International Exploration and Production Assets in Development</b>					
	<b>Countries</b>	<b>Main projects in development</b>	<b>Phase</b>	<b>Operated by</b>	<b>Petrobras interest (%)</b>
<b>South America</b>					
1	Argentina(1)	Sierra Chata	Production	Petrobras	46
		El Tordillo	Production	Partner	36
		Santa Cruz I Oeste	Production	Petrobras	50
		25 de Mayo – Medanito	Production	Petrobras	100
		Rio Neuquen	Production	Petrobras	100
					71
		Santa Cruz I	Production	Petrobras	100
					100
		El Mangrullo	Production	Petrobras	
		Parva Negra	Exploration	Petrobras	
2	Bolivia	San Alberto	Production	Petrobras	35(2)
		San Antonio	Production	Petrobras	35(2)
		Itaú	Exploration	Petrobras	30(2)
3	Colombia	Guando	Production	Petrobras	15
		Yalea	Production	Partner	50
		Espinal	Production	Petrobras	33
		Balay 1	Exploration	Petrobras	45
		Tayrona	Exploration	Petrobras	40
		Cebucan	Exploration	Petrobras	50
		Villarica Norte	Exploration	Petrobras	50
4	Peru	Lote 10	Production	Petrobras	100
		Lote 57	Exploration	Partner	45.16
		Lote 58	Exploration	Petrobras	100
5	Uruguay	Block 3	Exploration	Partner	40
		Block 4	Exploration		
				Petrobras	40
6	Venezuela	Oritupano-Leona	Production	Partner	22(3)
		Acema	Production	Partner	34(3)
		La Concepción	Production	Partner	36(3)
		Mata	Production	Partner	34(3)
<b>North America</b>					
7	Mexico	Cuervito	Production	Petrobras	45(4)
		Fronterizo	Production	Petrobras	45(4)
8	U.S.	Cascade	Production	Petrobras	100
		Chinook	Development	Petrobras	66.67
		Coulumb (MC-613)	Production	Partner	33.33
		Cottonwood	Production	Petrobras	100



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		St. Malo	Development	Partner	25
		Tiber	Development	Partner	20
		Stones	Development	Partner	25
		Big Bend	Exploration	Petrobras	50
		Latigo	Exploration	Partner	50
		Logan	Exploration	Partner	35
<b>Africa</b>					
9	Angola	Block 2/85	Production	Partner	27.5
		Block 6/06	Exploration	Petrobras	40
		Block 18/06	Exploration	Petrobras	30
		Block 26	Exploration	Petrobras	40
10	Benin	Block 4	Exploration	Partner	50
11	Gabon	Ntsina Marin	Exploration	Partner	50
		Mbeli Marin	Exploration	Partner	50
12	Namibia	2714A	Exploration	Partner	50

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<b>Main International Exploration and Production Assets in Development</b>					
	<b>Countries</b>	<b>Main projects in development</b>	<b>Phase</b>	<b>Operated by</b>	<b>Petrobras interest (%)</b>
13	Nigeria	Akpo	Production	Partner	20
		Agbami	Production	Partner	13
		Egina	Development	Partner	20
		Egina South	Exploration	Partner	20
		Preowei	Exploration	Partner	20
14	Tanzania	Block 5	Exploration	Petrobras	50
		Block 6	Exploration	Petrobras	50
<b>Europe</b>					
15	Portugal	Peniche	Exploration	Petrobras	50
		Alentejo	Exploration	Petrobras	50
<b>Oceania</b>					
16	New Zealand	Block 52707	Exploration	Petrobras	100

(1) Most of the Argentine exploration and production projects are held through our indirect 67.2% share in Petrobras Argentina S.A. (PESA).

(2) Production-sharing contract, under which Petrobras' expenditures are reimbursed only if exploration results in economically viable oil discoveries.

(3) Joint venture through Petrobras Argentina S.A. (PESA).

(4) Non-risk service contract, under which Petrobras' expenditures are reimbursed regardless of whether exploration results in economically viable oil discoveries.

During 2011, our capital expenditures and investments for international exploration and production totaled U.S.\$2.34 billion, representing 10.3% of our total exploration and production capital spending.

### *South America*

We are present in Argentina, Bolivia, Colombia, Peru, Venezuela and Uruguay. In 2011, our average net production from South America (outside of Brazil) was 180.56 mboe/d, or 75% of our international production. Reserves in the region represent 69% of our international reserves. Our most significant natural gas production operations outside of Brazil are located in Argentina and Bolivia, where we produced an average 15.62 mmm<sup>3</sup>/d (551.74 mmcf/d) of natural gas in 2011, or 94% of our international production. Argentina and Bolivia together

accounted for 31% of our worldwide production of natural gas in 2011.

Our largest operating region outside Brazil is **Argentina**, where we operate primarily through our 67.2% interest in Petrobras Argentina S.A. (PESA). Our main oil production is concentrated in the Medanito, El Tordillo, La Tapera – Puesto Quiroga and Puesto Hernández fields, and our main gas production is concentrated in the El Mangrullo, Santa Cruz I and Sierra Chata fields in the province of Neuquén. We also hold direct and indirect interests of 52.6% in Petrolera Entre Lomas S.A. (PELSA), whose main oil production is in the Entre Lomas field.

In **Bolivia**, our production comes principally from the San Alberto and San Antonio fields. Following enactment of the Bolivian government's May 1, 2006 nationalization of hydrocarbons, we entered into new production-sharing contracts under which we continue to operate the fields, but are required to make all hydrocarbon sales to YPFB with the right to recover our costs and participate in profits. On January 25, 2009, Bolivia adopted a new constitution that prohibits private ownership of the country's oil and gas resources. As a result, we were not able to include any of our Bolivian proved reserves in our proved reserves for year-end 2011. We continue to report production from our operations in Bolivia under our existing contracts in that country. In January 2011, the Bolivian government approved the agreement between Petrobras Bolivia S.A. and Total E&P Bolivie S.A., according to which we have acquired a 30% interest in the Itaú gas field and assumed control of the field's operations.

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In **Colombia**, our production of 7.38 mboe/d during 2011 originated mainly from the Guando, Upía, Espinal and Yalea blocks. Our portfolio in Colombia also includes the Canada Norte block, currently in its development stage, and the Cebucan and Balay blocks, among others, which are currently in the exploratory stage. Our last discovery in Colombia occurred in March 2010 in the Balay blocks, where ongoing tests have confirmed the presence of 28° API oil. In December 2011 and in February 2012, the contracts with respect to the Hobo, Upía and Caguan fields expired and their transfer to the Colombian government was completed.

In **Venezuela**, we are present through four joint ventures with subsidiaries of Petróleos de Venezuela S.A. (PDVSA), which hold production rights and in which we hold minority interests. PDVSA is the majority holder and operator.

In **Peru**, our production of 16.39 mboe/d during 2011 originated from Block X. Our portfolio in Peru also includes Lote 57 and Lote 58. Lote 57 comprises the Kinteroni Gas Project, currently in its development stage, and another component of Lote 57 currently in the exploratory stage. Our last discovery in Peru occurred in 2010 in Lote 58.

*North America*

In the **United States** we focus on deepwater fields in the Gulf of Mexico. As of December 31, 2011, we held interests in 176 offshore blocks, 130 of which we operate. Our production in the United States of 4.03 mboe/d during 2011 originated mainly from the Cottonwood field. Our portfolio in the United States also includes the Cascade and Chinook fields, where oil production began in February 2012. This project is the first Gulf of Mexico operation to use a FPSO. Other assets include Saint Malo, Stones and Tiber, which are currently in the development stage, and Latigo and Logan, among others, which are currently in the exploratory stage.

We have held non-risk service contracts for the Cuervito and Fronterizo Blocks in the Burgos Basin of **Mexico** since 2003. Under these service contracts, we receive fees for our services, but any producing wells and production are transferred to the Mexican national oil company Petróleos Mexicanos (Pemex). We also have agreements to share deepwater expertise with Pemex.

*Europe*

Under a concession agreement in partnership with Petrogal (Galp) and Partex, we are acquiring and analyzing seismic data related to the Peniche and Alentejo Basins offshore **Portugal**.

## Africa

In **Angola**, we changed our portfolio of assets with the sale of 50% of our interest in Block 26 and our entire interest in Block 15. We also withdrew from Block 34, returning it to the government of Angola. In 2011, we produced a net 1.64 mboe/d from Block 2, which we do not operate.

In **Benin**, we acquired a 50% interest in offshore Block 4, which covers an area of approximately 7,400 km<sup>2</sup> and has water depths ranging from 200 to 3,000 meters (656 to 9,842 feet). Our commitment in Benin includes performing a 3D seismic study and processing of a 2,250 km<sup>2</sup> area. Once the exploration potential of the area is confirmed, the consortium will commit to drilling one or two wells, depending on the success of the first well. We also have the option to operate the block.

In **Gabon**, we acquired 50% of the rights to explore two offshore blocks, with water depths up to 2,400 meters (7,874 feet). The commitment includes performing a 3D seismic study and drilling wells if we decide to continue to the next phase of the project.

In **Namibia**, we plan to drill an exploratory well in 2012 in Block 2714A. This block is located in offshore Southern Namibia and covers an area of approximately 5,500 km<sup>2</sup> (1.4 million acres) in water depths from 150 to 1,500 meters (492 to 4,921 feet). In 2011, we became the operator of the block.

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In **Nigeria**, our net production is 55.99 mboe/d from the Agbami and Akpo fields, and we also have an interest in the Egina field project, currently in its development stage while the Prewei and Egina South fields are under appraisal.

In **Tanzania**, we sold our 50% interest in two offshore exploratory blocks - Blocks 5 and 6 - but remained the operators thereof. In Block 5, we decided to drill one exploratory well after the interpretation of results from the 3D seismic study. In Block 6, we may drill one exploratory well after the interpretation of results from the 3D seismic study.

*Oceania*

In April 2010, we acquired a 50% interest in an exploratory block in the North Carnarvon Basin in **Australia** and committed to drill the first exploration well. We have made no discoveries of natural gas in our Artemis-1 well and withdrew from the project in December 2011.

In **New Zealand**, we undertook a seismic 2D study of offshore Block 52707 in the Raukumara Basin, in which we have a 100% interest. Depending on the results of the 2D seismic study, we may pursue a 3D seismic study, subject to which we may drill one exploratory well.

*Other International Activities*

Our other international activities, including refining, petrochemicals, distribution and gas and power activities, are described below.

*South America*

We have integrated operations in South America, particularly in **Argentina**, where we participate across the energy value chain. In May 2011, we sold our interests in the San Lorenzo Refinery, including loading and unloading facilities, and about 360 points of sale and inventory for U.S.\$102 million. We own, through our interest in PESA, the Bahia Blanca Refinery, with a capacity of 30.5 mbb/d. We also hold an interest in the Refinor/Campo Duran Refinery and in two petrochemical plants in Argentina. We own 278 retail service stations. We also own the Pichi Picún Leufú hydroelectric plant, the Genelba gas-fired thermoelectric plant, an interest in natural gas transportation company TGS (Transportadora Gas del Sur), and interests in energy marketer Edesur, and Mega Company, a natural gas separation facility.

In **Bolivia**, we operate gas fields that supply gas to Brazil and Bolivia. We hold an 11% interest in GTB, owner of the Bolivian section of the Bolivia-to-Brazil (BTB) pipeline that transports natural gas we produce in Bolivia to the Brazilian market. We also hold a 44.5% interest in Transierra S.A., which owns the Yacuiba-Rio Grande gas pipeline (Gasyrg) linking the San Alberto and San Antonio fields to the BTB pipeline.

In **Chile**, our assets comprise 240 service stations, the distribution and sales of fuel at 11 airports and a lubricant plant.

In **Colombia**, our assets comprise 93 service stations and a lubricant plant.

In **Paraguay**, our assets comprise 173 service stations, the distribution and sales of fuel at two airports and one LPG refueling plant.

In **Uruguay**, we have fuel distribution operations, with 87 service stations. We also market marine products, asphalt and aviation products and distribution.

The portfolio of our Gas and Power segment includes two gas distribution companies in Uruguay, namely, Distribuidora de Gas Montevideo S.A (with retail sales in Montevideo) and Conecta S.A. (with national commercial sales). See “—Gas and Power”.

**TABLE OF CONTENTS***North America*

In the **United States** we own 100% of the Pasadena Refining System (PRSI) and 100% of PRSI's related trading company (PRSI Trading Company). On December 20, 2010, the 129th District Court of Harris County, Texas issued a ruling confirming an arbitration award issued on April 10, 2009, which found that Petrobras America, Inc. (PAI), our indirect subsidiary in the United States, and its affiliates had effectively acquired the remaining shares that led PAI to hold 100% of the interest held by our former partner Astra Oil Trading NV (Astra) and its affiliates in both PRSI and PRSI Trading Company, and set the put-option exercise price for PRSI and PRSI Trading Company at U.S.\$296 million and U.S.\$170 million, respectively. PAI does not object to the confirmation of the put option exercised by Astra and its affiliates or PAI's ownership of 100% of PRSI and 100% of PRSI Trading Company. However, PAI is appealing the December 20, 2010 ruling in order to challenge certain other aspects related to the implementation of the arbitral award. Enforcement of the judgment is suspended pending appeal. There are other ongoing judicial proceedings related to indemnifications among the parties involved.

*Asia*

In **Japan**, we own the Nansei Sekiyu Kabushiki Kaisha (NSS) refinery in Okinawa, which currently produces refined products such as gasoline and jet fuel. We also produce and market E3 fuel, a mixture of ethanol and gasoline.

**Biofuel**

	<b>Biofuel Key Statistics</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
<b>Biofuel:</b>			
Sales revenues	320	272	118
Income (loss) before income taxes	(151)	(77)	(69)
Total assets at December 31	1,289	1,133	492
Capital expenditures	294	664	144

Brazil is a global leader in the use and production of biofuels. Today, 83.1% of new light vehicles sold in Brazil have flexfuel capability, and service stations offer a choice of 100% ethanol and an ethanol/gasoline blend. All diesel fuel sold in Brazil since January 2010 is required to be at least 5% biodiesel.

We supply 15.8% of Brazil's biodiesel and we act as a market catalyst by securing and blending biodiesel supplies and furnishing these to smaller distributors as well as our own service stations. Our biodiesel plants, located at Candeias and Quixada in Northeastern Brazil and at Montes Claros in Southeastern Brazil, purchase vegetable oils from small farmers and industrial producers. After various operational improvements, the capacity of these three



plants totals 7.6 mbb/d. In 2011, we acquired 50% of BSBIOS, an important player in the biodiesel segment that has two plants in Southern Brazil. This acquisition increased our total capacity to 10.1 mbb/d.

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We participate in the growing ethanol industry through production, transportation, distribution, wholesale and exports, and by stimulating improvements in product quality. In accordance with our strategy to increase our participation in the ethanol industry, we invested U.S.\$13.0 million (R\$22.4 million) in 2011 to increase our interest in Total Agroindústria Canavieira S.A. to 43.58% from 40.37%. Similarly, we invested U.S.\$113.0 million (R\$195.4 million) in 2011 to increase our interest in Guarani S.A. to 31.44% from 26.49%. We also invested U.S.\$94.2 million (R\$163.0 million) in 2011 to increase our interest in Nova Fronteira Bioenergia S.A. to 49.00% from 37.05%. As a result of these partnerships and investments, the total annual milling capacity of our affiliate companies amounts to 25.9 mmt, and the total ethanol production capacity of our affiliate companies amounts to 8.1 million bbl per harvest season.

In 2011, we exported 679,000 bbl of ethanol, 5.54% of Brazil's total ethanol exports, which consisted mainly of industrial ethanol exported to Asia. In addition, we also increased the volume of ethanol bought outside of Brazil.

**Corporate**

	<b>Corporate Key Statistics</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
		<b>(U.S.\$ million)</b>	
<b>Corporate:</b>			
Income (loss) before income taxes	(5,003)	(3,572)	(3,811)
Total assets at December 31	45,326	53,631	31,559
Capital expenditures and investments	729	839	1,057

Our Corporate segment comprises our financing activities not attributable to other segments, including corporate financial management, central administrative overhead and actuarial expenses related to our pension and health care plans for inactive participants. As of 2011, the results of our Biofuels segment have been presented separately from our Corporate segment. The 2010 and 2009 financial information related to our Corporate and Biofuel segments were reclassified accordingly.

**Information on PifCo**

PifCo is a direct, wholly-owned finance subsidiary of Petrobras incorporated in the Cayman Islands as an exempted company with limited liability. PifCo was originally incorporated in order to facilitate and finance the import of crude oil and oil products by us into Brazil, and has been our direct, wholly-owned subsidiary since 2000. As of September 30, 2011, PifCo no longer engages in the sale and purchase of crude oil and oil products to and from us, third parties and related parties. PifCo is a finance subsidiary functioning as a vehicle for us to raise capital for our operations through the issuance of debt securities in the international capital markets, among other means.

We have provided unconditional and irrevocable guaranties of payment for all of PifCo's issuances of SEC-registered debt securities since February 2009. On March 31, 2010, we issued six additional unconditional and irrevocable guaranties of payment to replace the standby purchase agreements that previously supported PifCo's SEC-registered debt securities issued prior to February 2009. As a result, we currently provide unconditional and irrevocable guaranties of payment for all of PifCo's outstanding debt obligations.

### *PifCo's Corporate Structure*

PifCo was established on September 24, 1997 as Brasoil Finance Company, a wholly owned subsidiary of Braspetro Oil Services Company, or Brasoil, a wholly owned subsidiary of Petrobras Internacional S.A. (Braspetro), which has since been absorbed by us. PifCo's voting shares were transferred from Brasoil to us in 2000, since which time it has been our wholly owned subsidiary. Petrobras International Finance Company is an exempted company incorporated with limited liability under the laws of the Cayman Islands. PifCo's registered office is located at Harbour Place, 103 South Church Street, 4th floor, P.O. Box 1034GT, George Town, Grand Cayman, Cayman Islands, and PifCo's telephone number is 55-21-3224-3467.

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PifCo's two subsidiaries are:

- **Petrobras Finance Limited (PFL):** In December 2001, PifCo established PFL, a wholly owned subsidiary incorporated and registered in the Cayman Islands. PFL primarily purchases fuel oil from us and sells the products in the international market in order to generate export receivables to cover its obligations to transfer these receivables to a trust under an exports prepayment program. Until June 1, 2006, PFL also purchased bunker fuel from us. PFL ceased its commercial operations in August 2011 and prepaid its financing program supported by future sales of fuel oil in September 2011.
- **Bear Insurance Company Limited (BEAR):** In January 2003, BEAR was transferred to PifCo from Brasoil. This transaction took place as part of the restructuring of our international business segment. BEAR currently serves as our captive insurance company, advising on and negotiating the terms and conditions of, certain of our insurance policies and certain insurance and reinsurance policies of our subsidiaries.

In August 2011, two former PifCo subsidiaries – Petrobras Europe Limited (PEL) and Petrobras Singapore Private Limited (PSPL) – were sold to Petrobras International Braspetro BV (PIB BV).

**Organizational Structure**

Of our 34 direct subsidiaries listed below, 27 are incorporated under the laws of Brazil and 7 (PifCo, Petrobras International Braspetro B.V. (PIB BV), Braspetro Oil Company (BOC), Braspetro Oil Services Company (Brasoil), Petrobras Netherlands B.V. (PNBV), Cordoba Financial Services GmbH and Cayman Cabiúñas) are incorporated abroad. See Exhibit 8.1 for a complete list of our subsidiaries, including their full names, jurisdictions of incorporation and our percentage equity interest.

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The following diagram sets forth our significant consolidated subsidiaries as of December 31, 2011:

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**Property, Plant and Equipment**

*Petrobras*

Our most important tangible assets are wells, platforms, refining facilities, pipelines, vessels and other transportation assets, and power plants. Most of these are located in Brazil. We own and lease our facilities and some owned facilities are subject to liens, although the value of encumbered assets is not material.

We have the right to exploit crude oil and gas reserves in Brazil under concession agreements, but the reserves themselves are the property of the government under Brazilian law. Item 4. "Information on the Company" includes a description of our reserves and sources of crude oil and natural gas, key tangible assets, and material plans to expand and improve our facilities.

*PifCo*

PifCo does not itself own or lease any material property, plant or equipment.

**Regulation of the Oil and Gas Industry in Brazil**

*Concession Regime for Oil and Gas*

Under Brazilian law, the Brazilian federal government owns all crude oil and natural gas subsoil accumulations in Brazil. The Brazilian federal government holds a monopoly over the exploration, production, refining and transportation of crude oil and oil products in Brazil and its continental shelf, with the exception that companies that were engaged in refining and distribution in 1953 were permitted to continue those activities. Between 1953 and 1997, we were the Brazilian federal government's exclusive agent for exploiting its monopoly, including the importation and exportation of crude oil and oil products.

As part of a comprehensive reform of the oil and gas regulatory system, the Brazilian Congress amended the Brazilian Constitution in 1995 to authorize the Brazilian federal government to contract with any state or privately-owned company to carry out upstream, oil refining, cross-border commercialization and transportation activities in Brazil of oil, natural gas and their respective products. On August 6, 1997, Brazil enacted Law No. 9,478, which established a concession-based regulatory framework, ended our exclusive right to carry out oil and gas activities, and allowed competition in all aspects of the oil and gas industry in Brazil. Since that time, we have been operating in an increasingly deregulated and competitive environment. Law No. 9,478 also created an independent regulatory agency, the ANP, to regulate the oil, natural gas and renewable fuel industry in Brazil, and to create a competitive environment in the oil and gas sector. Effective January 2, 2002, Brazil deregulated prices for crude oil, oil products and natural gas.

Law No. 9,478 established a concession-based regulatory framework and granted us the exclusive right to exploit crude oil reserves in each of our producing fields under then existing

concession contracts for an initial term of 27 years from the date when they were declared commercially profitable. These are known as the "Round Zero" concession contracts. This initial 27-year period for production can be extended at the request of the concessionaire and subject to approval from the ANP. Law No. 9,478 also established a procedural framework for us to claim exclusive exploratory rights for a period of up to three years, later extended to five years, to areas where we could demonstrate that we had made commercial discoveries or exploration investments prior to the enactment of the Law No. 9,478. In order to perfect our claim to explore and develop these areas, we had to demonstrate that we had the financial capacity to carry out these activities, either alone or through other cooperative arrangements. Starting in 1999, all areas not already subject to concessions became available for public bidding conducted by the ANP. All the concessions that we have obtained since such time were obtained through participation in public bidding rounds.

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*Taxation under Concession Regime for Oil and Gas*

According to the Law No. 9,478 and under our concession agreements for exploration and production activities with ANP, we are required to pay the government the following:

- Signature bonuses paid upon the execution of the concession agreement, which are based on the amount of the winning bid, subject to the minimum signature bonuses published in the relevant bidding guidelines (*edital de licitação*);
- Annual retention bonuses for the occupation or retention of areas available for exploration and production, at a rate established by the ANP in the relevant bidding guidelines based on the size, location and geological characteristics of the concession block;
- Special participation charges at a rate ranging from 0 to 40% of the net income derived from the production of fields that reach high production volumes or profitability, according to the criteria established in the applicable legislation. Net revenues are gross revenues less royalties paid, investments in exploration, operational costs and depreciation adjustments and applicable taxes. The Special Participation Tax uses as a reference international oil prices converted to *reais* at the current exchange rate. In 2011, we paid this tax on 22 of our fields, namely Albacora, Albacora Leste, Barracuda, Cachalote, Canto do Amaro, Caratinga, Carmópolis, Cherne, Espadarte, Golfinho, Jubarte, Leste do Urucu, Manati, Marlim, Marlim Leste, Marlim Sul, Miranga, Namorado, Peroá, Rio Urucu, Roncador and Frade (operated by Chevron); and
- Royalties, to be established in the concession contracts at a rate ranging between 5% and 10% of gross revenues from production, based on reference prices for crude oil or natural gas established by Decree No. 2,705 and ANP regulatory acts. In establishing royalty rates in the concession contracts, the ANP also takes into account the geological risks and expected productivity levels for each concession. Virtually all of our crude oil production is currently taxed at the maximum royalty rate.

Law No. 9,478 also requires concessionaires of onshore fields to pay to the owner of the land a participation fee that varies between 0.5% and 1.0% of the sales revenues derived from the production of the field.

*Production-Sharing Contract Regime for Unlicensed Pre-Salt and Potentially Strategic Areas*

Discoveries of large petroleum and natural gas reserves in the pre-salt areas of the Campos and Santos Basins prompted a change in the legislation regarding oil and gas exploration and production activities.

In 2010, three new laws were enacted to regulate exploration and production activities in pre-salt and other potentially strategic areas not subject to existing concessions: Law No. 12,351, Law No. 12,304, and Law No. 12,276. The enacted legislation does not impact the existing pre-salt concession contracts, which cover approximately 28% of the pre-salt region.





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Law No. 12,351, enacted on December 22, 2010, regulates production-sharing contracts for oil and gas exploration and production in pre-salt areas not under concession and in potentially strategic areas to be defined by the CNPE. It also calls for the creation of a social fund consisting of resources from the Brazilian federal government's share in production sharing-contracts, such as subscription bonuses, royalties and revenues, which must be used by the Brazilian federal government to sponsor social and regional development programs.

Under the production-sharing regime, we will be the exclusive operator of all blocks. The exploration and production rights for these blocks can either be granted to us on an exclusive basis or, in the case where they are not awarded to us on an exclusive basis, they will be offered under public bids. If offered under public bids, we would still be required to participate as the operator, with a minimum interest to be established by the CNPE that would not be less than 30% (irrespective of the economic terms of the winning bid). Under the production-sharing regime, the winner of the bid will be the company that offers to the Brazilian federal government the highest percentage of "profit oil," which is the production of a certain field after deduction of royalties and "cost oil," which is the cost associated with oil production.

Although Law No. 12,351 was enacted in 2010, former President Luiz Inácio da Silva vetoed changes to the royalty distribution framework proposed by the Brazilian Congress under this act and submitted a new proposal to the Brazilian Congress that included a royalty rate of 15% applicable to the gross production of oil and natural gas under production sharing contracts and for the distribution of these royalties among Brazilian states. This proposal, as well as other proposals regarding the royalty distribution framework, are currently under consideration by the Brazilian Congress.

Law No. 12,304, enacted on August 2, 2010, authorizes the incorporation of a new state-run non-operating company that will represent the interests of the Brazilian federal government in the production-sharing contracts and will manage the commercialization contracts related to the Brazilian federal government's share of the "profit oil." This new company will participate in operational committees, with a casting vote and veto powers and will manage and control costs arising from production-sharing contracts. Where production-sharing contracts are concerned, this new company will exercise its specific legal activities alongside the ANP, the independent regulatory agency that regulates and oversees oil and gas activities under all exploration and production regimes, and the CNPE, the entity that sets the guidelines to be applied to the oil and gas sector, including with respect to the new regulatory model.

*Assignment Agreement (Cessão Onerosa) and Global Offering*

Pursuant to Law No. 12,276, enacted on June 30, 2010, we entered into an agreement with the Brazilian federal government on September 3, 2010 (Assignment Agreement), under which the government assigned to us the right to conduct activities for the exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. The initial contract price for our rights under the Assignment Agreement was R\$74,807,616,407, which was equivalent to U.S.\$42,533,327,500 as of September 1, 2010. See Item 10. "Material contracts—Petrobras—Assignment Agreement." In order to ensure transparency, our board of

directors created a special committee comprised of minority shareholders' representatives to monitor the transfer of rights transaction.

Law No. 12,276 also authorized the Brazilian federal government to subscribe for additional shares of our capital stock in a public offering of our shares. On September 29, 2010, we issued 2,293,907,960 common shares (including common shares in the form of ADSs) and 1,788,515,136 preferred shares (including preferred shares in the form of ADSs) in a global public offering consisting of a registered offering in Brazil and an international offering that included a registered offering in the United States. On October 1, 2010, we issued an additional 75,198,838 common shares (including common shares in the form of ADSs) and 112,798,256 preferred shares (including preferred shares in the form of ADSs) pursuant to the exercise of the underwriters' over-allotment option. We complied with all of the Brazilian Corporate Law requirements in carrying out the capitalization process, including the protection of the rights of our minority shareholders. See Item 10. "Memorandum and Articles of Incorporation of Petrobras-Preemptive Rights" for a summary of these requirements.

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We applied part of the net proceeds from the global offering to pay the initial purchase price under the Assignment Agreement and to continue to develop all of our business segments in accordance with our Business Plan.

*Natural Gas Law of 2009*

In March 2009, the Brazilian Congress enacted a law regulating activities in the gas industry, including transport and commercialization, which was amended by Decree No. 7,382 enacted in December 2010. The Gas Law created a concession regime for the construction and operation of new pipelines to transport natural gas, while maintaining an authorization regime for pipelines subject to international agreements. According to the Gas Law, after a certain exclusivity period, operators will be required to grant access to transport pipelines and maritime terminals, except LNG terminals, to third parties in order to maximize utilization of capacity. Authorizations previously issued by the ANP for natural gas transport will remain valid for 30 years from the date of publication of the Gas Law, and initial carriers were granted exclusivity in these pipelines for 10 years. The ANP will issue regulations governing third-party access and carrier compensation if no agreement is reached between the parties.

The Gas Law also authorized certain consumers, which can purchase natural gas on the open market or obtain their own supplies of natural gas, to construct facilities and pipelines for their own use in the event local gas distributors controlled by the states, which have monopoly over local gas distribution, do not meet their distribution needs. These consumers are required to delegate the operation and maintenance of the facilities and pipelines to local gas distributors, but they are not required to sign gas supply agreements with the local gas distributors.

In December 2010, Decree No. 7,382 was enacted in order to regulate Chapter I to VI and VIII of the Gas Law as it relates to activities in the gas industry, including transportation and commercialization.

*Price Regulation*

Until the passage of the Law No. 9,478 in 1997, the Brazilian federal government had the power to regulate all aspects of the pricing of crude oil, oil products, ethanol, natural gas, electric power and other energy sources. In 2002, the government eliminated price controls for crude oil and oil products, although it retained regulation over certain natural gas sales contracts and electricity. Also in 2002, the Brazilian federal government established an excise tax on the sale and import of crude oil, oil products and natural gas products (*Contribuição de Intervenção no Domínio Econômico*, Contribution for Intervention in the Economic Sector, or CIDE). The Brazilian federal government has periodically used CIDE as a tool to maintain price stability to end consumers, primarily by decreasing the CIDE rate when we increase our prices to reflect higher international prices and vice versa. In 2009, the Gas Law authorized the ANP to regulate prices for the use of gas transport pipelines subject to the new concession regime, based on a procedure defined in the Gas Law as a "*chamada pública*," and to approve prices submitted by carriers, according to previously established criteria, for the use of new gas transport pipelines subject to the authorization regime.

## Environmental Regulations

All phases of the crude oil and natural gas business present environmental risks and hazards. Our facilities in Brazil are subject to a wide range of federal, state and local laws, regulations and permit requirements relating to the protection of human health and the environment. At the federal level, our offshore activities and those that involve more than one Brazilian state are subject to the regulatory authority of the *Conselho Nacional do Meio Ambiente* (National Council for the Environment, or CONAMA) and to the administrative authority of IBAMA, which issues operating and drilling licenses. We are required to submit reports, including safety and pollution monitoring reports (IOPP) to IBAMA in order to maintain our licenses. Onshore environmental, health and safety conditions are controlled at the state rather than federal level, and there is strict liability for environmental damage, mechanisms for enforcement of environmental standards and licensing requirements for polluting activities.

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Individuals or entities whose conduct or activities cause harm to the environment are subject to criminal and administrative sanctions. Government environmental protection agencies may also impose administrative sanctions for noncompliance with environmental laws and regulations, including:

- Fines;
- Partial or total suspension of activities;
- Requirements to fund reclamation and environmental projects;
- Forfeiture or restriction of tax incentives or benefits;
- Closing of establishments or operations; and
- Forfeiture or suspension of participation in credit lines with official credit establishments.

We are subject to a number of administrative and legal proceedings relating to environmental matters. See Item 8. "Financial Information—Legal Proceedings." and Note 28 to our audited consolidated financial statements included in this annual report for a description of the legal and administrative proceedings to which we are subject.

In 2011, we invested approximately U.S.\$1,625 million in environmental projects, compared to approximately U.S.\$1,377 million in 2010 and U.S.\$984 million in 2009. These investments were primarily directed at reducing emissions and wastes resulting from industrial processes, managing water use and effluents, remedying impacted areas, implementing new environmental technologies, upgrading our pipelines and improving our ability to respond to emergency situations.

### **Health, Safety and Environmental Initiatives**

The protection of human health and the environment is one of our primary concerns, and is essential to our success as an integrated energy company.

As a result of an internal reorganization carried out in 2010, our Health, Safety and Environment (HSE) Management Committee was disbanded and its functions were assigned to a newly-created Technology, Engineering and Services Integration Committee. This committee is composed of corporate executive managers from both business and services areas and is chaired by Chief Corporate and Services Officer. The following three committees gather representatives from the business and services areas as well as from subsidiary companies to deal with health, safety, environmental and energy efficiency issues: the HSE Management Committee; the Energy Efficiency, Air Emissions and Climate Change Committee; and the Environmental Licensing and Compensation Committee. We have also created an Environmental Committee composed of three members of our board of directors, the charter of which is awaiting approval by our board of directors.



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Our actions to address health, safety and environmental concerns and ensure compliance with environmental regulations involved an investment of approximately U.S.\$3,135 million in 2011 and included:

- A HSE management system based on principles of sustainable development which seeks to minimize the impacts of operations and products on health, safety and the environment, reduce the use of natural resources and pollution, and prevent accidents;
- ISO 14001 (environment) and OHSAS 18001 (health and safety) certification of our operating units. As of December 2011, Petrobras had 90% of the total number of 295 certifiable sites in Brazil and abroad certified in accordance with the standards mentioned above. The *Frota Nacional de Petroleiros* (National Fleet of Vessels) has been fully certified by the International Maritime Organization (IMO) International Management Code for Safe Operation of Ships and for Pollution Prevention (ISM Code) since December 1997;
- Regular and active engagement with the MME and IBAMA, including negotiating new environmental compensation regulations and discussing environmental issues connected with new gas pipelines, oil and gas production projects and other aspects of our operations.
- “Climate Change” and “Energy Efficiency” strategic projects, which aim to implement the highest standards in the energy industry regarding the efficient use of energy and greenhouse gas management. By reducing the environmental impact of our operations, we will contribute to our sustainability and mitigate global climate change.
- A new strategic challenge seeking to maximize energy efficiency and reduce greenhouse gases emission intensity, which was approved by our board of executive officers in November 2010 along with a set of performance indicators with targets to monitor progress with respect to this new challenge. Our goal is to reach excellence levels in the oil and gas industry and to contribute to business sustainability.
- The HSE and Energy Efficiency in Investment Projects project, which began in 2011 and aim at identifying opportunities, risks as well as ensuring the integration of health, safety, environment and energy efficiency (HSEE) aspects throughout the life cycle of new investment projects. Given the high volume of investments planned for the coming years, the project will benefit from the opportunity to increase our HSEE performance with lower marginal costs, contributing to the reduction of losses, to operational continuity and to a lower exposure to penalties and liabilities.

Every project is evaluated to confirm its compliance with all HSE requirements and adoption of the best HSE practices throughout the project’s life cycle. In addition, we conduct more extensive environmental studies for new projects when required by applicable environmental legislation.

We are committed to reduce greenhouse gas emission intensity from our processes and products, as expressed in our 2020 Strategic Plan. Our strategy focuses on energy efficiency, energy production from renewable sources and research and technological development.



This strategy aims both at improving business sustainability and mitigating the effects of climate change.

Our Internal Program on Energy Conservation works to improve energy efficiency in all our units. Over the past five years, we have invested approximately U.S.\$287 million in optimization projects whose economic results include energy savings of 4,200 barrels of oil equivalent per day.

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*Environmental Remediation Plans and Procedures*

In 2000, we implemented a company-wide program for environmental management and operational safety (PEGASO) that was designed to identify risks to human life and the environment, control and monitor those risks with safety procedures that comply with best international practices, and maintain a permanent state of readiness for prompt and effective emergency response.

In light of, among other things, the Gulf of Mexico oil spill, we commenced our two-year program, Management and Response to Disasters (GRADE), in 2011 that aims at improving our capability to manage major accidents. The goal of this program is to provide international logistics and sharing agreements with Oil Spill Response Organizations (OSROs) and petroleum companies, to develop a network of international specialists on accident management, to ensure an appropriate assignment of government and industry roles in the context of major accidents as well as to contribute to the regulation of *in situ* burning operations and the subsea use of chemical dispersants.

In 2011, we conducted 18 regional emergency drills with the Brazilian Navy, the Civil Defense, firefighters, the military police, environmental organizations, and local governmental and community entities.

In 2011, we experienced oil spills totaling 1,471 barrels of crude oil, compared to 4,200 barrels of crude oil in 2010 and 1,598 barrels of crude oil in 2009.

We have maintained oil spill levels in our upstream operations well below 1m<sup>3</sup> per mmbbl produced, which corresponds to a standard of excellence within the global oil and gas industry. Data for 2010 compiled by the International Association of Oil & Gas Producers indicates that the industry average is 0.72 m<sup>3</sup> of oil spilled per mmbbl produced. We continue to evaluate and develop initiatives to address HSE concerns and to reduce our exposure to HSE risks.

As part of our environmental plans, procedures and efforts, we have developed detailed response and remediation contingency plans to be implemented in the event of an oil spill or leak from our offshore operations. We have more than 660 trained workers available to respond to oil spills 24 hours a day, seven days a week, and we can mobilize an additional 5,000 trained workers for shoreline cleanups on short notice. While these workers are located in Brazil, they are also available to respond to an offshore oil spill outside of Brazil. We also have stockpiles of the equipment needed to quickly and effectively contain offshore spills or leaks, including over 146 miles of containment and absorbent booms, 444 different oil skimmers, over 55,000 gallons of oil dispersants and 385 oil pumps. Petrobras has 30 dedicated oil spill recovery vessels (OSRVs) fully equipped for oil spill control and fire fighting, as well as 130 additional support and recovery boats and barges available to fight offshore oil spills and leaks 24 hours a day, seven days a week. In addition, we have contracts with local emergency responders Clean Caribbean and Americas Cooperative in North America and Oil Spill Response Limited in Africa and Asia. We also maintain relationships with major OSROs and other oil companies.

We created ten environmental protection centers in strategic areas in which we operate throughout Brazil in order to ensure rapid and coordinated response to onshore or offshore oil spills. These regional facilities are supported by 13 local advance bases dedicated to oil spill prevention, control and response. Our environmental protection centers and their advanced bases would be mobilized in the event of a spill or leak at one of our offshore operations. Each of our local and regional response centers is self sufficient and available to respond either individually or jointly together with neighboring facilities depending on the severity and scale of the emergency.

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**Insurance**

Our insurance programs focus principally on the evaluation of risks and the replacement value of assets, which is customary for our industry. Under our risk management policy, risks associated with our principal assets, such as refineries, tankers and offshore production units and drilling rigs, are insured for their replacement value with third-party Brazilian insurers. Although some policies are issued in Brazil, most of our policies are reinsured abroad with reinsurers rated A- or higher by Standard & Poor's rating agency or B+ or higher by A.M. Best. Part of our international operations are insured or reinsured by our Bermudian subsidiary BEAR following the same rating criteria.

Less valuable assets, including but not limited to small auxiliary boats, certain storage facilities, and some administrative installations, are self-insured. We do not maintain coverage for business interruption, except for a minority of our international operations and a few specific assets in Brazil. We also do not maintain coverage for our wells for all of our Brazilian operations. Although we do not insure most of our pipelines, we have insurance against damage or loss to third parties resulting from specific incidents, as well as oil pollution. We also maintain coverage for risks associated with cargo, hull and machinery risk. All projects and installations under construction that have an estimated maximum loss above U.S.\$60 million are covered by a construction policy.

We have operations in 24 countries outside Brazil and maintain varying levels of third-party liability insurance for our domestic and international operations as a result of a variety of factors, including our country risk assessments, whether we have onshore and offshore operations and legal requirements imposed by the particular country in which we operate. We maintain insurance coverage for operational third-party liability with respect to our onshore and offshore activities, including environmental risks such as oil spills, in Brazil up to an aggregate policy limit of U.S.\$250 million for a period of 12 months. We also maintain additional protection and indemnity (P&I) marine insurance against third-party liability related to our domestic offshore operations up to an aggregate policy limit of up to U.S.\$500 million for a period of 12 months. In the event of an explosion or similar event at one of our offshore rigs in Brazil, these policies can provide combined third-party liability coverage of up to U.S.\$750 million for a period of 12 months.

Our domestic and international operational third-party liability policies cover claims made against us by or on behalf of individuals who are not our employees in the event of personal injury or death, subject to the policy limits set forth above. As a general rule, our service providers are required to indemnify us for a claim we pay directly to a third party as a result of a court decision holding us liable for the actions of that service provider. Our operational third-party liability policies also cover environmental damage from oil spills (including liability arising from an explosion or similar sudden and accidental event at one of our offshore rigs) as well as litigation, clean-up and remediation costs, but do not cover governmental fines or punitive damages.

We maintain separate "control-of-well" insurance policies at our international operations to cover liability arising from the uncontrolled eruption of oil, gas, water or drilling fluid, as well

as to cover claims for environmental damage from well blow-outs and similar events as well as related clean-up costs, with aggregate policy limits up to U.S.\$500 million for a period of 12 months depending on the country. In the U.S. Gulf of Mexico, for example, we maintain third-party liability coverage up to an aggregate policy limit of U.S.\$250 million for a period of 12 months, and control-of-well liability insurance up to U.S.\$500 million for a period of 12 months. Depending on the particular circumstances, either of these policies could apply in the event of an explosion or similar event at one of our offshore rigs in the U.S. Gulf of Mexico.

We do not maintain control-of-well insurance for our domestic operations onshore and offshore Brazil. As a result, we would bear the costs of clean-up, decontamination and any proceedings arising out of a control-of-well incident. Any loss of hydrocarbon containment from our domestic operations onshore and offshore that is not attributable to a control-of-well issue would be covered by either our Protection & Indemnity (P&I) insurance, with coverage of up to U.S.\$500 million for our mobile offshore units, or our onshore-offshore liability policy, with coverage of up to U.S.\$250 million.

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The premium for renewing our domestic property risk insurance policy for a 12-month period commencing June 2011 was U.S.\$58.2 million. This represented a nominal increase of 20% over the preceding 12-month period. The insured value of our assets, in the same period, increased by 21% to U.S.\$122 billion. The average rate for the period was 0.048%, representing a decrease of 5.01% relative to the previous period. Since 2001, our risk retention has increased and our deductibles may reach U.S.\$60 million in certain cases.

**Additional Reserves and Production Information**

Production of crude oil and natural gas in Brazil is divided into onshore and offshore production, comprising 11% and 89% of total production in Brazil, respectively. The Campos Basin is one of Brazil's main and most prolific oil and gas offshore basins, with over 59 hydrocarbon fields discovered, eight large oil fields and a total area of approximately 115,000 km<sup>2</sup> (28.4 million acres). In 2011, the Campos Basin produced an average 1,677.0 mbbbl/d of oil and 12.9 mmm<sup>3</sup>/d (487.4 mmcf/d) of associated natural gas, comprising 79% of our total production from Brazil. We also conduct limited oil shale mining operations in São Mateus do Sul, in the Paraná Basin of Brazil, and we use oil shale from these deposits to produce synthetic oil and gas.

On December 31, 2011, our estimated proved reserves of crude oil and natural gas in Brazil totaled 12.26 billion barrels of oil equivalent, including 10.41 billion barrels of crude oil and natural gas liquids and 293.24 bnm<sup>3</sup> (11.07 tcf) of natural gas. As of December 31, 2011, our domestic proved developed crude oil reserves represented 67% of our total domestic proved developed and undeveloped crude oil reserves, and our domestic proved developed natural gas reserves represented 62% of our total domestic proved developed and undeveloped natural gas reserves. Total domestic proved crude oil reserves increased at an average annual rate of 4% in the last five years, and total natural gas proved reserves increased at an average annual rate of 3% over the same period.

We calculate reserves based on forecasts of field production, which depend on a number of technical parameters, such as seismic interpretation, geological maps, well tests, reservoir engineering studies and economic data. All reserve estimates involve some degree of uncertainty. The uncertainty depends primarily on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of that data. Our estimates are thus made using the most reliable data and technology at the time of the estimate, in accordance with the best practices in the oil and gas industry and regulations promulgated by the Securities and Exchange Commission.

***Internal Controls over Proved Reserves***

The reserves estimation process begins with an initial evaluation of our assets by geophysicists, geologists and engineers. Corporate Reserves Coordinators (*Coordenadores de Reservas Corporativo*, or CRCs) safeguard the integrity and objectivity of our reserves estimates by supervising and providing technical support to Regional Reserves Coordinators (*Coordenadores de Reservas Regionais*, or CRRs) who are responsible for preparing the reserves estimates. Our CRRs and CRCs have degrees in geophysics, geology, petroleum

engineering, accounting and economics and are trained internally and abroad in international reserves estimates seminars. CRCs are responsible for compliance with Securities and Exchange Commission rules and regulations, consolidating and auditing the reserves estimation process. The technical person primarily responsible for overseeing the preparation of our domestic reserves is a member of the SPE, with 22 years of experience in the field and has been with Petrobras for 28 years. The technical person primarily responsible for overseeing the preparation of our international reserves has five years of experience in the field, a doctorate in reservoir engineering and has been with Petrobras for 32 years. Our reserves estimates are presented to our board of executive officers and submitted to the board of directors for final approval.

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DeGolyer and MacNaughton (D&M) used our reserves estimates to conduct a reserves audit of 95.5% of the net proved crude oil, condensate and natural gas reserves as of December 31, 2011 from certain properties we own in Brazil and offshore from Brazil. In addition, D&M used its own estimates of our reserves to conduct a reserves evaluation of 53% of the net proved crude oil, NGL and natural gas reserves as of December 31, 2011 from certain properties we own in South America (outside of Brazil). The reserves estimates were prepared in accordance with the reserves definitions of Rule 4-10(a) of Regulation S-X of the SEC. For further information on our proved reserves, see “Supplementary Information on Oil and Gas Exploration and Production” beginning on page F-110.

***Changes in Proved Reserves***

At year-end 2011 compared to year-end 2010, we added a net total of 98.65 mmboe from our domestic proved undeveloped reserves and 18.90 mmboe from our international proved undeveloped reserves, resulting in a net increase of 117.55 mmboe company-wide. Thus, we had a total of 4,471.84 mmboe of proved undeveloped reserves company-wide at December 31, 2011, compared to 4,354.27 mmboe of proved undeveloped reserves company-wide at December 31, 2010.

In Brazil, the net increase in our proved undeveloped reserves in 2011 compared to 2010 resulted from the 142.43 mmboe of extensions and discoveries in the pre-salt regions of the Santos Basin, the 404.42 mmboe of revisions to previous estimates and the 1.92 mmboe of improved recovery. In addition, we converted a net total of 450.12 mmboe of our proved undeveloped reserves to proved developed reserves in Brazil in 2011, mainly through the start-up of production of the P-56 platform in the Campos Basin and the drilling of several wells in existing production fields.

Outside Brazil, the net increase in our proved undeveloped reserves in 2011 compared to 2010 was mainly due to newly estimated reserves in the United States and resulted from the conversion of 58.23 mmboe of proved undeveloped reserves to proved developed reserves, which was offset by 31.71 mmboe of extensions and discoveries, 39.25 mmboe of revisions to previous estimates and 6.17 mmboe of improved recovery.

All reserves volumes described above are “net” to the extent that they only include Petrobras’ proportional participation in reserve volumes and exclude reserves attributed to our partners.

In 2011, we invested a total of U.S.\$11.19 billion to convert proved undeveloped reserves into proved developed reserves, of which approximately 93.1% (U.S.\$10.42 billion) was invested in Brazil. We converted a total of 508.34 mmboe of proved undeveloped reserves to proved developed reserves in 2011, approximately 88.5% (450.12 mmboe) of which were Brazilian reserves. In recent years, we have developed projects and increased investments to convert our proved undeveloped reserves into proved developed reserves.

We had a total of 4,471.84 mmboe of proved undeveloped reserves company-wide at year-end 2011, approximately 5.23% (234.14 mmboe) of which have remained undeveloped for five years or more as a result of several factors affecting development and production, including



the inherent complexity of ultra-deepwater developments projects, particularly in Brazil, and constraints in the capacity of our existing infrastructure.

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A portion of the 234.14 mmbbl of our proved undeveloped reserves that have remained undeveloped for five years or more consist of heavy crude oil located in the Parque das Baleias (Whales Park) area of the Campos Basin offshore Brazil. We originally disclosed these reserves as proved undeveloped reserves between 2003 and 2004 after completing a development plan for the Parque das Baleias region. However, due to the discovery in 2007 of more valuable light crude oil in the same region, we deliberately postponed production from these proved undeveloped reserves until we could allocate the necessary ultra-deep water infrastructure and production resources to develop both our existing proved undeveloped reserves of heavy crude oil and our recently discovered pre-salt light crude oil simultaneously. We started the development of these light crude pre-salt reservoirs in 2008 by means of an EWT. In 2010, we started the production of heavy crude oil and pre-salt light crude oil with the FPSO Capixaba. In 2011, we drilled the first wells to be connected to the leased FPSO Cidade de Anchieta, which will start production of pre-salt light crude oil in the second quarter of 2012. As a result, at year-end 2011, we reclassified a portion of these pre-salt light crude oil proved undeveloped reserves in the Parque das Baleias area of the Campos Basin offshore Brazil. The majority of our remaining proved undeveloped reserves that have remained undeveloped for five years or more consist of reserves in shallow water fields in the Santos Basin and deep waters in the Campos Basin, for which we are making investments to develop necessary infrastructure.

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The following tables set forth our production of crude oil, natural gas, synthetic oil and synthetic gas by geographic area in 2011, 2010 and 2009:

	Hydrocarbon Production by Geographic Area							
	2011				2010			
	Oil (mmbbl/d) (5)	Synthetic Oil (mmbbl/d) (4)	Nat. Gas (mmcf/d) (1)	Synthetic Gas (mmcf/d) (1)(4)	Total (mboe/d) (6)	Oil (mmbbl/d) (7)	Synthetic Oil (mmbbl/d) (4)	Nat. Gas (mmcf/d) (8)
<b>Brazil:</b>								
Roncador field(2)	297.9	0.0	115.6	0.0	317.2	343.4	0.0	
Other	1,721.1	2.8	1,075.5	1.4	1,903.3	1,657.1	3.6	
Total Brazil	2,019.0	2.8	1,191.1	1.4	2,220.5	2,000.5	3.6	
<b>International:</b>								
South America (outside of Brazil)	77.4	0.0	569.4	0.0	172.3	80.2	0.0	
North America	2.2	0.0	11.1	0.0	4.0	1.3	0.0	
Africa	57.6	0.0	0.0	0.0	57.6	56.5	0.0	
Total International	137.2	0.0	580.5	0.0	233.9	138.0	0.0	
Total consolidated production	<b>2,156.2</b>	<b>2.8</b>	<b>1,771.6</b>	<b>1.4</b>	<b>2,454.4</b>	<b>2,138.5</b>	<b>3.6</b>	
<b>Equity and non-consolidated affiliates:(3)</b>								
South America (outside of Brazil)	7.7	0.0	3.5	0.0	8.3	7.5	0.0	
<b>Worldwide production</b>	<b>2,163.9</b>	<b>2.8</b>	<b>1,775.1</b>	<b>1.4</b>	<b>2,462.7</b>	<b>2,146.0</b>	<b>3.6</b>	

(1) Natural gas production figures are the production volumes of natural gas available for sale, excluding flared and reinjected gas and gas consumed in operations.

(2) Roncador field is separately included as it contains more than 15% of our total proved reserves.

(3) Companies in which Petrobras has a minority interest.

(4) We produce synthetic oil and synthetic gas from oil shale deposits in São Mateus do Sul, in the Paraná Basin of Brazil.

(5) Oil production includes LNG and production from extended well tests.



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The following table sets forth our estimated net proved developed and undeveloped reserves of crude oil and natural gas by region as of December 31, 2011.

Category	Estimated Net Proved Developed and Undeveloped Reserves					
	Oil	Natural gas	Total oil and natural gas	Synthetic oil	Synthetic gas	Total synthetic oil and synthetic gas
	(mmbbl)	(bcnf)	(mmboe)	(mmbbl)(1)	(bcnf)(1)	(mmboe)
<b>Developed:</b>						
<b>Total</b>	6,973.5	6,836.0	8,113.0	8.6	13.4	10.0
Brazil						
Brazil (outside of Brazil)	106.7	440.9	180.1	0.0	0.0	0.0
Brazil	4.5	32.1	9.8	0.0	0.0	0.0
International	70.3	39.3	76.8	0.0	0.0	0.0
International related proved reserves	181.5	512.3	266.7	0.0	0.0	0.0
<b>non-consolidated affiliates</b>						
non-consolidated affiliates (outside of Brazil)	17.5	20.2	20.9	0.0	0.0	0.0
<b>Total developed reserves</b>	<b>7,172.5</b>	<b>7,368.5</b>	<b>8,400.6</b>	<b>8.6</b>	<b>13.4</b>	<b>10.0</b>
<b>Undeveloped:</b>						
<b>Total</b>	3,437.5	4,231.0	4,142.6	0.0	0.0	0.0
Brazil						
Brazil (outside of Brazil)	84.7	748.6	209.5	0.0	0.0	0.0
Brazil	49.3	40.1	56.0	0.0	0.0	0.0
International	47.8	0.0	47.8	0.0	0.0	0.0
International related proved reserves	181.8	788.7	313.3	0.0	0.0	0.0
<b>non-consolidated affiliates</b>						
non-consolidated affiliates (outside of Brazil)	12.1	23.3	15.9	0.0	0.0	0.0
<b>Total undeveloped reserves</b>	<b>3,631.4</b>	<b>5,043.0</b>	<b>4,471.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total reserves (developed and undeveloped)</b>	<b>10,804.1</b>	<b>12,411.5</b>	<b>12,872.4</b>	<b>8.6</b>	<b>13.4</b>	<b>10.0</b>

(1) Volumes of synthetic oil and synthetic gas from oil shale deposits in the Paraná Basin in Brazil have been included in our proved reserves in accordance with the SEC rules for estimating and disclosing reserve quantities.

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The table below summarizes information about the changes in total proved reserves of our consolidated entities for 2011, 2010 and 2009:

**Total Proved Developed and Undeveloped Reserves (consolidated entities only)**

	Oil	Natural gas	Total oil and natural gas	Synthetic oil	Synthetic gas
	(mmbbl)	(bn cf)	(mmboe)	(mmbbl)	(bn cf)
<b>Information for the year ended December 31, 2011</b>					
Proved reserves	10,723.8	11,881.8	12,704.1	7.4	12.0
Estimated future production	613.6	998.3	780.0	2.4	3.3
In situ gas	8.0	0.3	8.1	-	-
Revisions	-	-	-	-	-
Other	168.6	277.7	214.9	-	-
	(739.8)	(790.3)	(871.5)	(1.2)	(1.9)
	-	-	-	-	-
	10,774.2	12,367.8	12,835.5	8.6	13.4
<b>Information for the year ended December 31, 2010</b>					
Proved reserves	10,262.2	10,982.5	12,092.6	6.8	5.6
Estimated future production	375.8	330.9	431.0	1.8	8.3
In situ gas	29.7	15.1	32.2	-	-
Revisions	-	-	-	-	-
Other	804.6	1,284.6	1,018.7	-	-
	(742.5)	(730.2)	(864.2)	(1.2)	(1.9)
	(6.0)	(1.1)	(6.2)	-	-
	10,723.8	11,881.8	12,704.1	7.4	12.0
<b>Information for the year ended December 31, 2009</b>					
Proved reserves	9,105.5	12,139.4	11,128.7	-	-
Estimated future production	1,734.8	(521.6)	1,647.9	-	-
In situ gas	21.7	0.8	21.8	-	-
Revisions	99.4	110.3	117.8	-	-
Other	135.5	146.8	160.0	8.0	6.6
	(735.3)	(782.9)	(865.8)	(1.2)	(1.0)
	(99.4)	(110.3)	(117.8)	-	-
	10,262.2	10,982.5	12,092.6	6.8	5.6

Natural gas production volumes used in this table are the net volumes withdrawn from Petrobras' proved reserves, including flared gas consumed in operations and excluding reinjected gas. Oil production volumes used in this table are net volumes withdrawn from Petrobras' proved reserves and exclude LNG and production from extended well

tests. As a result, the oil and natural gas production volumes in this table are different from those shown in the production table above, which shows the production volumes of natural gas available for sale.





	(in acres)				Synthetic oil		Synthetic gas	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Gross and net undeveloped acreage:</b>								
<b>Brazil</b>	1,000,224	788,029	328,866	322,525	0	0	0	0
<b>International</b>								
South America (outside of Brazil)	852,332	722,381	2,709,042	1,733,723	0	0	0	0
North America	12,274	8,296	3,562	2,329	0	0	0	0
Africa	234,012	41,956	0	0	0	0	0	0
<b>Total international</b>	1,098,618	772,633	2,712,604	1,736,052	0	0	0	0
<b>Total consolidated</b>	2,098,842	1,560,662	3,041,470	2,058,577	0	0	0	0
<b>Equity and non-consolidated affiliates:</b>								
South America (outside of Brazil)	164,531	42,874	27,083	8,853	0	0	0	0
<b>Total gross and net undeveloped acreage</b>	2,263,373	1,603,536	3,068,553	2,067,430	0	0	0	0

) A "gross" well or acre is one in which a whole or fractional working interest is owned, while the number of "net" wells or acres is the number of the whole or fractional working interests in gross wells or acres.

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The following table sets forth the number of net productive and dry exploratory and development wells drilled for the last three years.

<b>Net Productive and Dry Exploratory and Development Wells</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Net productive exploratory wells drilled:</b>			
<b>Consolidated subsidiaries:</b>			
Brazil	31.9	60.1	35.7
South America (outside of Brazil)	3.3	3.7	1.2
North America	0.6	0.0	0.2
Africa	0.2	0.2	0.5
Other	0.0	0.7	0.0
Total consolidated subsidiaries	36.0	64.7	37.6
<b>Equity and non-consolidated affiliates:</b>			
South America (outside of Brazil)	0.0	0.0	0.0
<b>Total productive exploratory wells drilled</b>	<b>36.0</b>	<b>64.7</b>	<b>37.6</b>
<b>Net dry exploratory wells drilled:</b>			
<b>Consolidated subsidiaries:</b>			
Brazil	50.8	39.5	55.7
South America (outside of Brazil)	0.9	2.6	2.0
North America	0.0	0.0	1.0
Africa	0.5	1.7	1.1
Other	0.0	0.0	0.0
Total consolidated subsidiaries	52.2	43.8	59.8
<b>Equity and non-consolidated affiliates:</b>			
South America (outside of Brazil)	0.0	0.0	0.0
<b>Total dry exploratory wells drilled</b>	<b>52.2</b>	<b>43.8</b>	<b>59.8</b>
<b>Total number of net wells drilled</b>	<b>88.2</b>	<b>108.5</b>	<b>97.4</b>
<b>Net productive development wells drilled:</b>			
<b>Consolidated subsidiaries:</b>			
Brazil	228.0	457.5	546.2
South America (outside of Brazil)	194.2	179.6	57.0
North America	0.0	1.1	0.0
Africa	0.4	1.3	1.7
Other	0.0	0.0	0.0
Total consolidated subsidiaries	422.6	639.5	604.9
<b>Equity and non-consolidated affiliates:</b>			
South America (outside of Brazil)	3.0	4.0	6.0
<b>Total productive development wells drilled</b>	<b>425.6</b>	<b>643.5</b>	<b>610.9</b>
<b>Net dry development wells drilled:</b>			
<b>Consolidated subsidiaries:</b>			
Brazil	0.5	3.0	9.8
South America (outside of Brazil)	0.0	0.0	0.0
North America	0.0	0.0	0.0

Africa	0.0	0.0	0.0
Other	0.0	0.0	0.0
Total consolidated subsidiaries	0.5	3.0	9.8
<b>Equity and non-consolidated affiliates:</b>			
South America (outside of Brazil)	0.2	0.0	0.0
<b>Total dry development wells drilled</b>	0.7	3.0	9.8
<b>Total number of net wells drilled</b>	426.3	646.5	620.7

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The following table summarizes the number of wells in the process of being drilled as of December 31, 2011. For more information about our on-going exploration and production activities in Brazil, see “—Exploration and Production.” Our present exploration and production activities outside of Brazil are described in “—International.”

	<b>Number of Wells Being Drilled as of December 31, 2011</b>	
	<b>Gross</b>	<b>Net</b>
<b>Wells Drilling</b>		
<b>Consolidated Subsidiaries:</b>		
<b>Brazil</b>	67	61.1
<b>International:</b>		
South America (outside of Brazil)	249	194.19
North America	0	0.0
Africa	2	0.4
Others	0	0.0
Total International	251(1)	194.59
Total consolidated production	318	255.69
<b>Equity and non-consolidated affiliates:</b>		
South America (outside of Brazil)	12	3.03
<b>Total wells drilling</b>	<b>330</b>	<b>258.72</b>

(1) Includes 138 wells with multiple completions.

The following table sets forth our average production prices and average production costs by geographic area and by product type for the last three years.

	<b>South America (outside of Brazil)</b>				<b>Total</b>	<b>Equity and non-consolidated affiliates(2)</b>
	<b>Brazil</b>	<b>South America (outside of Brazil)</b>	<b>North America</b>	<b>Africa</b>		
	<b>(U.S.\$)</b>					
<b>During 2011</b>						
<i>Average production prices</i>						
Oil, per barrel	102.24	74.03	107.02	114.65	101.52	89.40
Natural gas, per thousand cubic feet(1)	9.43	3.16	4.72	—	8.27	—
Synthetic oil, per barrel	98.94	—	—	—	98.94	—
Synthetic gas, per thousand cubic feet	7.42	—	—	—	7.42	—
Average production costs, per barrel – total	13.08	12.61	12.43	6.29	12.89	14.57
<b>During 2010</b>						
<i>Average production prices</i>						
Oil, per barrel	74.66	57.17	74.53	79.44	74.12	75.54

Natural gas, per thousand cubic feet(1)	7.34	2.55	4.56	–	6.49	–
Synthetic oil, per barrel	66.78	–	–	–	66.78	–
Synthetic gas, per thousand cubic feet	7.06	–	–	–	7.06	–
Average production costs, per barrel – total	11.11	8.83	23.03	3.15	10.78	15.18
<b>During 2009</b>						
<i>Average production prices</i>						
Oil, per barrel	54.22	46.00	62.23	68.09	54.18	64.64
Natural gas, per thousand cubic feet(1)	7.21	2.06	3.87	–	6.04	–
Synthetic oil, per barrel	50.88	–	–	–	50.88	–
Synthetic gas, per thousand cubic feet	2.97	–	–	–	2.97	–
Average production costs, per barrel – total	9.97	7.77	17.08	10.54	9.82	5.66

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(1) The volumes of natural gas used in the calculation of this table are the production volumes of natural gas available for sale and are also shown in the production table above. Natural gas amounts were converted from bbl to cubic feet in accordance with the following scale: 1 bbl = 5.6146 cubic feet.

(2) Operations in Venezuela.

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**Item 4A. Unresolved Staff Comments**

Not applicable.

**Item 5. Operating and Financial Review and Prospects**

**Management's Discussion and Analysis of Petrobras' Financial Condition and Results of Operations**

The information derived from our financial statement as of and for the years ended December 31, 2011, 2010 and 2009 has been prepared in accordance with IFRS issued by the IASB. For more information, see "Presentation of Financial Information" and Note 2 to our audited consolidated financial statements.

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements and the accompanying notes beginning on page F-2 of this annual report.

**Changes in Accounting from U.S. GAAP to IFRS**

We discontinued U.S. GAAP and adopted IFRS, as issued by the IASB, as the basis for the preparation and presentation of our financial statements and reporting with the SEC beginning with our financial statements as of and for the year ending December 31, 2011 presented in this annual report. This annual report on Form 20-F and all of our future reports filed with the SEC will only present financial information prepared in accordance with IFRS.

We first adopted IFRS, as issued by IASB, for our financial statements for the year December 31, 2010, which were filed with the local securities regulator in Brazil and made available to the public. Our transition date from Brazilian GAAP to IFRS was January 1, 2009 and we used certain elective transitional treatments under IFRS 1 in such financial statements filed with local securities regulator in Brazil.

Since we have previously adopted IFRS in Brazil, we are not a "first time adopter" of IFRS for purposes of this annual report on Form 20-F. We are presenting bridging disclosures to IFRS in the form of a reconciliation from U.S. GAAP to IFRS as issued by the IASB of our net income for the years ended December 31, 2010 and 2009 and our shareholders' equity at December 31, 2010. This reconciliation is included in Note 36 in our audited consolidated financial statements.

Our IFRS financial statements filed with the local securities regulator in Brazil use the *real* as its presentation currency, while the financial statements included herein use the U.S. Dollar as its presentation currency.



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The following describes the most significant differences between U.S. GAAP and IFRS that are applicable to our financial statements. For additional information on the main differences between U.S. GAAP and IFRS and a reconciliation from U.S. GAAP to IFRS of our net income for the years ended December 31, 2010 and 2009 and our shareholder's equity at December 31, 2010, see Note 36 to our audited consolidated financial statements.

- *Property, plant and equipment* – Our adoption of IFRS resulted in changes to the registration of property, plant and equipment values when compared to U.S. GAAP, specifically in what is related to adjustment for hyperinflationary periods, capitalization of interest and impairment tests.
  - *Adjustment for hyperinflationary periods:* Under U.S. GAAP, property, plant and equipment amounts were translated into U.S. dollars and re-measured on exchange rate as of January 1, 1998 (when Brazil ceased to be hyperinflationary). According to IFRS, such amounts had to be adjusted by a general price index during the hyperinflationary period and, after the hyperinflationary period, the adjusted amounts became the new carrying amount.
  - *Capitalization of interest:* Under both U.S. GAAP and IFRS, an entity is required to capitalize costs that are directly attributable to the obtaining of a qualifying asset. However, when adopting IFRS for the first time, we elected to apply the transitional provisions set out in IAS 23 - Borrowing Costs and, as a result, we assumed the BR GAAP carrying amount as the IFRS carrying amount on our opening balance sheet under IFRS. U.S. GAAP and IFRS also differ in what is related to the measurement of the amounts subject to capitalization deduction of income earned as a result of temporary investments of actual borrowings from the amount of borrowing costs to be capitalized.
  - *Impairment tests:* Property, plant and equipment is assessed for impairment when there is evidence that the carrying amount may not be recoverable. U.S. GAAP requires a two-step impairment model; first comparing asset carrying values with undiscounted cash flow and then the impairment loss is the result of the difference between the carrying amount of the asset and its discounted cash flow. Once recorded, impairment losses are no longer reversed. Unlike U.S. GAAP, IFRS uses one-step impairment model, being the impairment loss recorded when the carrying amount of the asset is lower than its recoverable amount and Impairment losses may be reversed up to the initial carrying amount of the asset, as if the impairment charge had not been recognized for the asset in prior years.
- *Provision for abandonment of wells and dismantling of areas* – Both US GAAP and IFRS require that when an asset retirement liability is recognized, a corresponding amount is capitalized as an additional cost of the related asset. The liability is measured based on the estimated discounted future cash outflows of the abandonment. The unwinding of the discount is included in profit for the period. U.S. GAAP also requires discounting downwards revisions to the estimates of the timing or amount of future cash outflows by historical rates. Only upward revisions are discounted by the current rate of the measurement period. Unlike US GAAP, IFRS requires a fresh-start method, under which the liability is discounted by the current rate of the measurement period.



- *Planned major maintenance* – Under U.S. GAAP, planned major maintenances are expensed when incurred. Unlike U.S. GAAP, IFRS requires the capitalization of such costs when certain conditions are met.
- *Investments* – U.S. GAAP requires exchanges of equity method investments for a similar productive asset to be measured at fair value. Unlike US GAAP, IFRS requires fair value measurement only when the exchange has commercial substance. In addition, business combinations are recorded based on the acquisition method which is similar to IFRS. As permitted by IFRS 1, we have not retroactively applied IFRS on business combinations occurred prior to our adoption of IFRS. As a result, we assumed BR GAAP carrying amount on our opening balance sheet under IFRS.

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- *Pension and Health Care Plan* – U.S. GAAP requires actuarial gains and losses to be recognized as OCI “Other Comprehensive Income” in the shareholders’ equity. According to IFRS the recognition of the actuarial gains and losses may be deferred based on a method called “the corridor approach”. According to U.S. GAAP, the net prior service cost was recognized as OCI at the date the plan was adopted and then amortized into profit or loss over the participant’s remaining years of service. According to IFRS, past service cost should be recognized immediately to the extent that it relates to former employees or to active employees already vested. Otherwise, it should be amortized on a straight-line basis over the average period until the amended benefits become vested. In addition, upon our adoption of IFRS, the balance of unrecognized actuarial gains and losses of post-employment benefits was fully recorded against retained earnings at the transition date.
- *Deferred income taxes* – The balance of deferred income taxes was impacted by the adjustments included in the reconciliation of net income and shareholders’ equity from U.S. GAAP to IFRS by using the applicable tax rates.

**Overview**

We earn income from:

- domestic sales, which consist of sales of oil products (such as diesel oil, gasoline, jet fuel, naphtha, fuel oil and liquefied petroleum gas), natural gas, ethanol, electricity and petrochemical products;
- export sales, which consist primarily of sales of crude oil and oil products;
- international sales (excluding export sales), which consist of sales of crude oil, natural gas and oil products that are purchased, produced and refined abroad; and
- other sources, including services, investment income and foreign exchange gains.

Our expenses include:

- costs of sales (which are composed of labor expenses, operating costs and purchases of crude oil and oil products); maintaining and repairing property, plant and equipment; depreciation and amortization of fixed assets; depletion of oil fields; and exploration costs;
- selling (which include expenses for transportation and distribution of our products), general and administrative expenses; and
- interest expense, monetary and foreign exchange losses.



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Fluctuations in our financial condition and results of operations are driven by a combination of factors, including:

- the volume of crude oil, oil products and natural gas we produce and sell;
- changes in international prices of crude oil and oil products, which are denominated in U.S. dollars;
- related changes in the domestic prices of crude oil and oil products, which are denominated in *reais*;
- the demand for oil products in Brazil, and the amount of imports required to meet that demand;
- fluctuations in the *real*/U.S. dollar and to a lesser degree, Argentine peso/U.S. dollar exchange rates; and
- the amount of production taxes that we are required to pay with respect to our operations.

**Sales Volumes and Prices**

The profitability of our operations in any particular accounting period is related to the sales volume of, and prices for, the crude oil, oil products and natural gas that we sell. Our consolidated net sales in 2011 totaled approximately 1,142,531 thousand barrels of crude oil equivalent, representing U.S.\$145,915 million in sales revenues, compared to 1,343,167 thousand barrels of crude oil equivalent, representing U.S.\$120,452 million in sales revenues in 2010, and approximately 1,215,087 thousand barrels of crude oil equivalent, representing U.S.\$91,146 million in sales revenues in 2009.

As a vertically integrated company, we process most of our crude oil production in our refineries and sell the refined oil products primarily in the Brazilian domestic market. Therefore, it is oil product prices in Brazil, rather than crude oil prices, that most directly affect our financial results. International oil product prices vary over time as the result of many factors, including the price of crude oil. Over the long term, we intend to sell our products in Brazil at parity with international product prices, however we do not adjust our prices for all gasoline, diesel and LPG to reflect short-term volatility in the international markets. As a result, material rapid or sustained increases or decreases in the international price of crude oil and oil products may result in downstream margins for us that are materially different than those of other integrated international oil companies, within a given financial reporting period.

The average prices of Brent crude, an international benchmark oil, were approximately U.S.\$111.27 per barrel in 2011, U.S.\$79.47 per barrel in 2010 and U.S.\$61.51 per barrel in 2009. For December 2011, Brent crude oil prices averaged U.S.\$107.91 per barrel. We announced price decreases of 4.5% for gasoline and 15% for diesel in the domestic market in June 2009 to reflect international oil product prices. The increase in the CIDE by the Brazilian

federal government fully offset the reduction in gasoline prices and partially offset the reduction in diesel prices. In November 2011 the domestic gasoline prices increased by 10% and domestic diesel prices increased by 2%.

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During 2011, approximately 66.9% of our sales revenues were derived from sales of crude oil and oil products in Brazil, compared to 68.4% in 2010 and 72.3% in 2009. As export revenues of crude oil and oil products have increased, domestic sales as a percentage of sales revenues have decreased.

	<b>For the Year Ended December 31,</b>								
	<b>2011 Net Average Volume (mbbl, except as otherwise noted)</b>	<b>Price (U.S.\$) (1)</b>	<b>Sales Revenues (U.S.\$ million)</b>	<b>Volume (mbbl, except as otherwise noted)</b>	<b>2010 Net Average Price (U.S.\$) (1)</b>	<b>Sales Revenues (U.S.\$ million)</b>	<b>Volume (mbbl, except as otherwise noted)</b>	<b>2009 Net Average Price (U.S.\$) (1)</b>	<b>Sale Reven (U.S. millio</b>
Energy products:									
Automotive	178,471	109.65	19,569	143,947	82.27	11,842	123,412	72.69	8
Aviation									
Jet fuel	321,106	122.37	39,293	295,297	97.85	28,894	270,099	93.42	25
Aviation kerosene	140	57.14	8	155	70.97	11	294	71.43	
Crude oil	29,813	79.12	2,359	36,481	68.61	2,503	37,235	48.23	1
Other products (including kerosene)									
Refined petroleum gas	81,636	76.43	6,239	79,695	47.27	3,767	76,759	39.96	3
Other energy products	611,166		67,468	555,575		47,017	507,799		39
Other energy products:									
Chemicals									
Chemical products	61,034	90.46	5,521	61,111	64.33	3,931	59,832	44.07	2
Other products	141,176	89.27	12,602	140,648	91.75	12,904	133,836	64.51	8
Other products	202,210		18,123	201,759		16,835	193,668		11
Other energy products									
Other energy products	112,366	70.14	7,881	116,271	40.44	4,702	87,468	38.62	3
Other energy products									
Other energy products	925,742		93,472	873,605		68,554	788,935		53
Other energy products	282,516	157.16	44,400	277,822	135.50	37,646	227,320	130.77	29
Other energy products									
Other energy products	(290,028)	101.56	(29,456)	(285,172)	83.69	(23,867)	(265,697)	66.11	(17,
Other energy products									
Other energy products	918,230		108,416	866,255		82,333	750,558		65
Other energy products									
Other energy products	237,879	84.55	20,113	253,063	74.75	18,916	244,974	54.99	13
Other energy products									

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International sales	49,460	118.30	5,851	53,183	145.01	7,712	103,056	56.25	5
Others	150,771	64.98	9,798	170,666	54.50	9,301	116,499	42.08	4
Total	438,110		35,762	476,912		35,929	464,529		24
Expenses			1,737			2,190			1
<b>Consolidated sales</b>	<b>1,356,340</b>		<b>145,915</b>	<b>1,343,167</b>		<b>120,452</b>	<b>1,215,087</b>		<b>91</b>

(1) Net average price calculated by dividing net sales by the volume for the year.

### **Effect of Taxes on Our Income**

In addition to taxes paid on behalf of consumers to federal, state and municipal governments, such as the *Imposto sobre Circulação de Mercadorias e Serviços*, or ICMS, we are required to pay three principal charges on our oil production activities in Brazil: royalties, special participation and retention bonuses. See Item 4. “Information on the Company—Regulation of the Oil and Gas Industry in Brazil—Exploration and Development Regulation” and Item 3. “Key Information—Risk Factors—Risks Relating to Brazil.”

These charges imposed by the Brazilian federal government are included in our cost of goods sold. In addition, we are subject to tax on our income at an effective rate of 25% and a social contribution tax at an effective rate of 9%, the standard corporate tax rate in Brazil. See Note 20.5 to our audited consolidated financial statements for the year ended December 31, 2011.



**TABLE OF CONTENTS****Inflation and Exchange Rate Variation***Inflation*

Since the introduction of the *real* as the Brazilian currency in July 1994, inflation in Brazil has remained relatively stable. Inflation was 6.50% in 2011, 5.90% in 2010 and 4.31% in 2009 as measured by IPCA, the National Consumer Price Index. Inflation has had, and may continue to have, effects on our financial condition and results of operations.

*Exchange Rate Variation*

Since we adopted the *real* as our functional currency in 1998, fluctuations in the value of the *real* against the U.S. dollar have had multiple effects on our results of operations.

Our reporting currency for all periods is the U.S. dollar. We maintain our financial records in *reais*, and translate our statements of operations into U.S. dollars at the average rate for the period. Although a substantial portion of our revenues is in *reais*, our revenues have been, and continue to be, linked to U.S. dollar-based international prices, since virtually all of our sales are of crude oil or oil products. When the *real* appreciates relative to the U.S. dollar as it did from 2003 through the first half of 2008, the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. When the *real* depreciates, prices for our products when expressed in *reais* may remain constant, while in dollar terms they increase.

In 2011, the *real* appreciated 5.1% against the U.S. dollar, compared to an appreciation of 13.5% in 2010 and a depreciation of 8.1% in 2009. When the *real* depreciates relative to the U.S. dollar, our prices when expressed in U.S. dollars decline unless we raise prices.

Exchange rate variation also affects the amount of retained earnings available for distribution by us when measured in U.S. dollars. Amounts reported as available for distribution in our statutory accounting records are calculated in *reais* and prepared in accordance with the IFRS increase or decrease when measured in U.S. dollars as the *real* appreciates or depreciates against the U.S. dollar. The foreign exchange variations on foreign-denominated assets and liabilities of Brazilian operations (69% of total debt in December 2011) are recorded in the statement of income while the foreign exchange variations on the translation of foreign subsidiaries are recorded in shareholders' equity. In 2011, revenue from exports, which are denominated mainly in U.S. dollars, resulted in a higher amount of revenue when measured in *reais* as result of exchange rate fluctuations. In addition, the exchange rate variation creates foreign exchange gains and losses that are included in our results of operations determined in accordance with IFRS and that affect the amount of our unretained earnings available for distribution.

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**Results of Operations**

The differences in our operating results from year to year occur as a result of a combination of factors, including primarily: the volume of crude oil, oil products and natural gas we produce and sell; the price at which we sell our crude oil, oil products and natural gas; the level of imports and exports needed to satisfy our demand; and the differential between Brazilian and industrial inflation rates, adjusted by the depreciation or appreciation of the *real* against the U.S. dollar.

The table below shows the amount by which each of these variables has changed during the last three years. Production volumes presented in this table are prepared in accordance with Society of Petroleum Engineers (SPE) criteria, which are the criteria we apply to analyze our operating results:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Crude oil and NGL production (mmbbl/d):			
Brazil	2,022	2,004	1,971
International	140	144	132
Non-consolidated international production(1)	8	8	10
Total crude oil and NGL production	<b>2,170</b>	<b>2,156</b>	<b>2,113</b>
Change in crude oil and NGL production	0.6%	2.0%	6.8%
Average sales price for crude (U.S.\$/barrel):			
Brazil	102.24	74.66	54.22
International	91.37	66.42	53.58
Natural gas production (mmcf/d):			
Brazil	2,130	2,004	1,902
International	582	558	576
Total natural gas production	<b>2,712</b>	<b>2,562</b>	<b>2,478</b>
Change in natural gas production (sold only)	5.9%	3.4%	(1.9%)
Average sales price for natural gas (U.S.\$/mcf):			
Brazil(2)	9.43	7.34	7.21
International	2.88	2.36	2.11
Year-end exchange rate ( <i>Reais</i> /U.S.\$)	1.88	1.67	1.74
Appreciation (depreciation) during the year(3)	(12.6%)	4.3%	25.5%
Average exchange rate for the year ( <i>Reais</i> /U.S.\$)	1.67	1.76	2.00
Appreciation (depreciation) during the year(4)	5.1%	13.5%	(8.1%)
Inflation rate (IPCA)	6.5%	5.9%	4.3%

(1) Non-consolidated companies in Venezuela.

(2) Amounts were converted from bbl to cubic feet in accordance with the following scale: 1 bbl = 5.6146 cubic feet.

(3) Based on year-end exchange rate.

(4) Based on average exchange rate for the year.

TABLE OF CONTENTS**Results of Operations—2011 compared to 2010**

Virtually all of our revenues and expenses for our Brazilian activities are denominated and payable in *reais*. When the *real* appreciates relative to the U.S. dollar, as it did in 2011 (an appreciation of 5.1%) the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. However, the appreciation of the *real* against the U.S. dollar affects the line items discussed below in different ways. As a consequence, the following comparison between our results of operations in 2011 and in 2010 is impacted by the appreciation of the *real* against the U.S. dollar during that period. See Note 2.3 of our audited consolidated financial statements for the year ended December 31, 2011, for more information about the translation of Brazilian *reais* amounts into U.S. dollars.

**Sales Revenues**

Sales revenues increased 21% to U.S.\$145,915 million in 2011 compared to U.S.\$120,452 million in 2010. This increase was primarily a result of:

- increase of 40% in the international Brent crude oil and oil products prices, which resulted in an increase of the prices of exports, international sales, trading operations and domestic oil products indexed to such international prices;
- increase of 10% in domestic gasoline prices and 2% in diesel prices in November 2011;
- increase of 6% in domestic demand, 24% in domestic demand for gasoline, reflecting gasoline's competitive advantage if compared to ethanol, 9% in domestic demand for diesel and 12% in domestic demand for jet fuel; and
- increase of 2% in oil and gas production in Brazil.

These effects were partially offset by a decrease in exports of crude oil due to increased domestic feedstock processed by refineries.

**Cost of Sales (Excluding Depreciation, Depletion and Amortization)**

Cost of sales in 2011 increased 29% to U.S.\$99,595 million compared to U.S.\$77,145 million in 2010. This increase was principally a result of:

- increase of 40.4% (U.S.\$8,925 million) in the cost of imports, primarily due to the increase of 6% in domestic demand. The growth in domestic demand was met by higher crude oil and oil products import volumes to support the domestic market, purchased at prevailing international prices, which increased during the year.
- increase of 38.4% (U.S.\$4,150 million) in production taxes and charges in 2011 compared to 2010, reflecting higher international oil benchmark prices upon which such taxes and charges are based. The principal production taxes and charges are as follows:

- royalties, which increased from U.S.\$5,340 million in 2010 to U.S.\$7,318 million in 2011, an increase of 37% in 2011 as compared to 2010; and
- special participation charge (a charge payable in the event of high production or profitability from our fields), which increased from U.S.\$5,395 million in 2010 to U.S.\$7,562 million in 2011, an increase of 40.2% in 2011 as compared to 2010.

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The increase in production taxes and charges in 2011 was due to an increase of 40.2% in the reference price for domestic oil, which averaged U.S.\$100.39 for 2011 compared to U.S.\$ 71.58 for 2010, reflecting the increase in average prices for crude oil on the international market.

***Administrative and General Expenses***

Administrative and general expenses increased 16% to U.S.\$5,161 million in 2011 compared to U.S.\$4,441 million in 2010. This increase was primarily attributable to higher personnel expenses due to salary increases arising out of the Collective Bargaining Agreement for 2011, as well as by a larger workforce, higher personnel training costs and increased third-party technical services.

***Exploration Costs***

Exploration costs increased 21% to U.S.\$2,630 million in 2011 compared to U.S.\$2,168 million in 2010, due to an increase in the operational activity and higher write-off amounts of dry wells in Brazil.

***Research and Development Expenses***

Research and development expenses increased 47% to U.S.\$1,454 million in 2011 compared to U.S.\$989 million in 2010. This higher expense was primarily related to the development of the technological project called *Sistema de Separação Submarina de Água e Óleo – SSAO* (System of Submarine Separation of Water from Oil) and to the increased number of projects with institutions approved by the ANP, pursuant to ANP Rule 5/2005.

***Other Operating Income and Expenses, Net***

Other operating income and expenses, net remained relatively constant in 2011 (U.S.\$3,984 million) compared to 2010 (U.S.\$3,965 million). Excluding the impact of the appreciation of the *real*, other operating income and expenses, net decreased 6% in 2011 compared to 2010, mainly due to:

- U.S.\$619 million decrease in losses from legal and administrative proceedings, to U.S.\$412 million in 2011 compared to U.S.\$1,031 million in 2010; and
- U.S.\$542 million in gains from legal and arbitral proceedings in 2011, generated by the recovery of COFINS tax amounts and also as a result of the indemnification related to the assembly of Platform P-48.

This effect was partially offset by the U.S.\$331 million increase in impairment losses, to U.S.\$369 million in 2011 compared to U.S.\$38 million in 2010. See Note 12.4 of our consolidated financial statements for the year ended December 31, 2011.

***Financial Income (Expenses), Net***

We derive financial income from several sources, including interest income on cash and cash equivalents. The majority of our cash equivalents are short-term Brazilian federal government securities, including securities indexed to the U.S. dollar. We also hold U.S dollar deposits. As we have increased the levels of our indebtedness substantially to fund our investments, the effect of the capitalization of our borrowing costs have had, and will continue to have, a significant impact on our financial result.

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Financial income (expenses), net decreased 95% to U.S.\$76 million in 2011 compared to U.S.\$1,551 million in 2010.

Our net financial income is principally a result of the following factors:

- Our net financial income is also affected by exchange rate movements and the amount of net assets or liabilities subject to exchange rate variation. In 2011 we had net liabilities in *reais* subject to exchange rate variation. Additionally, the value of the *real* against the U.S. dollar decreased 12.6% in 2011, compared to an increase of 4.3% in the value of the *real* against the U.S. dollar in 2010. As a result, exchange rate movements on our debt generated an exchange variation expense of U.S.\$2,443 million in 2011 compared to an exchange variation gain of U.S.\$800 million in 2010.
- Financial income increased by 56% (U.S.\$1,408 million) in 2010 to U.S.\$3,943 million in 2011 compared to U.S.\$2,535 million in 2010. Most of our cash equivalents are short-term Brazilian federal government securities which earn interest based on the Selic rate. In 2011 the Selic rate was 11.67% compared to 9.82% in 2010. Higher cash and equivalents denominated in *reais* also contributed to the higher interest income.

For a breakdown of our financial income (expenses), net and other additional information, please refer to Notes 27 and 4.6 of our consolidated financial statements for the year ended December 31, 2011.

***Non-Controlling Interests***

Non-controlling interests increased to a gain of U.S.\$129 million in 2011 compared to a loss of U.S.\$394 million in 2010, primarily due to the effects of exchange rates over the debt of our Special Purpose Entities – SPE.

***Income Taxes***

Income taxes expenses decreased 1.4% to U.S.\$6,732 million for 2011 compared to U.S.\$6,825 million for 2010 primarily due to the decrease of taxable income. The reconciliation between the tax calculated based upon statutory tax rates to income tax expense and effective rates is set forth in Note 20 of our consolidated financial statements for the year ended December 31, 2011.



TABLE OF CONTENTS**Net Income (Loss) by Business Segment**

We measure performance at the segment level on the basis of net income. The following is a discussion of the net income of our six business segments at December 31, 2011, compared to December 31, 2010.

	<b>Year Ended December</b>		
	<b>31,</b>		
	<b>2011(1)</b>	<b>2010(1)</b>	<b>Percentage</b>
	<b>(U.S.\$ million)</b>		<b>Change</b>
			<b>(%)</b>
Exploration and Production	24,326	16,874	44.2
Refining, Transportation and Marketing	(5,718)	2,088	(373.9)
Gas and Power	1,862	736	153.0
Biofuel(2)	(95)	(53)	79.2
Distribution	774	710	9.0
International	1,179	730	61.5
Corporate(2)(3)	(721)	(527)	36.8
Eliminations	(1,486)	(503)	195.4
Net income	<b>20,121</b>	<b>20,055</b>	<b>0.3</b>

(1) Excluding non-controlling interests.

(2) As of 2011, the results of our Biofuel segment have been presented separately from our Corporate segment. The 2010 and 2009 financial information related to our Corporate and Biofuel segments were reclassified accordingly.

(3) Our Corporate segment comprises our financing activities not attributable to other segments, including corporate financial management, central administrative overhead and actuarial expenses related to our pension and health care plans for inactive participants.

**Exploration and Production**

Our Exploration and Production segment includes our exploration, development and production activities in Brazil, sales and transfers of crude oil in domestic and foreign markets, transfers of natural gas to our Gas and Power segment and sales of oil products produced at natural gas processing plants.

The increase of 44% in net income for our Exploration and Production segment was primarily due to an increase of 37% in domestic oil sale/transfer prices and, to a minor extent, an increase of 1% in oil and NGL production, partially offset by increased expenses related to

production taxes.

The spread between the average domestic oil sale/transfer price and the average Brent price widened from US\$ 4.81/bbl in 2010 to US\$ 9.03/bbl in 2011. As a producer of relatively heavy oil, on average, this reduced our income relative to the increase in the Brent price.

See Item 4. "Information on the Company—Overview of the Group—Changes in Proved Reserves" for information on changes in proved reserves.

### *Refining, Transportation and Marketing*

Our Refining, Transportation and Marketing segment (RTM) comprises refining, logistics, transportation, export and the purchase of crude oil, as well as the purchase and sale of oil products and ethanol. Additionally, this segment includes the petrochemical division, which comprises investments in domestic petrochemical companies and also extraction and processing of shale. RTM purchases crude oil from E&P and imports oil to blend with our domestic oil. Additionally, RTM purchases oil products in the international markets to meet excess product demand in the domestic market. RTM acquires crude oil and oil products at the international price, either from E&P or from international markets, and sells products in Brazil at a price that we expect will equal international prices in the long run. For some of our products, principally gasoline, diesel and residential LPG, however, the prices in Brazil can lag the international markets. Depending on the impact of this lag effect, RTM's earnings may differ from international refining margins.

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The decrease in net income for our RTM segment was attributable to higher oil acquisition/transfer costs and a greater volume and higher prices of oil product imports, reflecting the increase of 40% in Brent crude oil prices on a U.S.\$/bbl basis, which was not fully offset by increasing prices in the domestic and international market during the period.

*Gas and Power*

Our Gas and Power segment covers activities of transportation and trading of natural gas produced in or imported into Brazil, transportation and trading of LNG, generation and trading of electric power, as well as 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.

The increase in net income for our Gas and Power segment was mainly due to the following factors:

- increase in average realization price of natural gas, due to greater participation in the industrial segment sales mix;
- reduction of acquisition/transfer costs of domestic natural gas, reflecting international prices and the appreciation of the *real* against the U.S. dollar;
- increased fixed revenues from energy auctions (regulated market), with the operational start-up of two new thermoelectric plants;
- increased fertilizer margin sales, reflecting growth in demand and higher prices of agricultural commodities;
- use of tax credits.

*Biofuel*

Our Biofuel segment covers activities of production of biodiesel and its co-products and ethanol activities, through equity investments, production and marketing of ethanol, sugar and the excess electric power generated from sugarcane bagasse.

The decrease of 79% in net income for our Biofuel segment in 2011 compared to 2010 was primarily due to unfavorable sales prices and also to increases in costs for acquisition and transportation of raw-material for biodiesel production and higher operating expenses.

These effects were partially offset by the profitability of the ethanol sector.

*Distribution*

Our Distribution segment comprises the oil products, ethanol and compressed natural gas distribution activities conducted by our 100% owned subsidiary, Petrobras Distribuidora S.A. –

BR, in Brazil.

Net income for our Distribution segment in 2011 decreased 8%, excluding currency effects, compared to 2010 mainly due to increased costs related to commercial services, allowance for doubtful accounts and personnel expenses.

The Distribution segment accounted for 39.2% of the national fuel distribution market in 2011, compared to 38.8% in 2010.

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Our International segment comprises our activities in countries other than Brazil, which include exploration and production, refining, transportation and marketing, distribution and gas and power.

The increase of 62% in net income for our International segment was due primarily to the increase in commodities prices in the international market, decreased exploration costs due to write-offs of dry or economically unviable wells, partially offset by the oil tax levied in Nigeria and the higher allowance for marking inventory to market value in Japan, the United States and Argentina.

**Results of Operations—2010 compared to 2009**

Virtually all of our revenues and expenses for our Brazilian activities are denominated and payable in *reais*. When the *real* appreciates relative to the U.S. dollar, as it did in 2010 (an appreciation of 13.5%) the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. However, the appreciation of the *real* against the U.S. dollar affects the line items discussed below in different ways. As a consequence, the following comparison between our results of operations in 2010 and in 2009 is impacted by the appreciation of the *real* against the U.S. dollar during that period. See Note 2.3 of our audited consolidated financial statements for the year ended December 31, 2010, for more information about the translation of Brazilian *real* amounts into U.S. dollars.

Certain prior year amounts have been reclassified to conform to current year presentation standards. These reclassifications had no impact on our net income.

***Sales Revenues***

Sales revenues increased 32.2% to U.S.\$120,452 million for 2010 compared to U.S.\$91,146 million for 2009. This increase was primarily a result of:

- higher prices for our exports of oil and oil products, and higher prices for products sold in Brazil that are regularly adjusted to reflect international prices. In addition, for all products sold in Brazil, the 13.5% average appreciation of the *real* against the U.S. dollar increased sales revenues when expressed in U.S. dollars;
- increase of 12.9% in sales volumes in the domestic market as a result of strong economic growth in Brazil, resulting in an increase of 10.7% in demand for oil products and an increase of 32.9% in demand for natural gas;
- increase in revenues of U.S.\$2,543 million as a result of offshore operations conducted by PifCo for our international trading activities, which increase was largely offset by a U.S.\$2,772 million increase in costs of goods sold; and
- an increase of 2.3% in total domestic and international oil and natural gas production.



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*Cost of Sales (Excluding Depreciation, Depletion and Amortization)*

Cost of sales for 2010 increased 42.8% to U.S.\$77,145 million compared to U.S.\$54,023 million for 2009. This increase was principally a result of:

- increase of 52.4% (U.S.\$7,596 million) in the cost of imports, primarily due to the growing demand for oil products in Brazil, mainly of diesel and jet fuel. The growth in Brazilian demand was met by higher volumes of imports, purchased at prevailing international prices, which increased during the year; and
- increase of 40.5% (U.S.\$3,116 million) in production taxes and charges in 2010 compared to 2009, reflecting higher international oil benchmark prices upon which such taxes and charges are based. The principal production taxes and charges are as follows:
  - o Royalties, which increased from U.S.\$3,558 million in 2009 to U.S.\$5,340 million in 2010, an increase of 50.1% in 2010 as compared to 2009;
  - o Special participation charge (a charge payable in the event of high production or profitability from our fields), which increased from U.S.\$4,094 million in 2009 to U.S.\$5,395 million in 2010, an increase of 31.8% in 2010 as compared to 2009; and
  - o Costs associated with rental fees of areas, which increased from U.S.\$46 million in 2009 to U.S.\$80 million in 2010, an increase of 73.2% in 2010 as compared to 2009.

The increase in production taxes and charges in 2010 was due to an increase of 29.3% in the reference price for domestic oil, which averaged U.S.\$70.34 for 2010 compared to U.S.\$54.40 for 2009, reflecting the increase in average prices for crude oil on the international market.

*Administrative and General Expenses*

Administrative and general expenses increased 21.3% to U.S.\$4,441 million for 2010 compared to U.S.\$3,662 million for 2009. This increase was primarily attributable to the impact of the appreciation of the *real* as well as higher personnel expenses due to an increased workforce and pay raises.

*Exploration costs*

Exploration costs, including costs for exploratory dry holes, increased 5.2% to U.S.\$2,168 million for 2010 compared to U.S.\$2,061 million for 2009. Excluding the impact of the appreciation of the *real*, exploration, including exploratory dry holes, remained relatively constant during 2010 compared to 2009.

*Research and Development Expenses*

Research and development expenses increased 44.4% to U.S.\$989 million for 2010 compared to U.S.\$685 million for 2009. This higher expense was primarily due to increased average sales prices of oil, which is the basis for a fixed 0.5% provision for expenses on research and development investment in Brazilian universities and institutions as required by our Brazilian oil and gas concession agreements.



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*Other Operating Income and Expenses, Net*

Other operating income and expenses, net increased 5.1% to U.S.\$3,965 million for 2010 compared to U.S.\$3,772 million for 2009, mainly due to:

- Increase of U.S.\$186 million in expenses with employee's postretirement benefits and other benefits, to U.S.\$882 million for 2010 compared to U.S.\$697 million for 2009;
- Increase of U.S.\$149 million in expense for institutional relations and cultural projects, to U.S.\$694 million for 2010 compared to U.S.\$545 million for 2009; and
- Increase of U.S.\$116 million in expenses related to collective bargaining agreements, to U.S.\$364 million for 2010 compared to U.S.\$248 million for 2009.

This effect was partially offset by the U.S.\$274 million decrease in impairment losses, to U.S.\$38 million in 2010 compared to U.S.\$312 million in 2009.

*Financial Income (Expenses), Net*

We derive financial income from several sources, including interest on cash and cash equivalents. The majority of our cash equivalents are short-term Brazilian federal government securities, including securities indexed to the U.S. dollar. We also hold U.S. dollar deposits.

Financial income (expenses), net increased to U.S.\$1,551 million in 2010 compared to U.S.\$97 million in 2009, reflecting:

- the impact of an increase of 4.3% in the value of the *real* against the U.S. dollar on our U.S. dollar-denominated indebtedness in 2010, which generated an exchange variation gain of U.S.\$800 million in 2010 compared to an exchange variation gain of U.S.\$47 million in 2009; and
- increase in financial income to U.S.\$2,535 million in 2010 compared to U.S.\$1,757 million in 2009 as a result of increased financial investments in Brazil.

*Non-Controlling Interests*

Non-controlling interests decreased 75% to U.S.\$394 million in 2010 compared to U.S.\$1,551 million in 2009, primarily due to the impact of the exchange rate variation on SPE debt, the exercise of stock options in certain structured projects and the revision of future receivable flows related to financial leasing operations.

*Income Taxes*

Income tax expense increased 26% to U.S.\$6,825 million for 2010 compared to U.S.\$5,421 million for 2009 primarily due to the increase of taxable income. The reconciliation between the tax calculated based upon statutory tax rates to income tax expense and effective rates is

set forth in Note 20.5 of our consolidated financial statements for the year ended December 31, 2010.

TABLE OF CONTENTS**Net Income (Loss) by Business Segment**

We measure performance at the segment level on the basis of net income. The following is a discussion of the net income of our six business segments at December 31, 2010, compared to December 31, 2009.

	<b>Year Ended December 31,</b>		<b>Percentage Change (%)</b>
	<b>2010(1) (U.S.\$ million)</b>	<b>2009(1)</b>	
Exploration and Production	16,874	9,825	71.7
Refining, Transportation and Marketing	2,088	6,742	(69.0)
Gas and Power	736	487	51.1
Biofuel(2)	(53)	(46)	15.2
Distribution	710	582	22.0
International	730	(123)	(693.5)
Corporate(2)(3)	(527)	(1,774)	(70.3)
Eliminations	(503)	(385)	30.6
<b>Net income</b>	<b>20,055</b>	<b>15,308</b>	<b>31.0</b>

(1) Excluding non-controlling interests.

(2) As of 2011, the results of our Biofuel segment have been presented separately from our Corporate segment. The 2010 and 2009 financial information related to our Corporate and Biofuel segments were reclassified accordingly.

(3) Our Corporate segment comprises our financing activities not attributable to other segments, including corporate financial management, central administrative overhead and actuarial expenses related to our pension and health care plans for inactive participants.

**Exploration and Production**

The consolidated net income from our Exploration and Production segment increased 71.7% to U.S.\$16,874 million in 2010 compared to U.S.\$9,825 million in 2009 as a result of the following:

- increase in the price of crude oil, from U.S.\$54.22 per barrel in 2009 to U.S.\$74.66 per barrel in 2010, as a result of higher international prices. The higher price also reflected a reduction in the spread between the average price of domestic oil sold/transferred and the average Brent price, from U.S.\$ 7.29/bbl in 2009 to U.S.\$ 4.81/bbl in 2010, primarily due to the higher demand for heavy oil as compared to light oil;

- increase of 1.6% in oil and LNG production; and
- reduced losses and contingencies related to legal proceedings, particularly a charge of U.S.\$1,034 million related to a special participation in the Marlim field that was charged to operations in 2009.

These effects were partially offset by:

- higher production taxes, which increased from U.S.\$11.73 per barrel to U.S.\$14.61 per barrel due to higher oil prices, excluding lifting costs;
- increase in lifting costs from U.S.\$8.78 per barrel in 2009 to U.S.\$10.03 in 2010, primarily as a result of the appreciation of the *real* and increased maintenance costs in our fields; and
- non-recurring expenses of U.S.\$275 million related to project financing in the Barracuda and Caratinga fields.

See Item 4. "Information on the Company—Overview of the Group—Changes in Proved Reserves" for information on changes in proved reserves.

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*Refining, Transportation and Marketing*

The lower net income for Refining, Transportation and Marketing segment (RTM) in 2010, at U.S.\$2,008 million compared to U.S.\$6,742 million in 2009, was largely due to the higher oil acquisition/transfer costs and higher oil product import costs from both E&P and from international markets during 2010, which were not fully offset by the higher sales prices of diesel, gasoline and residential LPG.

These effects were partially offset by higher domestic oil product sales volumes (mainly for gasoline, diesel and jet fuel) and an increase in domestic prices for oil products, which are indexed to international prices.

An increase in refinery costs, from U.S.\$3.21 to U.S.\$4.33 per barrel, as a result of the strengthening of the *real*, increased refinery maintenance, and higher personnel and third party service costs also contributed to the reduced income.

*Gas and Power*

The improved result for our Gas and Power segment for 2010 compared to 2009 was due to:

- higher natural gas sales, led by growth in the industrial sector and thermo-electric demand;
- increased demand for power generation, which led to higher income from thermoelectric generation;
- increased fixed revenue from energy auctions (regulated market);
- lower acquisition/transfer costs of domestic natural gas reflecting international prices; and
- appreciation of the *real* against the dollar.

These effects were partially offset by:

- increasing LNG import costs and imports of gas from Bolivia; and
- higher selling expenses related to NGL reconverter ships.

*Biofuel*

The increase of 15.2% in net loss for our Biofuel segment in 2010 compared to 2009 was primarily due to unfavorable sales prices and also to increases in costs for acquisition and transportation of raw-material for biodiesel production and higher operating expenses.

These effects were partially offset by the profitability of the ethanol sector.

The Brazilian biofuels sector is undergoing consolidation and, as a result, we have not been able to achieve more favorable operational margins given current sales volumes and the price levels realized at auctions. Certain changes that have occurred with respect to auction rules

will generate improved economic stability for biofuels plants situated in the Brazilian semi arid-region as a result of the consideration of logistic matters in the calculation of sales prices.

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*Distribution*

The increase of 22% in net income from our Distribution segment in 2010 compared to 2009 was primarily due to higher sales margins and an increase of 8% in sales volumes. These effects were partially offset by higher third-party service and personnel expenses and by a provision for tax contingencies.

The Distribution segment accounted for 38.8% of the national fuel distribution market in 2010, compared to 38.6% in 2009.

*International*

The improved result in our International segment in 2010 compared to 2009 was due to higher commodities prices in 2010 as well as higher sales volumes of crude oil resulting largely from the start-up of production in Akpo, Nigeria in March 2009.

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## Additional Business Segment Information

Set forth below is additional selected financial data by business segment for 2011, 2010 and 2009:

	<b>For the Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
<b>Exploration and Production</b>			
Sales revenues to third parties(1)(2)	516	242	473
Intersegment net revenues	73,601	54,031	38,286
Total sales revenues (2)	74,117	54,273	38,759
Net income (loss)(3)(4)	24,326	16,874	9,825
Capital expenditures and investments	20,405	18,621	16,162
Property, plant and equipment, net	90,539	83,135	66,833
<b>Refining, Transportation and Marketing</b>			
Sales revenues to third parties(1)(2)	80,484	65,397	49,245
Intersegment sales revenues	38,146	32,539	25,136
Total sales revenues (2)	118,630	97,936	74,381
Net income (loss)(3)(4)	(5,718)	2,088	6,742
Capital expenditures and investments	16,133	16,198	9,694
Property, plant and equipment, net(5)	54,629	45,622	30,434
<b>Gas and Power</b>			
Sales revenues to third parties(1)(2)	8,434	7,491	3,985
Intersegment sales revenues	1,304	1,001	938
Total sales revenues (2)	9,738	8,492	4,923
Net income (loss)(3)(4)	1,862	736	487
Capital expenditures and investments	2,293	3,964	5,398
Property, plant and equipment, net(5)	21,968	24,015	19,213
<b>Biofuel(6)</b>			
Sales revenues to third parties(1)(2)	32	34	1
Intersegment sales revenues	288	238	117
Total sales revenues (2)	320	272	118
Net income (loss)(3)(4)	(95)	(53)	(46)
Capital expenditures and investments	294	664	144
Property, plant and equipment, net(5)	285	328	273
<b>Distribution</b>			
Sales revenues to third parties(1)(2)	43,270	36,564	28,967
Intersegment sales revenues	731	718	685
Total sales revenues (2)	44,001	37,282	29,652
Net income (loss)(3)(4)	774	710	582
Capital expenditures and investments	679	515	331
Property, plant and equipment, net	2,510	2,404	1,966
<b>International</b>			
Sales revenues to third parties(1)(2)	13,179	10,724	8,475
Intersegment sales revenues	3,777	2,795	1,764



Total sales revenues (2)	16,956	13,519	10,239
Net income (loss)(3)(4)	1,179	730	(123)
Capital expenditures and investments	2,631	2,712	3,436
Property, plant and equipment, net	9,512	8,716	8,121

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(1) As a vertically integrated company, not all of our segments have significant third-party revenues. For example, our Exploration and Production segment accounts for a large part of our economic activity and capital expenditures, but has little third party revenues.

(2) Revenues from commercialization of oil to third parties are classified in accordance with the points of sale, which could be either the Exploration and Production or Refining, Transportation and Marketing segments.

(3) In order to align the financial statements of each business segment with the best practices of companies in the oil and gas sector and to improve our management's understanding, since the first quarter of 2006 we have switched to allocating all financial results and items of a financial nature to the corporate level, including prior years.

(4) Excluding non-controlling interests.

(5) The financial data for 2011, 2010 and 2009 was prepared in light of changes in business segments due to the transfer of the fertilizer business from the "Refining, Transportation and Marketing" segment to the "Gas and Power" segment.

(6) As of 2011, the results of our Biofuel segment have been presented separately from our Corporate segment. The 2010 and 2009 financial information related to our Corporate and Biofuel segments were reclassified accordingly.

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**Management's Discussion and Analysis of PifCo's Financial Condition and Results of Operations**

PifCo discontinued U.S. GAAP and adopted IFRS, as issued by the IASB, as the basis for the preparation and presentation of its financial statements and reporting with the SEC beginning with PifCo's financial statements as of and for the year ending December 31, 2011 presented in this annual report. This annual report on Form 20-F and all of our future reports filed with the SEC will only present financial information prepared in accordance with IFRS. Until December 31, 2010, PifCo's consolidated financial statements were prepared in accordance with U.S. GAAP, which differs in certain respects from IFRS. There was no effect on the stockholder's deficit as a result of the transition from U.S. GAAP to IFRS, as described in Note 1 to PifCo's financial statements as of and for the year ending December 31, 2011 presented in this annual report.

The information derived from PifCo's statement of operations for the years ended December 31, 2011, 2010 and 2009 has been presented in U.S. dollars and prepared in accordance with IFRS issued by the IASB. For more information, see "Presentation of Financial Information" and Note 1 to PifCo's financial statements presented in this annual report.

You should read the following discussion of PifCo's financial condition and results of operations together with PifCo's audited consolidated financial statements and the accompanying notes for the year ended December 31, 2011 beginning on page F-135 to this annual report.

**Overview**

PifCo is our wholly-owned subsidiary. Accordingly, PifCo's financial condition and results of operations are significantly affected by our decisions. PifCo's ability to meet its outstanding debt obligations depends on a number of factors, including:

- our financial condition and results of operations;
- our willingness to continue to make loans to PifCo and provide PifCo with other types of financial support;
- PifCo's ability to access financing sources, including the international capital markets and third-party credit facilities; and
- PifCo's ability to transfer its financing costs to us.

PifCo earns income from:

- inter-company loans to our subsidiaries;
- investments in marketable securities; and

- other financial instruments.

PifCo's operating expenses include:

- financial expenses, mainly from interest on PifCo's lines of credit and capital markets indebtedness; and
- general and administrative expenses.

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PifCo has in the past engaged in both commercial operations and in financing activities for us. PifCo ceased its commercial operations altogether and has become our finance subsidiary, functioning as a vehicle to raise funds for us primarily through the issuance of debt securities in the international capital markets, among other means.

As part of PifCo's transition to become our finance subsidiary, PifCo transferred on August 12, 2011 to Petrobras International Braspetro B.V. (PIB BV), also our subsidiary, two of its wholly-owned subsidiaries: Petrobras Europe Limited (PEL), a United Kingdom company that acts as an agent and advisor in connection with our activities in Europe, the Middle East, the Far East and Africa, and Petrobras Singapore Private Limited (PSPL), a company incorporated in Singapore to trade crude oil and oil products in connection with our trading activities in Asia.

Since PifCo has ceased its commercial operations and has sold to PIB BV two of its wholly-owned subsidiaries, PEL and PSPL, PifCo has accounted for these operations as discontinued operations under IFRS issued by IASB. PifCo's balance and results of commercial operations, and PEL and PSPL and their respective cash flows, have been removed from PifCo's results of continuing operations and cash flows for all years presented in this report. See Note 13 to PifCo's consolidated financial statements for December 31, 2011.

In addition, in September 2011, PifCo terminated the financing program carried out by its subsidiary Petrobras Finance Limited (PFL), a Cayman Islands company that carries out a financing program supported by future sales of fuel oil. PifCo expects to continue its insurance-related activities through its wholly-owned subsidiary Bear Insurance Company (BEAR), a Bermuda company that contracts insurance for us and our subsidiaries. We will continue to support PifCo's debt obligations through unconditional and irrevocable guaranties of payment.

**Results of Operations—2011 compared to 2010**

*Net loss for the year*

PifCo had a loss of U.S.\$376 million in 2011 compared to a loss of U.S.\$261 million in 2010.

*Financial income*

PifCo's financial income consists of interest received from inter-company loans to our subsidiaries, investments in marketable securities and other financial instruments. PifCo's financial income was U.S.\$633 million in 2011 compared to U.S.\$311 million in 2010. This increase was primarily due to higher financial income from loans to related parties, due to a substantial increase in the aggregate amount of funds lent to our subsidiaries as a result of PifCo becoming our finance subsidiary.

*Financial expenses*

PifCo's financial expenses consist of interest paid and accrued on PifCo's outstanding indebtedness, other fees associated with PifCo's issuance of debt and other financial. PifCo's financial expenses increased 16.4% to U.S.\$1,202 million in 2011 compared to U.S.\$1,033 million in 2010. This increase was primarily due to higher interest expenses relating to recent issuances of notes, including our issuance of U.S.\$6.0 billion in Global notes in January 2011 and €1.85 billion and £700 million in December 2011.

*General and administrative expenses*

PifCo's general and administrative expenses consist primarily of cost sharing with us. These expenses increased 38.5% to U.S.\$18 million in 2011 compared to U.S.\$13 million in 2010.

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*Net income from discontinuing operations*

PifCo's commercial operations and two of its wholly-owned subsidiaries, PEL and PSPL, sold to PIB BV were accounted as discontinued operations in accordance with IFRS issued by IASB, and therefore, PifCo's results of commercial operations, and PEL and PSPL and their respective cash flows, have been removed from PifCo's results of continuing operations and cash flows for all years presented in this report.

PifCo's net income from discontinuing operations was U.S.\$119 million in 2011 compared to U.S.\$476 million in 2010.

**Results of Operations—2010 compared to 2009**

*Net (loss)/income for the year*

PifCo had a loss of U.S.\$261 million in 2010 compared to a net income of U.S.\$487 million in 2009.

*Financial income*

PifCo's financial income consists of interest received from inter-company loans to our subsidiaries, investments in marketable securities and other financial instruments. PifCo's financial income decreased 20.6% to U.S.\$311 million in 2010 compared to U.S.\$392 million in 2009. This decrease was primarily due to reduced marketable securities income.

*Financial expenses*

PifCo's financial expenses consist of interest paid and accrued on PifCo's outstanding indebtedness, other fees associated with PifCo's issuance of debt and other financial. PifCo's financial expenses decreased 38.8% to U.S.\$1,033 million in 2010 compared to U.S.\$1,688 million in 2009. This decrease was primarily due to the extinguishment of PifCo's inter-company loans.

*General and administrative expenses*

PifCo's general and administrative expenses consist primarily of cost sharing with us. These expenses increased 18.2% to U.S.\$13 million in 2010 compared to U.S.\$11 million in 2009.

*Net income from discontinuing operations*

PifCo's commercial operations and two of its wholly-owned subsidiaries, PEL and PSPL, sold to PIB BV were accounted as discontinued operations in accordance with IFRS issued by IASB, and therefore, PifCo's results of commercial operations, and PEL and PSPL and their respective

cash flows, have been removed from PifCo's results of continuing operations and cash flows for all years presented in this report.

PifCo's net income from discontinuing operations was U.S.\$476 million in 2010 compared to U.S.\$1,794 million in 2009.

**TABLE OF CONTENTS****Liquidity and Capital Resources****Petrobras***Overview*

Our principal uses of funds are for capital expenditures, dividend payments and repayment of debt. In 2009, 2010 and 2011, we met these requirements with internally generated funds, short-term debt, long-term debt and cash generated by capital increases. For 2012 and beyond, we believe internally generated funds and increases in debt, together with our strong position of cash and cash equivalents, will continue to allow us to meet our current capital requirements. In 2012, our major cash needs are for our budgeted capital expenditures of U.S.\$50.6 billion, the remaining part of announced dividends, interest on shareholders' equity of U.S.\$2,225 million and principal payments of U.S.\$3,734 million on our long-term debt, leasing and project financing obligations.

*Financing Strategy*

The objective of our financing strategy is to help us achieve the targets set forth in our 2011-2015 Business Plan released on July 25, 2011, which provides for capital expenditures of U.S.\$224.7 billion from 2011 through 2015. Our 2011-2015 Business Plan forecasts that we will supplement internally generated cash flow with proceeds from the capital increase that we completed on October 1, 2010, and increases in our net debt, which should allow us to maintain a sound capital structure that stays within our targeted financial leverage ratios. We will raise debt capital through a variety of medium and long-term financing arrangements, including the issuance of bonds in the international capital markets, supplier financing, project financing and bank financing. We will continue our policy of extending the term of our debt maturity profile.

For 2012, we intend to fund our financial needs through a combination of drawing down our year-end cash balances and existing credit facilities, as well as contracting new debt from a broad range of traditional funding sources, including global debt capital markets, export credit agencies, non-Brazilian government development banks, the BNDES, and Brazilian and international commercial banks. As of February 9, 2012, we have financed part of our needs for the current year through a U.S.\$7 billion offering of Global Notes in the international capital markets.

*Government Regulation*

We are required to submit our annual capital expenditures budget (*Plano de Dispêndio Global*, or PDG) to the Brazilian Ministry of Planning, Budget and Management, and the Ministry of Mines and Energy. Following review by these agencies, the Brazilian Congress must approve the budget. Although the total level of our annual capital expenditures is regulated, the specific application of funds is left to our discretion. Since mid-1991, we have obtained substantial amounts of our financing from the international capital markets, mainly through the issuance of commercial paper and short, medium and long-term notes, and have



increasingly been able to raise long-term funds for large capital expenditure items such as rigs and platforms.

The Brazilian Ministry of Planning, Budget and Management controls the total amount of medium and long-term debt that we and our Brazilian subsidiaries can incur through the annual budget approval process. Before issuing medium and long-term debt, we and our Brazilian subsidiaries must also obtain the approval of the National Treasury Secretariat. All of our foreign currency denominated debt, as well as the foreign currency denominated debt of our Brazilian subsidiaries, requires registration with the Central Bank.

However, the issuance of debt by our international subsidiaries is not subject to registration with the Central Bank or approval by the National Treasury Secretariat. In addition, all issuances of medium and long-term notes and debentures require the approval of our board of directors. Borrowings that exceed the approved budgeted amount for any year also require approval of the Brazilian Senate.

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*Sources of Funds*

*Our Cash Flow*

On December 31, 2011, we had cash and cash equivalents of U.S.\$19,057 million compared to U.S.\$17,655 million at December 31, 2010.

Operating activities provided net cash flows of U.S.\$33,698 million for 2011 compared to U.S.\$30,110 million for 2010. Cash generated by operating activities was mainly impacted by higher gross profit and by income on cash and cash equivalents.

Net cash provided by financing activities amounted to U.S.\$4,232 million for 2011 compared to U.S.\$31,319 million for 2010. This decrease was primarily due to the capital increase generated by our global public offering of shares, concluded in October, 2010, offset by higher funds raised in 2011, net of draw-downs. Net cash from financing activities was reduced by the payment of dividends of U.S.\$6,422 million compared to U.S.\$5,398 million in 2010. We typically pay dividends in the year following the announcement of the corresponding results. In 2011, we paid dividends related to 2010 earnings as well as a large portion of interest on shareholders' equity related to 2011 earnings in advance of the close of our 2011 fiscal year.

Our net debt increased 50% to U.S.\$54,922 million as of December 31, 2011 compared to U.S.\$36,614 million as of December 31, 2010, primarily due to the raising of long-term debt and the effects of the 12.6% depreciation of the *real* against the U.S. dollar.

*Short-Term Debt*

Our outstanding short-term debt serves mainly to support our working capital and our imports of crude oil and oil products, and is provided almost entirely by international banks and includes the current portion of long-term debt and current portion of finance lease obligations. On December 31, 2011, our total short-term debt amounted to U.S.\$10,111 million (of which U.S.\$3,690 million was the current portion of long-term debt) compared to U.S.\$9,056 million on December 31, 2010.

*Long-Term Debt*

Our outstanding long-term debt consists primarily of securities issued in the international capital markets, debentures issued in the domestic capital markets, amounts outstanding under facilities guaranteed by export credit agencies and multilateral agencies, loans from the BNDES and other financial institutions and project financings, including finance lease obligations. Our total long-term debt amounted to U.S.\$72,816 million on December 31, 2011 compared to U.S.\$60,532 million on December 31, 2010. This increase was primarily due to international borrowings, mainly in the form of drawings on financing obtained from the issuance of Global Notes, as well as proceeds in the form of Export Credit Notes obtained from

the Banco do Brasil and the Caixa Econômica Federal. These financial resources will be used primarily for the development of projects related to oil and gas production, for the construction of ships and pipelines, as well as for the expansion of industrial units. See Note 16 to our consolidated financial statements for the year ended December 31, 2011, for more information.

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Included in these figures at December 31, 2011 are the following international debt issues:

<b>Notes(*)</b>	<b>Principal Amount (U.S.\$ million)</b>
PESA's 9.375% Notes due 2013	200
PifCo's 9.125% Global Notes due 2013	750
PifCo's 7.750% Global Notes due 2014	600
PifCo's 7.750% Global Notes due 2014	445
PifCo's 2.150% Japanese Yen Bonds due 2016 (1)	2,500
PifCo's 3.875% Global Notes due 2016	899
PifCo's 6.125% Global Notes due 2016	300
PESA's 5.875% Notes due 2017	750
PifCo's 8.375% Global Notes due 2018	1,622
PifCo's 4.875% Global Notes due 2018 (2)	1,750
PifCo's 5.875% Global Notes due 2018	2,750
PifCo's 7.875% Global Notes due 2019	2,500
PifCo's 5.750% Global Notes due 2020	2,500
PifCo's 5.375% Global Notes due 2021	779
PifCo's 5.875% Global Notes due 2022 (3)	1,088
PifCo's 6.250% Global Notes due 2026 (4)	1,500
PifCo's 6.875% Global Notes due 2040	1,000
PifCo's 6.750% Global Notes due 2041	1,000

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(\*) Unless otherwise noted, all debt issued by PifCo is issued with support from us through a guaranty.

- (1) Issued by PifCo on September 27, 2006 in the amount of ¥ 35 billion, with support from us through a standby purchase agreement.
- (2) Issued by PifCo on December 9, 2011 in the amount of €1,250 million.
- (3) Issued by PifCo on December 9, 2011 in the amount of €600 million.
- (4) Issued by PifCo on December 12, 2011 in the amount of £700 million.

On February 6, 2012, PifCo issued a total of U.S.\$7,000 million global notes registered with the Securities and Exchange Commission, consisting of the following:

- U.S.\$2,750 million 5.375% Global Notes due 2021;
- U.S.\$1,250 million 6.750% Global Notes due 2041;
- U.S.\$1,250 million 2.875% Global Notes due 2015; and
- U.S.\$1,750 million 3.500% Global Notes due 2017.

The 2021 Notes were a re-opening of, and are fully fungible with, our outstanding U.S.\$2,500 million 5.375% Global Notes due 2021 issued on January 27, 2011. The total amount outstanding of our 5.375% Global Notes due 2021 now is U.S.\$5,250 million.

The 2041 Notes were a re-opening of, and are fully fungible with, our outstanding U.S.\$1,000 million 6.750% Global Notes due 2041 issued on January 27, 2011. The total amount outstanding of our 6.750% Global Notes due 2041 now is U.S.\$2,250 million.

### *Off Balance Sheet Arrangements*

As of December 31, 2011, neither we nor PifCo had off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**TABLE OF CONTENTS***Uses of Funds**Capital Expenditures and Investments*

We invested a total of U.S.\$43,164 million in 2011, a decrease of 0.8% compared to our investments of U.S.\$43,513 million in 2010. Our investments in 2011 were primarily directed toward increasing production, modernizing and expanding our refineries and the integration and expansion of our pipeline transportation and distribution systems. Of the total capital expenditures in 2011, U.S.\$20,405 million was invested in exploration and development projects in Brazil, including investments financed through project financing.

The following table sets forth our consolidated capital expenditures (including project financings and investments in thermoelectric power plants) for each of our business segments for 2011, 2010 and 2009:

	<b>For the Year Ended December 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
Exploration and Production	20,405	18,621	16,162
Refining, Transportation and Marketing	16,133	16,198	9,694
Gas and Power	2,293	3,964	5,398
Biofuel	294	664	144
Distribution	679	515	331
International			
Exploration and Production	2,340	2,379	2,136
Refining, Transportation and Marketing	189	148	610
Gas and Power	31	87	110
Distribution	58	60	558
Others	13	38	22
Corporate	729	839	1,057
<b>Total</b>	<b>43,164</b>	<b>43,513</b>	<b>36,222</b>

On July 25, 2011, we announced our 2011-2015 Business Plan, which contemplates total budgeted capital expenditures of U.S.\$224.7 billion from 2011 to 2015, approximately U.S.\$213.5 billion of which will be directed towards our activities in Brazil, while U.S.\$11.2 billion will be directed to our activities abroad. We expect that the majority of our capital expenditures from 2011 to 2015, approximately U.S.\$127.5 billion, will be directed towards exploration and production, of which U.S.\$117.7 billion is slated for our activities in Brazil (U.S.\$53.4 billion of which is dedicated to the pre-salt reservoirs).

Our capital expenditure budget for 2012, including our project financings, is U.S.\$50.6 billion, allocated as follows:

- Exploration and Production segment: 47.8%;
- Refining, Transportation and Marketing segment: 37.7%;

- Distribution segment: 1.6%;
- Gas and Power segment: 5%;
- International segment: 4.8%;
- Corporate segment: 1.6%; and
- Our subsidiary Petrobras Biocombustível: 1.5%.

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We plan to meet our budgeted capital expenditures primarily through internally generated cash, issuances in the international capital markets, project finance loans, commercial bank loans and other sources of capital. Our actual capital expenditures may vary substantially from the projected numbers set forth above as a result of market conditions and the cost and availability of the necessary funds.

### *Dividends*

Our shareholders approved a total dividend distribution of R\$12,001 million (U.S.\$6,905 million) for 2011 earnings at the Ordinary General Meeting held on March 19, 2012, which includes interest on shareholders' equity already approved by our board of directors. We paid U.S.\$6,071 million of this amount to shareholders in the form of interest on shareholders' equity in May, August and November of 2011 and February of 2012, in advance of the close of our 2011 fiscal year. The remaining U.S.\$834 million in dividends and interest on shareholders' equity relating to our 2011 earnings will be paid until May 18, 2012, restated according to the SELIC rate from December 31, 2011 to the date of payment. The total amount of 2011 dividends approved by our shareholders is equivalent to R\$0.92 (U.S.\$0.50) per common and preferred share and R\$1.84 (U.S.\$1.00) per common and preferred ADS. For more information on our dividend policy, including a description of the minimum preferred dividend to which our preferred shareholders are entitled under our bylaws, see "Mandatory Distribution" and "Payment of Dividends and Interest on Shareholders' Equity" in Item 10. "Additional Information—Memorandum and Articles of Incorporation of Petrobras."

### **PifCo**

#### *Overview*

PifCo engages in borrowings in international capital markets, such borrowings being unconditionally guaranteed by us, as part of our strategy to expand our operations and to facilitate our access to international capital markets. Our support of PifCo's debt obligations has been and will continue to be made through unconditional and irrevocable guaranties of payment.

As an offshore non-Brazilian company, PifCo is not legally obligated to receive prior approval from the Brazilian National Treasury before incurring debt or registering debt with the Central Bank. As a matter of policy, however, the issuance of any debt follows the recommendation of our Chief Financial Officer, Executive Board or Board of Directors, depending on the aggregate principal amount and the tenor of the debt to be issued.

#### *Sources of Funds*

#### *PifCo's Cash Flow*

At December 31, 2011, PifCo had cash and cash equivalents of U.S.\$4,087 million compared to U.S.\$1,197 million at December 31, 2010.



PifCo's operating activities provided net cash of U.S.\$2,841 million in 2011 compared to providing net cash of U.S.\$10,245 million in 2010, primarily due to the termination of PifCo's commercial operations in 2011.

PifCo's investing activities used net cash of U.S.\$8,858 million in 2011 compared to using net cash of U.S.\$1,656 million in 2010, primarily as a result of an increase in the amount of loans to related parties.

PifCo's financing activities provided net cash of U.S.\$8,907 million in 2011 compared to using net cash of U.S.\$8,345 million in 2010, primarily due to the issuance of U.S.\$6.0 billion in Global Notes in January 2011, €1.85 billion and £700 million in December 2011.

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Notes receivable from related parties increased to U.S.\$12,387 million at December 31, 2011, from U.S.\$3,067 million at December 31, 2010, primarily as a result of an increase in the amount of loans to related parties due to a substantial increase in the aggregate amount of funds lent to our subsidiaries as a result of PifCo had become our finance subsidiary.

*PifCo's Short-Term Borrowings*

PifCo's short-term borrowings are denominated in U.S. dollars and consist of short-term lines of credit and the current portion of long-term lines of credit, and loans from financing institutions. At December 31, 2011, PifCo had borrowed U.S.\$2,672 million under lines of credit, including the current portion of long-term lines of credit and loans from financing institutions, compared to U.S.\$2,063 million borrowed at December 31, 2010. The weighted average annual interest rate on these short-term borrowings was 2.90% at December 31, 2011, compared to 2.73% at December 31, 2010. At December 31, 2011, PifCo had utilized all of its available funds from lines of credit.

*PifCo's Long-Term Borrowings*

At December 31, 2011, PifCo had long-term borrowings outstanding in financing institutions of:

- U.S.\$259 million long-term and U.S.\$2,600 million in current portion of long-term lines of credit due between 2012 and 2017 compared to U.S.\$878 million at December 31, 2010. At December 31, 2011, PifCo had utilized all of its available funds from lines of credit; and
- U.S.\$143 million (U.S.\$72 million current portion) under the loan agreement with Malha Gas Investment Co. Ltd. (M-GIC), which acts as a Facility Agent for the Japan Bank for International Cooperation (JBIC). This loan bears interest at Libor plus 0.8% per year, payable semi-annually. The principal amount has been paid semi-annually since December 15, 2009 and will mature on December 15, 2014.

At December 31, 2011, PifCo also had outstanding:

- U.S.\$20,083 million in Global Notes, due between 2013 and 2041 that bear interest at rates from 3.875% to 9.125% per year. Interest on these notes are paid either semi-annually or annually and the proceeds were used for general corporate purposes; and
- U.S.\$445 million (¥35 billion) in Japanese Yen Bonds issued in September 2006 and due September 2016. The issue was a private placement in the Japanese market with a partial guarantee from the Japan Bank for International Cooperation (JBIC). The bonds bear interest at the rate of 2.15% per year, payable semi-annually. On the same date, PifCo entered into a swap agreement with Citibank, swapping the total amount of this debt to a U.S. dollar-denominated debt.

PifCo had no outstanding position at December 31, 2011 in irrevocable letters of credit and had U.S.\$94 million at December 31, 2010. At December 31, 2011, PifCo had no standby

committed facilities available.

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The following table sets forth the sources of PifCo's current and long-term debt at December 31, 2011 and 2010:

	<b>December 31, 2011</b>		<b>December 31, 2010</b>	
	<b>Current</b>	<b>Long-term</b>	<b>Current</b>	<b>Long-term</b>
		<b>(U.S.\$ million)</b>		
Financing Institutions	2,672	402	2,063	1,092
Global Notes	371	20,083	250	10,673
Japanese Yen Bonds	2	445	2	421
Sale of right to future receivables(1)	–	–	70	191
Senior Notes	–	–	246	–
<b>Total</b>	<b>3,045</b>	<b>20,930</b>	<b>2,631</b>	<b>12,377</b>

(1) On September 1, 2011, PFL prepaid the Senior Trust Certificates and Junior Trust Certificates (Series A and B) due 2013 and 2015, respectively. In order to facilitate this advance payment, we prepaid to PFL an amount of US\$233 million related to the export prepayment program. On prepayment of the Senior Trust Certificates, PFL paid a premium in the amount of US\$19 million.

The following table sets forth the sources of PifCo's capital markets debt outstanding at December 31, 2011:

<b>Notes</b>	<b>Principal Amount</b>
	<b>(U.S.\$ million)</b>
9.125% Global Notes due 2013	374
7.750% Global Notes due 2014	398
2.150% Japanese Yen Bonds due 2016(1)	445
3.875% Global Notes due 2016	2,500
6.125% Global Notes due 2016	899
4.875% Global Notes due 2018(2)	1,622
8.375% Global Notes due 2018	577
5.875% Global Notes due 2018	1,750
7.875% Global Notes due 2019	2,750
5.750% Global Notes due 2020	2,500
5.375% Global Notes due 2021	2,500
5.875% Global Notes due 2022(3)	779
6.250% Global Notes due 2026(4)	1,088
6.875% Global Notes due 2040	1,500
6.750% Global Notes due 2041	1,000
<b>Total</b>	<b>20,682</b>

(1) Issued by PifCo on September 27, 2006 in the amount of ¥35 billion, with our support through a standby purchase agreement.

(2) Issued by PifCo on December 9, 2011 in the amount of €1.25 billion.

(3) Issued by PifCo on December 9, 2011 in the amount of €600 million.

(4) Issued by PifCo on December 12, 2011 in the amount of £700 million.

Unless otherwise noted, all debt is issued by PifCo and is unconditionally guaranteed by us.

**TABLE OF CONTENTS****Contractual Obligations****Petrobras**

The following table summarizes our outstanding contractual obligations and commitments at December 31, 2011:

	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>&gt; 5 years</b>
		<b>(U.S.\$ million)</b>			
<b>Contractual obligations</b>					
<b>Balance sheet items:(1)</b>					
Current and non-current debt obligations	82,785	10,067	6,825	18,620	47,273
Capital (finance) lease obligations	142	21	20	20	81
Total balance sheet items	82,927	10,088	6,845	18,640	47,354
<b>Other current and non-current contractual commitments</b>					
Natural gas ship-or-pay	5,354	639	1,314	1,335	2,066
Service contracts	86,310	36,843	28,759	8,657	12,051
Natural gas supply agreements(2)	11,363	1,600	2,941	2,837	3,985
Operating leases	55,513	12,818	19,489	9,915	13,291
Purchase commitments	20,778	8,069	5,607	2,339	4,763
International purchase commitments	15,779	6,100	3,481	1,697	4,501
Total other current and non-current commitments	195,097	66,069	61,591	26,780	40,657
<b>Total</b>	<b>278,024</b>	<b>76,157</b>	<b>68,436</b>	<b>45,420</b>	<b>88,011</b>

(1) Excludes the amount of U.S.\$33,873 million related to our pension fund obligations that are guaranteed by U.S.\$26,303 million in plan assets. Information on employees' postretirement benefit plans is set forth in Note 21.5 of our consolidated financial statements for the year ended December 31, 2011.

(2) Amounts disclosed assume that the counterparty would not fulfill certain precedent conditions in the agreement. For additional information about natural gas supply agreements entered into by us, please refer to Item 4. "Information on the Company – Gas and Power – Natural Gas – Long-Term Natural Gas Commitments".

**PifCo**

The following table sets forth PifCo's contractual obligations as of December 31, 2011 and the period in which the contractual obligations come due:

<b>Contractual obligations</b>	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>&gt; 5 years</b>
Long-term debt(1)	21,621	691	984	3,918	16,028

(1) Includes the current portion of long-term lines of credit, and loans from financing institutions.

On February 6, 2012, PifCo issued a total of U.S.\$7,000 million global notes registered with the Securities and Exchange Commission, consisting of the following:

- U.S.\$2,750 million 5.375% Global Notes due 2021;
- U.S.\$1,250 million 6.750% Global Notes due 2041;
- U.S.\$1,250 million 2.875% Global Notes due 2015; and
- U.S.\$1,750 million 3.500% Global Notes due 2017.

The 2021 Notes were a re-opening of, and are fully fungible with, our outstanding U.S.\$2,500 million 5.375% Global Notes due 2021 issued on January 27, 2011. The total amount outstanding of our 5.375% Global Notes due 2021 now is U.S.\$5,250 million.

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The 2041 Notes were a re-opening of, and are fully fungible with, our outstanding U.S.\$1,000 million 6.750% Global Notes due 2041 issued on January 27, 2011. The total amount outstanding of our 6.750% Global Notes due 2041 now is U.S.\$2,250 million.

**Critical Accounting Policies and Estimates**

The following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts require us to make assumptions about matters that are highly uncertain.

The discussion addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation.

For more detailed information about our Critical Accounting Policies and Estimates, please refer to Note 4 to our audited consolidated financial statements as of December 31, 2011.

*Oil and Gas Reserves*

Reserves are estimated based on engineering and geological information such as well logs, pressure data and fluid sample core data. Estimates of oil and gas reserves require the application of judgment and are subject to regular revisions, either upward or downward, based on new geological, engineering or economical information available.

The estimation of proved reserves is an ongoing process that takes into account engineering and geological information such as well logs, pressure data and fluid sample core data. Estimates of oil and gas reserves require the application of judgment and are subject to regular revisions, either upward or downward, based on new geological, engineering or economic information that becomes available from time to time.

For more detailed information about Oil and Gas Reserves, please refer to "Supplementary Information on Oil and Gas Exploration and Production" in our audited consolidated financial statements as of December 31, 2011.

*Impact of Oil and Gas Reserves on Depreciation and Depletion*

The company uses unit of production method for depreciation and depletion of certain oil and gas producing properties. Revisions of the Company's proved developed and undeveloped reserves impacts prospectively the amounts: of depreciation and depletion charged in the results of operations and the carrying amounts of oil and gas properties assets.

For more detailed information about the Impact of Oil and Gas Reserves on Depreciation and Depletion, please refer to Note 12 to our audited consolidated financial statements as of



December 31, 2011.

*Impact of Oil and Gas Reserves and Prices on Testing for Impairment*

Oil and gas producing properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We estimate the future and discounted cash flows of the affected properties to judge the recoverability of carrying amounts. In general, analyses are based on proved reserves, except in circumstances where it is probable that additional non-proved reserves will be developed and contribute to cash flows in the future; the percentage of probable reserves that we include in cash flows does not exceed our past success ratios in developing probable reserves.

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We perform asset valuation analyses on an ongoing basis as a part of our management program by reviewing whether the carrying amounts of any of our assets may not be recoverable. In addition to estimating oil and gas reserve volumes in conducting these analyses, it is also necessary to estimate future oil and gas prices.

In general, we do not view temporarily low oil prices as a trigger event for conducting impairment tests. The markets for crude oil and natural gas have a history of significant price volatility. Although prices will occasionally drop precipitously, industry prices over the long term will continue to be driven by market supply and demand fundamentals. Accordingly, any impairment tests that we perform make use of our long-term price assumptions for the crude oil and natural gas markets. These are the same price assumptions that are used in our planning and budgeting processes and our capital investment decisions, and they are considered to be reasonable, conservative estimates given market indicators and past experience. Significantly lower future oil and gas prices could lead to impairments in the future, if such decreases were considered to be indicative of long-term trends. In addition, significant changes in production curve expectation, discount and/or required production and lifting costs, could affect impairment analysis.

For more detailed information about the Impact of Oil and Gas Reserves and Prices on Testing for Impairment, please refer to Note 12.4 to our audited consolidated financial statements as of December 31, 2011.

*Pension and Other Post-Retirement Benefits*

The determination of the expense and liability relating to our pension and other post-retirement benefits involves the use of judgment in the determination of actuarial assumptions. These include estimates of future mortality, withdrawal, changes in compensation and discount rate to reflect the time value of money as well as the rate of return on plan assets. These assumptions are reviewed at least annually and may differ materially from actual results due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates or longer or shorter life spans of participants.

For more detailed information about Pension and Other Post Retirement Benefits, please refer to Note 21 to our audited consolidated financial statements as of December 31, 2011.

*Litigation, Tax Assessments and Other Contingencies*

Claims for substantial amounts have been made against us arising in the normal course of business. We are sometimes held liable for spills and releases of oil products and chemicals from our operating assets. In accordance with the guidance provided by IFRS, we accrued for these costs when it is probable that a liability has been incurred and reasonable estimates of the liability can be made. Significant management judgment is required to comply with this guidance and it includes management's discussion with our attorneys, taking into account all of the relevant facts and circumstances.

For more detailed information about Litigation, Tax Assessments and Other Contingencies, please refer to Note 28 to our audited consolidated financial statements as of December 31, 2011.

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***Asset Retirement Obligations and Environmental Remediation***

Under various contracts, permits and regulations, we have material legal obligations to remove equipment and restore the land or seabed at the end of operations at production sites. Our most significant asset removal obligations involve removal and disposal of offshore oil and gas production facilities worldwide. We accrue the estimated discounted costs of dismantling and removing these facilities at the time of installation of the assets. We also estimate costs for future environmental clean-up and remediation activities based on current information on costs and expected plans for remediation. Estimating asset retirement, removal and environmental remediation costs requires performing complex calculations that necessarily involve significant judgment because our obligations are many years in the future, the contracts and regulation have vague descriptions of what removal and remediation practices and criteria will have to be met when the removal and remediation events actually occur and asset removal technologies and costs are constantly changing, along with political, environmental, safety and public relations considerations. Consequently, the timing and amounts of future cash flows are subject to significant uncertainty. However, given the significant amount of time to the ultimate retirement date, any modifications in technological specifications, legal requirement, or other matters, would not have a materially adverse effect on any one reporting period.

In 2011, we reviewed and revised our estimated costs associated with well abandonment and the demobilization of oil and gas production areas, considering new information about date of expected abandonment and revised cost estimates to abandon. For more information about the annual changes in the abandonment provisions, please refer to Note 19 to our audited consolidated financial statements as of December 31, 2011.

***Derivative Instruments***

Accounting for derivative transactions requires us to employ judgment to compute fair market values, which are used as the basis for recognition of the derivative instruments in our consolidated financial statements. Such measurement may depend on the use of estimates such as estimated future prices, long-term interest rates and inflation indices, and becomes increasingly complex when the instrument being valued does not have counterparts with similar characteristics traded in an active market.

For more detailed information about Derivative Instruments please refer to Note 31 to our audited consolidated financial statements as of December 31, 2011.

**Research and Development**

We are deeply committed to research and development as a means to extend our reach to new production frontiers and achieve continuous improvement in operations. We have a history of successfully developing and implementing innovative technologies, including the means to drill, complete and produce wells in increasingly deep water. We are one of the largest investors in research and development among the world's major oil companies, and we spend a large percentage of revenues in research and development. Our Brazilian oil and

gas concession agreements require us to spend at least 1% of our gross revenues originating from high productivity oil fields on research and development, of which up to half is invested in our research facilities in Brazil and the remainder is invested in research and development in Brazilian universities and institutions registered with the ANP for this purpose.

In 2011, we spent U.S.\$1,454 million on research and development, equivalent to 1.0% of our sales revenues. In 2010, we spent U.S.\$989 million on research and development, equivalent to 0.8% of our sales revenues. In 2009, we spent U.S.\$685 million on research and development, equivalent to 0.7% of our sales revenues.

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Our research and development activities focus on three main goals:

- expansion of our current businesses through the following: (a) discovery of new exploratory frontiers; (b) enhancement of oil and gas final recovery; (c) understanding and development of complex reservoirs, including pre-salt rocks; (d) development of new or enhanced subsea production systems and equipment for deep and ultra deep waters; (e) optimization of our drilling, production and logistics solutions for the pre-salt reservoirs; (f) development of new alternatives for offshore natural gas transportation; (g) optimization and reliability improvement of our industrial facilities; and (h) development and implementation of technologies in our refineries to enhance the flexibility to produce middle distillates, kerosene or gasoline, according to changing market demand;
- providing a mix of products compatible with the energy demands of the future through the following: (a) development of new fuel, lubricants and special product formulations; (b) development of new technologies for our petrochemical and gaschemical activities; (c) adaptation of our refining processes to utilize vegetable oils as feedstock; (d) development of second generation biofuel production processes, which use residual biomass as feedstock; and (e) research and development of renewable energy technologies; and
- ensuring that our activities are environmentally sustainable. We aim throughout our entire business to: (a) reduce our water consumption and the volume and toxicity of our wastewater discharges; (b) reduce our emissions of air pollutants, CO<sub>2</sub> and other greenhouse gases; and (c) increase the energy efficiency of our processes and products.

In the three-year period ended December 31, 2011, our research and development operations were awarded 52 patents in Brazil and 128 overseas. Our portfolio of patents covers all of our areas of activities.

We have operated a dedicated research and development facility in Rio de Janeiro, Brazil since 1966. As a result of its expansion in 2010, this is one of the largest facilities of its kind in the energy sector and the largest in the southern hemisphere, with laboratories especially dedicated to pre-salt technologies. As of December 31, 2011, this facility has 1,814 employees, 1,656 of which are exclusively dedicated to research, development and basic engineering.

We also have several semi-industrial scale prototype plants throughout Brazil that are in proximity to our industrial facilities and that are aimed at scaling up new industrial technologies at reduced costs. In 2011, we conducted research and development through joint research projects with more than 100 universities and research centers in Brazil and abroad and participated in technology exchange and assistance partnerships with several oilfield service companies, small technology companies and other operators. As a result of these efforts, a number of our key suppliers have built or started building technology centers in Brazil in 2011 in order to develop technological solutions applicable to our business segments.

PifCo does not itself conduct research and development.



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We plan to continue expanding all segments of operations in our target markets in accordance with our 2011-2015 Business Plan. In support of this goal we plan total capital expenditures of U.S.\$224.7 billion over 2011-2015. Of this total, 57% is in the exploration and production segment, where constant investment in exploration and development is needed to exploit newly discovered resources and offset natural declines in production from existing fields as they mature. Based on our slate of development projects, we expect to increase production by 9.2% annually over the period 2011 to 2015 while replacing our reserves through organic growth.

We expect that the demand for oil products in Brazil will continue to increase rapidly driven primarily by economic growth. In 2011, we met this incremental growth in demand by increasing imports as our refining capacity was not sufficient to meet the increased demand. This increase in imports increased our cost of sales and decreased our margins in 2011. We expect this trend to continue in the near future as we anticipate that Brazilian demand will grow at a faster pace than our refining capacity.

The price we realize for the oil we produce is determined by international oil prices, although we generally sell our oil at a discount to Brent and other light oil benchmark prices because it is heavier and thus more expensive to refine. In 2011, oil price trends were affected by political unrest in the Middle East and in North Africa as well as by fluctuations in macroeconomic conditions, primarily in Europe. The Brent benchmark price experienced greater volatility in 2011 as compared to 2010, with a minimum price of U.S.\$92.98/bbl, a maximum price of U.S.\$126.74/bbl and an average price of U.S.\$111.05/bbl, the highest nominal Brent average price recorded to date. The economic outlook and continuing political turmoil in the Middle East and in North Africa will remain the key determinants of oil price trends in the short term. A fast-paced recovery coupled with slow supply-side response can result in higher prices in the medium term. On the other hand, if economic recovery expectations are not met, especially those regarding non-OECD economies, oil prices may drop below current levels. In addition, recent geopolitical concerns may persist, potentially driving prices higher in the short term.

For the 2011 to 2015 period, we plan to continue to focus on increasing our refining throughput and our capacity to refine heavier crudes. The refining expansion program currently underway may improve our refining margins, since the new refineries will be able to process a heavier crude slate with lower costs while having a higher yield of middle distillate products (primarily of diesel and jet fuel) with higher potential demand and growth margins.

Each year, we review and revise our long-term Business Plan in order to adapt to changing market conditions and to revise our investment levels in accordance with updated scenarios and projected cash flows. The guidance provided by our board of directors is instrumental in this review process. For the 2011-2015 period, we have retained the targets for our net-debt-to-equity ratio in the range of 25% to 35% and for our net-debt-to-EBITDA ratio is not



to exceed 2.5:1.

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**Item 6. Directors, Senior Management and Employees**

**Directors and Senior Management**

*Directors of Petrobras*

Our board of directors is composed of a minimum of five and up to ten members and is responsible for, among other things, establishing our general business policies. The members of the board of directors are elected at the annual general meeting of shareholders, including the employee representative previously selected by means of a separate voting procedure.

Under Brazilian Corporate Law, shareholders representing at least 10% of the company's voting capital have the right to demand that a cumulative voting procedure be adopted to entitle each common share to as many votes as there are board members and to give each common share the right to vote cumulatively for only one candidate or to distribute its votes among several candidates. Pursuant to regulations promulgated by the Securities and Exchange Commission of Brazil – CVM, the 10% threshold requirement for the exercise of cumulative voting procedures may be reduced. Specifically, pursuant to Law No. 12,353 and Act No. 026, an employee representative chosen by our active employees must be a member of our board of directors.

Furthermore, our bylaws enable (i) minority preferred shareholders that together hold at least 10% of the total capital stock (excluding the controlling shareholders) to elect and remove one member to our board of directors; (ii) minority common shareholders to elect one member to our board of directors, if a greater number of directors is not elected by such minority shareholders by means of the cumulative voting procedure; and (iii) our employees to elect one member to our board of directors by means of a separate voting procedure. Our bylaws provide that, regardless of the rights above granted to minority shareholders, the Brazilian federal government always has the right to elect the majority of our directors, independently of their number. In addition, under Law 10,683, dated May 28, 2003, one of the board members elected by the Brazilian federal government must be indicated by the Minister of Planning, Budget and Management. The maximum term for a director is one year, but re-election is permitted. In accordance with the Brazilian Corporate Law, the shareholders may remove any director from office at any time with or without cause at an extraordinary meeting of shareholders. Following an election of board members under the cumulative vote procedure, the removal of any board member by an extraordinary meeting of shareholders will result in the removal of all the other members, after which new elections must be held.

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We currently have ten directors. The following table sets forth certain information with respect to these directors:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Current Term Expires</b>	<b>Business Address</b>
Guido Mantega(1)	April 7, 1949	Chair	April 2012	Esplanada dos Ministérios – Bloco P  5º andar  Brasília – DF
Maria das Graças Silva Foster(1)	August 26, 1953	Director	March 2013	Cep 70.048-900 Avenida República do Chile, no. 65  23º andar  Rio de Janeiro – RJ
Francisco Roberto de Albuquerque(1)	May 17, 1937	Director	March 2013	Cep 20.031-912 Alameda Carolina, no. 594  Itú – SP
Josué Christiano Gomes da Silva(2)	December 25, 1963	Director	March 2013	Cep 13.306-410 Avenida Paulista, no. 1.754  2º Sobreloja  São Paulo – SP
Jorge Gerdau Johannpeter(3)	December 8, 1936	Director	March 2013	Cep 01.310-920 Av. Farrapos, no. 1.811  Porto Alegre – RS
Luciano Galvão Coutinho(1)	September 29, 1946	Director	March 2013	Cep 90.220-005 Av. República do Chile, no. 100  22º andar  Rio de Janeiro – RJ

Sergio Franklin Quintella(1)	February 21, 1935	Director	March 2013	Cep 20.031-917 Praia de Botafogo, no. 190 12º andar Rio de Janeiro – RJ
Márcio Pereira Zimmermann(1)	July 1, 1956	Director	March 2013	Cep 22.250-900 Esplanada dos Ministérios – Bloco U Sala 705 Brasília – DF
Miriam Aparecida Belchior(1)	February 5, 1958	Director	March 2013	Cep 70.065-900 Esplanada dos Ministérios – Bloco K 7º andar Brasília – DF
Sílvio Sinedino Pinheiro (4)	June 25, 1951	Director	March 2013	Cep 70.040-906 Avenida República do Chile, no. 330 12º andar Rio de Janeiro – RJ Cep 20.031-170

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- (1) Appointed by the controlling shareholder.
- (2) Appointed by the minority common shareholders.
- (3) Appointed by the minority preferred shareholders.
- (4) Appointed by our employees.

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*Guido Mantega*—Mr. Mantega has been our Chairman of the board of directors since March 19, 2010 after being a member of this board since April 3, 2006. He is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. Mr. Mantega was a member of the Remuneration and Succession Committee of our board of directors from October 15, 2007 to April 30, 2010. Mr. Mantega has been Brazil’s Minister of Finance since March 28, 2006, and he served as chairperson of the Group of 20 Finance Ministers and Central Bank Governors (G-20) in 2008. He is a member of the Conselho de Desenvolvimento Econômico e Social—CDES (Economic and Social Development Council), an advisory body to the Brazilian federal government. Mr. Mantega has also held the posts of Brazil’s Minister of Planning, Budget and Management and of president of the Banco Nacional de Desenvolvimento Econômico e Social—BNDES (Brazilian Development Bank). He received a bachelor’s degree in economics from the Escola de Economia, Administração e Contabilidade—FEA (School of Economy, Administration and Accounting) at the Universidade de São Paulo—USP (University of São Paulo) in 1971, and a Ph.D. in development sociology from the Faculdade de Filosofia, Letras e Ciências Humanas—FFLCH (School of Philosophy, Literature and Human Sciences) at USP, and completed specialized studies at the Institute of Development Studies—IDS at the University of Sussex, England in 1977.

*Maria das Graças Silva Foster*—Ms. Foster has been our Chief Executive Officer since February 13, 2012. She is also a member of our board of directors, the board of directors of Petrobras Distribuidora S.A. – BR and the board of directors of Petrobras Biocombustível S.A. – PBIO. Ms. Foster is chairwoman of the boards of directors of Petrobras Transporte S.A. – TRANSPETRO and Petrobras Gás S.A. – GASPETRO. She holds a degree in chemical engineering from the Universidade Federal Fluminense – UFF (Fluminense Federal University), a master’s degree in nuclear and chemical engineering from the Universidade Federal do Rio de Janeiro – UFRJ (Federal University of Rio de Janeiro) and an MBA in economics from the Fundação Getúlio Vargas – FGV (Getulio Vargas Foundation).

*Francisco Roberto de Albuquerque*—Mr. de Albuquerque has been a member of our board of directors since April 2, 2007, and he is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He has been a member of the Audit Committee and the Remuneration and Succession Committee of our board of directors since April 13, 2007, and October 15, 2007, respectively. He earned a bachelor’s degree in military sciences from the Academia Militar das Agulhas Negras—AMAN (Agulhas Negras Military Academy) in Resende, in the State of Rio de Janeiro, in 1958 and in economics from the Faculdade de Ciências Econômicas de São Paulo (São Paulo College of Economic Sciences) at Fundação Álvares Penteado (Álvares Penteado Foundation) in 1968, a master’s degree in military sciences from the Escola de Aperfeiçoamento de Oficiais—EsAO (Advanced Military School) in 1969, and a Ph.D. in military sciences from the Escola de Comando e Estado-Maior do Exército—ECEME (Military Officer Training School) in Rio de Janeiro in 1977.

*Josué Christiano Gomes da Silva*—Mr. Josué Gomes has been a member of our board of directors since October 28, 2011, a member of its Audit Committee since November 11, 2011, and a member of the board of directors of Petrobras Distribuidora S.A.—BR. Currently, he is the Chairman and Chief Executive Officer of Companhia de Tecidos Norte de Minas—Coteminas, Latin America’s largest textile group. He is also the founder and Chairman

of the Board of Cantagalo General Grains S.A., Co-Chair of the Brazil – United States CEOs Forum, Coordinator of Ação Empresarial (Business Action) and a board member of Embraer and the Instituto de Estudos para o Desenvolvimento Industrial—IEDI (Institute of Industrial Development Studies). He received a bachelor’s degree in civil engineering from the Universidade Federal de Minas Gerais (Federal University of Minas Gerais), a law degree from Faculdades Milton Campos (Milton Campos Faculties) and a master’s degree in business administration from Vanderbilt University, where he received the Founder’s Medal in recognition of his academic achievement.

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*Jorge Gerdau Johannpeter*—Mr. Johannpeter has been a member of our board of directors since October 19, 2001, and is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He was appointed a member of the Remuneration and Succession Committee of our board of directors on October 15, 2007 and a member of the Environment Committee on December 22, 2011. Mr. Johannpeter is the Chairman of the board of directors of Gerdau, a member of the board of directors of the Instituto Aço Brasil—IABr (Brazilian Steel Institute), a member of the Conselho de Desenvolvimento Econômico e Social—CDES (Economic and Social Development Council) and a member of the board of directors of the World Steel Association. Mr. Johannpeter is involved in Brazil's non-profit sector as president of the board of the Programa Gaúcho da Qualidade e Produtividade—PGQP (State Program for Quality and Productivity in Rio Grande do Sul), leader of the Movimento Brazil Competitivo—MBC (Movement for Brazilian Competitiveness), member of the deliberative council of Parceiros Voluntários (Volunteer Partners) and coordinator of Ação Empresarial (Business Action). He is also the Chairman of the Câmara de Políticas de Gestão, Desempenho e Competitividade (Chamber of Management, Performance and Competitiveness Policies) of the Brazilian Government. He received a bachelor's degree in law and social sciences from the Universidade Federal do Rio Grande do Sul—UFRGS (Federal University of Rio Grande do Sul), Porto Alegre, in 1961.

*Luciano Galvão Coutinho*—Mr. Coutinho has been a member of our board of directors since April 4, 2008, and is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He has been the President of the Banco Nacional de Desenvolvimento Econômico e Social—BNDES (Brazilian Development Bank) since April 27, 2007. In addition, Mr. Coutinho is a member of the board of directors of Vale S.A., a member of the Curator Committee for the Fundação Nacional da Qualidade—FNQ (Brazilian Quality Foundation), and the BNDES representative at the Fundo Nacional de Desenvolvimento Científico e Tecnológico—FNDCT (Brazilian Fund for Scientific and Technological Development). Mr. Coutinho has a Ph.D. in economics from Cornell University, a master's degree in economics from the Fundação Instituto de Pesquisas Econômicas—Fipe (Institute of Economic Research) at the Universidade de São Paulo—USP (University of São Paulo), and a bachelor's degree in economics from USP.

*Sergio Franklin Quintella*—Mr. Quintella has been a member of our board of directors since April 8, 2009, and is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He has been a member of the Audit Committee of our board of directors since November 13, 2009 and was appointed its president on November 11, 2011. He is vice president of Fundação Getúlio Vargas—FGV. He was member of the board of directors of the Banco Nacional de Desenvolvimento Econômico e Social—BNDES (Brazilian Development Bank) from 1975 to 1980, member of the National Monetary Council from 1985 to 1990, and president of the Tribunal de Contas (Court of Auditors) of the State of Rio de Janeiro from 1993 to 2005. Mr. Quintella holds a bachelor's degree in civil engineering from the Pontifícia Universidade Católica do Rio de Janeiro—PUC-Rio (Pontifical Catholic University of Rio de Janeiro), a bachelor's degree in economics from the Faculdade de Economia do Rio de Janeiro

(College of Economics of Rio de Janeiro) and a post-graduate degree in economic engineering from the Escola Nacional de Engenharia (National Engineering School). He also holds a master's degree in business from IPSOA Institute, in Turin, Italy and graduated from the Advanced Management Program at Harvard Business School. Mr. Quintella is currently a member of the council of PUC-Rio.



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*Márcio Pereira Zimmermann*—Mr. Zimmermann has been a member of our board of directors since March 22, 2010 and is also a member of the board of directors of Petrobras Distribuidora S.A. – BR. He has been the President of the Remuneration and Succession Committee of our board of directors since April 29, 2010. Mr. Zimmermann is currently the Executive Secretary (Deputy Minister) of the Ministry of Mines and Energy—MME, where he previously served as Minister, Executive Secretary and Secretary for Energy Planning and Development. Mr. Zimmermann is also the Chairman of the board of directors of Centrais Elétricas Brasileiras—Eletrobrás, where he previously served as the Engineering Executive Officer, and the Chairman of the board of directors of Furnas Centrais Elétricas S.A. He has been a member of the Conselho Nacional de Política Energética—CNPE (National Council for Energy Policy) since February 2009. He was also the Energy Production and Commercialization Executive Officer and Technical Executive Officer of Eletrosul Centrais Elétricas S.A., and the Research and Development Executive Officer of Centro de Pesquisas de Energia Elétrica—CEPEL (Electrical Energy Research Center). Mr. Zimmermann holds a bachelor's degree in electric engineering from the Pontifícia Universidade Católica do Rio Grande do Sul – PUC-RS (Pontifical Catholic University of Rio Grande do Sul), a post-graduate degree in power systems engineering from the Universidade Federal de Itajubá – UNIFEI (Federal University of Itajubá), and a master's degree in electrical engineering from the Pontifícia Universidade Católica do Rio de Janeiro – PUC-Rio (Pontifical Catholic University of Rio de Janeiro).

*Miriam Aparecida Belchior*—Ms. Belchior has been a member of our board of directors since July 22, 2011, and is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. She was appointed as a member of the Environment Committee of our board of directors on December 22, 2011. Since January 1, 2011, she has been State Minister of Planning, Budget and Management. From 2002 to 2010, she was the Articulation and Monitoring Sub-head of the Deputy Chief of Staff, responsible for connecting government actions and monitoring strategic projects. In 2007, she served as Executive Secretary for the Programa de Aceleração do Crescimento—PAC (Growth Acceleration Program) and became its General Coordinator in April 2010. Ms. Belchior is an engineer and holds a master's degree in public administration and government from the Fundação Getulio Vargas-SP (Getulio Vargas Foundation). She served as a professor with the Fundação para Pesquisa e Desenvolvimento da Administração, Contabilidade e Economia—FUNDACE (Foundation for Research and Development of Administration, Accounting and Economics) and the Universidade de São Marcos (University of São Marcos).

*Sílvio Sinedino Pinheiro*—Mr. Sinedino has been a member of our board of directors since March 20, 2012, and is the representative of our employees. He is currently the chair of the Audit Committee of Petros, to which he was elected in 2009. He is also the current president of AEPET - Associação dos Engenheiros da Petrobras (Petrobras Association of Engineers). From 2002 to 2005, he was a director of Sindicato dos Petroleiros do Estado do Rio de Janeiro—Sindipetro-RJ (Oil Workers' Union of the State of Rio de Janeiro). He is a systems analyst at Petrobras and develops seismic processing software for our E&P segment. Mr. Sinedino holds a bachelor's degree in electrical engineering from the Pontifícia Universidade Católica do Rio de Janeiro—PUC-Rio (Pontifical Catholic University of Rio de Janeiro) as well as master's degrees in computer science and in business administration, both from the Instituto Alberto Luiz Coimbra de Pós-Graduação e Pesquisa em Engenharia—COPPE/UFRJ (the Alberto

Luiz Coimbra Institute of Post-Graduate Studies and Research in Engineering of the Federal University of Rio de Janeiro).

*Directors of PifCo*

PifCo is managed by a board of directors, consisting of three members, and by its executive officers. The board of directors is responsible for preparing PifCo's year-end accounts, convening the shareholder's meetings and reviewing and monitoring its financial performance and strategy. Although not required by PifCo's memorandum and articles of association, it is PifCo's policy that the Chairman and all of its executive officers be Petrobras employees.

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PifCo's directors serve indefinite terms and can be removed with or without cause. The following table sets forth certain information about PifCo's board of directors:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Year of Appointment</b>
Daniel Lima de Oliveira	December 29, 1951	Chairman	2005
Marcos Antonio Silva Menezes	March 24, 1952	Director	2003
José Raimundo Brandão Pereira	October 27, 1956	Director	2008

*Daniel Lima de Oliveira*—Mr. Lima de Oliveira has been PifCo's Chairman and Chief Executive Officer since September 1, 2005. From September 1, 2005 to March 31, 2006, Mr. Lima de Oliveira served as Petrobras' Executive Manager of Corporate Finance, and thereafter, as Executive Manager of Financial Administration and Compliance. Since March 25, 2004, he has been a member of the board of directors of REFAP S.A. He has also been a member of the board of directors of Petrobras Argentina S.A.—PESA since April 28, 2006. From September 1, 2005 to June 15, 2006, Mr. Lima de Oliveira was a director of Petrobras Netherlands BV—PNBV and thereafter has been a member of its supervisory board. From January 2003 to August 2005, Mr. Lima de Oliveira was a director of Petrobras International Braspetro BV—PIB BV and Braspetro Oil Services Company—Brasoil. He graduated in mechanical engineering from Escola de Engenharia Industrial de São José dos Campos (São José dos Campos Industrial Engineering School) in 1975.

*Marcos Antonio Silva Menezes*—Mr. Menezes has been a director of PifCo since 2003, and has served as Chief Accountant Officer of Petrobras since 1998. He was the chairman of the fiscal council and the audit committee of Braskem S.A. during the years 2010 and 2011. He has been a member of the fiscal council of Instituto Brasileiro de Petróleo, Gás e Biocombustíveis—IBP (Brazilian Institute of Petroleum, Gas and Biofuels) and of the fiscal council of Organização Nacional das Indústrias de Petróleo—ONIP (National Organization of the Petroleum Industry). He is also a member of Associação Nacional de Executivos de Finanças, Administração e Contabilidade—ANEFAC and of the Associação Brasileira de Companhias Abertas—ABRASCA and its Auditing and Accounting Rules Commission—CANC. Mr. Menezes holds a bachelor's degree in accounting and business management from Faculdade Moraes Júnior in Rio de Janeiro (Moraes Júnior University), a post-graduate degree in financial management from Fundação Getúlio Vargas (Getulio Vargas Foundation), and has completed an advanced management program (PGA) at Fundação Dom Cabral/INSEAD—France (Dom Cabral Foundation/European Institute of Business Administration).

*José Raimundo Brandão Pereira*—Mr. Pereira has been a PifCo director, and has served as PifCo's Executive Manager of Marketing and Trading since June 2008. Mr. Pereira has also been a director of Petrobras International Braspetro B.V. (PIB BV) since September 2008, a member of the board of directors of Petrobras Argentina S.A. (PESA) since March 2009 and director of Petrobras Global Trading BV since November 2010. Mr. Pereira graduated in civil engineering from the Universidade Estadual de Maranhão (State University of Maranhão) in 1979.

### *Executive Officers of Petrobras*

Our board of executive officers, composed of the Chief Executive Officer (CEO) and seven executive officers, is responsible for our day-to-day management. Our executive officers are Brazilian nationals and reside in Brazil. Under our bylaws, the board of directors elects the executive officers, including the CEO, and must consider personal qualification, knowledge and specialization in electing executive officers to their respective areas. The maximum term for our executive officers is three years, but re-election is permitted. The board of directors may remove any executive officer from office at any time with or without cause. Seven of our current executive officers are

experienced Petrobras career managers, engineers or technicians.

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The following table sets forth certain information with respect to our executive officers:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Current Term</b>
Maria das Graças Silva Foster	August 26, 1953	Chief Executive Officer	April 2014
Almir Guilherme Barbassa	May 19, 1947	Chief Financial Officer and Chief Investor Relations Officer	April 2014
Renato de Souza Duque	September 29, 1955	Chief Engineering, Technology and Procurement Officer	April 2014
José Miranda Formigli Filho	March 30, 1960	Chief Exploration and Production Officer	April 2014
Paulo Roberto Costa	January 1, 1954	Chief Downstream Officer	April 2014
José Alcides Santoro Martins	August 28, 1954	Chief Gas and Power Officer	April 2014
Jorge Luiz Zelada	January 20, 1957	Chief International Officer	April 2014
José Eduardo de Barros Dutra	April 11, 1957	Chief Corporate and Services Officer	April 2014

*Maria das Graças Silva Foster*—Ms. Foster has been our Chief Executive Officer since February 13, 2012. For biographical information regarding Ms. Foster, see “—Directors of Petrobras.”

*Almir Guilherme Barbassa*—Mr. Barbassa has been our Chief Financial Officer and Chief Investor Relations Officer since July 22, 2005. Mr. Barbassa joined Petrobras in 1974 and has worked in several financial and planning capacities, both in Brazil and abroad. Mr. Barbassa has served as Petrobras’ corporate finance and treasury manager, and he has also served at various times as financial manager and chairman of Petrobras subsidiaries that carry out international financial activities. Mr. Barbassa is also a member of the board of directors of Braskem S.A. In addition, he was an economics professor at Universidade Católica de Petrópolis (Petrópolis Catholic University) and Faculdades Integradas Bennett (Bennett University) from 1973 to 1979. Mr. Barbassa holds a master’s degree in economics from the Fundação Getúlio Vargas (Getulio Vargas Foundation).

*Renato de Souza Duque*—Mr. Duque has been our Chief Services Officer since January 31, 2003. Currently, Mr. Duque is a member of the board of directors of Petrobras Gás S.A.—Gaspetro and Chief Executive Officer of Petrobras Negócios Eletrônicos S.A. Mr. Duque holds a degree in electrical engineering from the Universidade Federal Fluminense (Fluminense Federal University) and an MBA from the Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro).

*José Miranda Formigli Filho*—Mr. Formigli Filho has been our Chief Exploration and Production Officer since February 2012. Mr. Formigli Filho graduated in civil engineering from the Instituto Militar de Engenharia—IME, with a specialization in petroleum engineering and has an MBA in advanced business management from the Universidade Federal do Rio de Janeiro—COPPEAD. He is a member of the Society of Petroleum Engineers (SPE) and the Society for Underwater Technology (SUT). In Petrobras’ E&P segment, he has managed offshore activities and has been the Production Manager of the Campos Basin, Marlim Field Asset Manager, Services Executive Manager and Production Engineering Executive Manager. From May 2008 through January 2012, Mr. Formigli Filho was the Executive Manager of

Pre-Salt Development.

*Paulo Roberto Costa*—Mr. Paulo Roberto Costa has been our Chief Downstream Officer since May 14, 2004. Mr. Paulo Roberto graduated in mechanical engineering from the Universidade Federal do Paraná (Federal University of Paraná) in 1976. Mr. Costa joined Petrobras in 1977 and worked for a long period in our exploration and production activities. Mr. Costa is chairman of the boards of directors of Refinaria Alberto Pasqualini—REFAP, Refinaria Abreu e Lima S.A.—RENEST and Complexo Petroquímico do Rio de Janeiro—COMPERJ. Mr. Costa is also member of the boards of directors of Petrobras Biocombustíveis S.A.—PBIO, Petrobras Transportes S.A.—TRANSPETRO and Braskem S.A.

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*José Alcides Santoro Martins*—Mr. Santoro Martins has been our Chief Gas and Power Officer since February 2012. Mr. Santoro Martins holds a bachelor’s degree in civil engineering from the University of São Paulo—USP, a degree in geotechnics from PUC/Rio, and also a degree in energy systems planning from Unicamp. He has been at Petrobras for 32 years and has held various management positions, as well as being a board member of different subsidiaries of the Company. He also serves as Managing Director of Termobahia S.A., Termoceará Ltda. and Termomacaé Ltda., in addition to being the Administrative Officer of Sociedade Fluminense de Energia Ltda. Mr. Santoro is the Chairman of the Board of Brasil PCH S.A., a Full Member of the Board of Directors of Termoelétrica Potiguar S.A. and Chairman of the Board of Arembepe Energia S.A. He was also Technology Director at the Center for Gas & Renewable Energy Technology—CTGAS-ER from February 2004 to May 2005 and Director for Oil, Gas and Biofuels at the Energy Research Company—(Empresa de Pesquisa Energética, EPE) from May 2005 to June 2006.

*Jorge Luiz Zelada*—Mr. Zelada has been our Chief International Officer since March 3, 2008. Mr. Zelada received a degree in electrical engineering from the Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro) in 1979 and an MBA from IBMEC/Rio de Janeiro (Brazilian Institute of Capital Markets/Rio de Janeiro) in 2000.

*José Eduardo de Barros Dutra*—Mr. Dutra has been our Chief Corporate and Services Officer since March 1, 2012. Mr. Dutra received a degree in geology from the Universidade Federal Rural do Rio de Janeiro (Federal Rural University of Rio de Janeiro) in 1979. In 1994, he was elected Senator of the Republic with a mandate from 1995 to 2002. He was the CEO of Petrobras from January 2003 to July 2005, and held the post of Director of Petrobras and Director of Petrobras Distribuidora S.A.. He was CEO of Petrobras Distribuidora S.A. – BR from September 2007 to August 2009, and also worked as a geologist at Petrobras Mineração S.A. – Petromisa from 1983 to 1990 and at Vale from 1990 to 1994. In addition, Mr. José Eduardo was chairman of the Board of Directors of Petrobras Gás S.A. – Gaspetro, Petrobras Transporte S.A. – Transpetro, Petrobras Química S.A. – Petroquisa, Petrobras Energia S.A. – Pesa and Liquigás Distribuidora S.A.

*Executive Officers of PifCo*

All of the current executive officers are experienced managers from Petrobras, some of whom have served on the boards of directors of Petrobras subsidiaries and in representative offices abroad. The executive officers work as a board and are responsible for PifCo’s day-to-day management. PifCo’s executive officers serve indefinite terms and can be removed with or without cause.

The following table sets forth certain information about PifCo’s executive officers:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Year of Appointment</b>
Daniel Lima de Oliveira	December 29, 1951	Chief Executive Officer	2009
Sérvio Túlio da Rosa Tinoco	June 21, 1955	Chief Financial Officer	2011
Paulo José Alves	April 17, 1965	Chief Accounting Officer	2011
Nilton Antonio de Almeida Maia	June 21, 1957	Chief Legal Officer	2000
Gerson Luiz Gonçalves	September 29, 1953	Chief Audit Officer	2000
Juarez Vaz Wassersten	August 26, 1954	Chief Businesses Officer	2010

*Daniel Lima de Oliveira*—Mr. Lima de Oliveira has served as PifCo’s Chief Executive Officer since September 1, 2005. For biographical information regarding Mr. Lima de Oliveira, see “—Directors of PifCo.”

*Sérvio Túlio da Rosa Tinoco*—Mr. Tinoco has been PifCo's Chief Financial Officer since September 1, 2005. Mr. Tinoco holds a bachelor's degree in economics from Universidade Oswaldo Cruz, São Paulo (Oswaldo Cruz University) (1978), and had an MBA from the Fundação Getúlio Vargas, São Paulo (Getulio Vargas Foundation) (1983) partially completed with one year at the Institut Supérieur des Affaires—ISA/HEC, France (Institute of Superior Affairs—ISA/HEC).



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*Paulo José Alves*—Mr. Alves has served as PifCo's Chief Accounting Officer since 2011, and has been our General Manager of Corporate Accounting since 2011. Mr. Alves has a bachelor's degree in accounting from Universidade Estadual do Rio de Janeiro (State University of Rio de Janeiro) and an executive MBA from the Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro) as well as an MBA in accounting from Universidade de São Paulo (University of São Paulo). He has also participated in several management courses at the London Management Centre and has been a member of fiscal councils of several companies since 2005, such as Metanor, CEG Rio and Transpetro.

*Nilton Antonio de Almeida Maia*—Mr. Maia has served as PifCo's Chief Legal Officer since April 19, 2000. Mr. Maia also currently serves as General Counsel for Petrobras. He has completed post-graduate degrees in law, with specializations in energy and tax law, from the Universidade Estácio de Sá (Estácio de Sá University).

*Gerson Luiz Gonçalves*—Mr. Gonçalves has been PifCo's Chief Audit Officer since April 19, 2000 and Petrobras' Executive Manager of Internal Auditing since December 1, 1994. Mr. Gonçalves is a member of the Brazilian Institute of Internal Auditors (AUDIBRA) and the International Institute of Internal Auditors (IIA). He received a bachelor's degree in accounting from the Universidade de São Paulo (University of São Paulo) in 1975.

*Juarez Vaz Wassersten*—Mr. Wassersten has been PifCo's Chief Businesses Officer since January 2009. Mr. Wassersten holds a bachelor's degree in production engineering from Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro) and a master's degree in economics from Universidade Cândido Mendes (Cândido Mendes University).

## **Compensation**

### *Petrobras*

For 2011, the aggregate amount of compensation we paid to all members of the board of directors and executive officers was approximately U.S.\$6.7 million.

In addition, the members of the board and the executive officers receive certain additional benefits generally provided to our employees and their families, such as medical assistance, payment of educational expenses and supplementary social security benefits.

We have no service contracts with our directors providing for benefits upon termination of employment. We have a remuneration and succession committee in the form of an advisory committee. See “—Other Advisory Committees.”

### *PifCo*

PifCo's directors and executive officers are paid by Petrobras in respect of their function as Petrobras' employees, but they do not receive any additional compensation, pension or other benefits from PifCo or Petrobras in respect of their functions as PifCo directors or executive officers, as the case may be.



**TABLE OF CONTENTS****Share Ownership***Petrobras*

As of February 29, 2012, the members of our board of directors, our executive officers, the members of our Fiscal Council, and close members of their families, as a group, beneficially held a total of 27,634 common shares and 145,260 preferred shares of our company. Accordingly, on an individual basis, and as a group, our directors, executive officers, Fiscal Council members, and close members of their families beneficially owned less than one percent of any class of our shares. The shares held by our directors, executive officers, Fiscal Council members, and close members of their families have the same voting rights as the shares of the same type and class that are held by our other shareholders. None of our directors, executive officers, Fiscal Council members, or close members of their families holds any options to purchase common shares or preferred shares. Petrobras does not have a stock option plan for its directors, officers or employees.

*PifCo*

As of December 31, 2011, PifCo's authorized share capital was composed of 300,050,000 shares at par value of U.S.\$1.00 per share, all of which are issued and outstanding. All of PifCo's issued and outstanding shares of common stock are owned by us.

**Fiscal Council**

We have a permanent Fiscal Council (*Conselho Fiscal*) in accordance with applicable provisions of the Brazilian Corporate Law, composed of up to five members. As required by the Brazilian Corporate Law our Fiscal Council is independent of our management and external auditors. The Fiscal Council's responsibilities include, among others: (i) monitoring management's activities and (ii) reviewing our annual report and financial statements. The members and their respective alternates are elected by the shareholders at the annual general shareholder's meeting. Holders of preferred shares without voting rights and minority common shareholders are each entitled, as a class, to elect one member and his respective alternate to the Fiscal Council. The Brazilian federal government has the right to appoint the majority of the members of the Fiscal Council and their alternates. One of these members and his respective alternate are appointed by the Minister of Finance representing the Brazilian Treasury. The members of the Fiscal Council are elected at our annual general shareholders' meeting for a one-year term and re-election is permitted.

The following table lists the current members of the Fiscal Council:

<b>Name</b>	<b>Year of First Appointment</b>
Marcus Pereira Aucélio	2005
César Acosta Rech	2008
Marisete Fátima Dadald Pereira	2011
Nelson Rocha Augusto	2003
Maria Lúcia de Oliveira Falcón	2003

The following table lists the alternate members of the Fiscal Council:

<b>Name</b>	<b>Year of First Appointment</b>
Paulo Fontoura Valle	2010
Ricardo de Paula Monteiro	2008
Edson Freitas de Oliveira	2002
Maria Auxiliadora Alves da Silva	2003
Celso Barreto Neto	2002

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**Petrobras Audit Committee**

We have an Audit Committee that advises our board of directors, composed exclusively of members of our board of directors.

On June 17, 2005, our board of directors approved the appointment of our Audit Committee to satisfy the audit committee requirements of the Sarbanes-Oxley Act of 2002 and Rule 10A-3 under the Securities Exchange Act of 1934.

The Audit Committee is responsible for, among other things:

- making recommendations to our board of directors with respect to the appointment, compensation and retention of our independent auditor;
- assisting our board of directors with analysis of our financial statements and the effectiveness of our internal controls over financial reporting in consultation with internal and independent auditors;
- assisting in the resolution of conflicts between management and the independent auditor with respect to our financial statements;
- conducting an annual review of related party transactions involving interested members of our board of directors and executive officers and companies that employ any of these people, as well any other material transactions with related parties; and
- establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal control and auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

On December 16, 2005, our Audit Committee's charter was amended to meet the audit committee requirements of the Sarbanes-Oxley Act of 2002 and Rule 10A-3 under the Securities Exchange Act of 1934, including the incorporation of the powers mentioned above.

The current members of our Audit Committee are Francisco Roberto de Albuquerque, Sergio Franklin Quintella and Josué Christiano Gomes da Silva. All members of our Audit Committee are independent as defined in 17 CFR 240.10A-3.

**Other Advisory Committees**

We have implemented two additional advisory committees: the *Comitê de Remuneração e Sucessão* (Remuneration and Succession Committee) and the *Comitê de Meio Ambiente* (Environmental Committee).

**Petrobras Ombudsman**

The Petrobras General Ombudsman's Office has been an official part of our corporate structure since October 2005, when it became directly linked to the board of directors. The General Ombudsman's Office is the official channel for receiving and responding to denunciations and information regarding possible irregularities in accounting, internal controls and auditing. The General Ombudsman's Office reports directly to the Audit Committee and guarantees the anonymity of informants.

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In December 2007, the board of directors approved the Policies and Directives of the Petrobras Ombudsman, which was an important step in aligning the General Ombudsman's practices with those of the other ombudsmen in the system, contributing to better corporate governance. In April 2010, the board of directors approved a two-year term, which may be renewed once, for the Ombudsman Officer so as to ensure the officer's independence in performing his duties.

**PifCo Advisory Committees**

PifCo does not have any committees of its board of directors.

**Employees and Labor Relations**

We attract and retain valuable employees by offering competitive compensation and benefits, merit-based promotions and a profit-sharing plan. In accordance with Brazilian law, total profit-sharing payments to employees are limited to 25% of the amount of proposed dividends for the year.

We increased our employee numbers in 2011 due to the growth of our business.

The table below shows our employee numbers for the last three years:

	<b>As of December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Petrobras employees:</b>			
Parent company	58,950	57,498	55,802
Subsidiaries	15,453	15,101	13,150
Abroad	7,515	7,893	7,967
Total Petrobras Group	<b>81,918</b>	<b>80,492</b>	<b>76,919</b>
<b>Parent company by level:</b>			
High school	36,923	36,235	35,741
College	21,366	20,564	19,317
Maritime employees	661	699	744
Total parent company	<b>58,950</b>	<b>57,498</b>	<b>55,802</b>
<b>Parent company by region:</b>			
Southeastern Brazil	40,674	39,783	38,509
Northeastern Brazil	14,625	14,152	13,821
Other locations	3,651	3,563	3,472
Total parent company	<b>58,950</b>	<b>57,498</b>	<b>55,802</b>

The table below sets forth the main expenses related to our employees for the last three years:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
Salaries	8,069.4	6,814.0	5,115.2
Employee training	249.6	207.9	132.2
Profit-sharing distributions	931.6	960.7	748.7

We have had no major labor stoppages since 1995, and we consider our relations with our employees and the unions that represent our employees to be good. Forty-five percent of our employees are members of the Oil Workers' National Union and 44% of our maritime employees belong to the Maritime Employees' Union. We negotiate collective bargaining agreements annually with both unions. These agreements are composed of social clauses, which are valid for two years, and economic clauses, which are valid for one year. The latest agreements were signed in 2011 (with both economic and social clauses). Under these agreements, employees received a 7.23% cost of living increase, reflecting an adjustment for inflation in 2011 as measured by the Índice Nacional de Preços ao Consumidor Amplo (IPCA); an additional 3.25% increase in the minimum pay scale; and a one-time payment of 100% of monthly remuneration.



**TABLE OF CONTENTS***Knowledge Transfer Initiatives*

We have undertaken several initiatives in order to ensure the sharing and dissemination of knowledge within the Company. The Mentor Project, in particular, aims to accelerate the transfer of knowledge between employees with more than 20 years of experience and those with up to 10 years of experience within the Company. In addition, the Succession Management Program seeks to preserve the continuity of Petrobras' leadership.

*Talent Retention Initiatives*

We have a talent retention program in place that seeks to retain and promote employees who are essential to business continuity, to the results of the Company, and who work on critical and strategic activities. This program also facilitates the sharing and dissemination of knowledge among our employees.

In 2011, the Junior Career Acceleration Program was implemented, which provided our junior employees with more attractive terms for career development and increased the competitiveness of the Company's initial remuneration package.

*Pension and Health Care Plan*

We sponsor a defined benefit pension plan, known as Petros, and a variable contribution pension plan, known as Petros-2, which together cover 94.95% of our employees. The principal objective of our pension plans has been to supplement the social security pension benefits of our employees. Employees that participate in the plans make mandatory monthly contributions. Our historical funding policy has been to make monthly contributions to the plans in the amount determined by actuarial appraisals. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The table below shows the benefits paid, contributions made, and outstanding Petros liabilities for 2011, 2010 and 2009:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
Total benefits paid	1,230	1,015	911
Total contributions	527	509	327
Petros liabilities(1)	2,697	2,878	2,414

(1) The excess of the actuarial value of our obligation to provide future benefits over the fair value of the plan assets used to satisfy that obligation. See Note 21 to our audited consolidated financial statements for the year ended December 31, 2011.

On August 9, 2002, the Petros Plan stopped admitting new participants and since 2003 we have been engaged in complex negotiations with representatives of the Oil Worker's National Union to address the deficits of the plan and develop a supplementary pension plan. We agreed to pay R\$5.8 billion updated retroactively to December 31, 2006 by the consumer price index (IPCA) plus 6% per year, which will be paid in semi-annual installments with

interest of 6% per year on the balance for the next 20 years, as previously agreed during the renegotiation. We have also been subject to material legal proceedings in connection with the Petros Plan. In August 2007, we approved new regulations for the Petros Plan.

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On July 1, 2007, we implemented the Petros Plan 2, a variable contribution or mixed pension plan, for employees with no supplementary pension plan. A portion of this plan with defined benefits characteristics includes risk coverage for disability and death, a guaranty 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, earmarked for forming a reserve for programmed retirement, is recognized in the results for the year as the contributions are made. In 2011, the contribution of Petrobras and its subsidiaries to the defined contribution portion of this plan was U.S.\$253 million. The expenses and benefit obligations related to Petros Plan 2 were recorded according to ASC 715 Compensation – Retirement Benefits.

We maintain a health care benefit plan (AMS), which offers health benefits and covers all employees (active and inactive) together with their dependents. We manage the plan, with the employees contributing 28% of the total amount to cover principal risks and a portion of the costs relating to other types of coverage in accordance with participation tables defined by certain parameters, including salary levels.

Our commitment related to future benefits to plan participants is calculated on an annual basis by an independent actuary, based on the Projected Unit Credit method. The health care plan is not funded or otherwise collateralized by assets. Instead, we make benefit payments based on annual costs incurred by plan participants.

In addition, some of our consolidated subsidiaries have their own benefit plans.

*PifCo*

PifCo's personnel consist solely of our employees, and PifCo relies on us to provide all administrative functions. In May 2008, PifCo and Petrobras entered into an agreement to share costs and expenditures related to PifCo's use of Petrobras' administrative resources.

**Item 7. Major Shareholders and Related Party Transactions**

**Major Shareholders**

*Petrobras*

Our capital stock is composed of common shares and preferred shares, all without par value. On February 29, 2012, there were 7,442,454,142 outstanding common shares and 5,602,042,788 outstanding preferred shares. The ratio of our common and preferred shares to ADRs is two shares to one ADR. As of February 29, 2012, approximately 28.36% of our preferred shares and approximately 21.15% of our common shares were held of record in the United States directly or in the form of ADSs.

Under the Brazilian Corporate Law, as amended, the number of non-voting shares of our company may not exceed two-thirds of the total number of shares. The Brazilian federal government is required by law to own at least a majority of our voting stock and currently

owns 50.24% of our common shares, which are our only voting shares. The Brazilian federal government does not have any special voting rights, other than the right to always elect a majority of our directors, irrespective of the rights our minority shareholders may have to elect directors, set forth in our bylaws.

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The following table sets forth information concerning the ownership of our common shares and preferred shares as of February 29, 2012, by the Brazilian federal government, certain public sector entities and our officers and directors as a group. We are not aware of any other shareholder owning more than 5% of our common shares.

<b>Shareholder</b>	<b>Common Shares</b>	<b>%</b>	<b>Preferred Shares</b>	<b>%</b>	<b>Total Shares</b>	<b>%</b>
Brazilian federal government	3,738,835,217	50.24	0	0.00	3,738,835,217	28.66
BNDES	448,001,218	6.02	2,433,460	0.04	450,434,678	3.45
BNDES Participações S.A.—BNDESPar.	173,400,392	2.33	1,341,348,766	23.94	1,514,749,158	11.61
Other Brazilian public sector entities	2,356,316	0.03	683,010	0.01	3,039,326	0.02
All members of the board of directors and executive officers (16 persons)	27,634	0.00	145,260	0.00	172,894	0.00
Others	3,079,833,365	41.38	4,257,432,292	76.01	7,337,265,657	56.26
Total	7,442,454,142	100.00	5,602,042,788	100.00	13,044,496,930	100.00

***PifCo***

PifCo's directors and executive officers are paid by Petrobras in respect of their function as Petrobras' employees, but they do not receive any additional compensation, pension or other benefits from PifCo or Petrobras in respect of their functions as PifCo directors or executive officers, as the case may be.

**Petrobras Related Party Transactions*****Board of Directors***

Direct transactions with interested members of our board of directors or our executive officers require the approval of our board of directors, and must follow the conditions of an arms-length transaction and market practices guiding transactions with third parties. None of the members of our board of directors, our executive officers or close members of their families has had any direct interest in any transaction we effected which is or was unusual in its nature or conditions or material to our business during the current or the three immediately preceding financial years or during any earlier financial year, which transaction remains in any way outstanding or unperformed. In addition, we have not entered into any transaction with related parties which is or was unusual in its nature or conditions during the current or the three immediately preceding financial years, nor is any such transaction proposed, that is or would be material to our business.

We have no outstanding loans or guaranties to the members of our board of directors, our executive officers or any close member of their families.

For a description of the shares beneficially held by the members of our board of directors and close members of their families, see Item 6. "Directors, Senior Management and Employees—Share Ownership."

### *Brazilian Federal Government*

We have engaged, and expect to continue to engage, in numerous transactions in the ordinary course of business with our controlling shareholder, the Brazilian federal government, and with other companies controlled by it, including financings from BNDES and banking, asset management and other transactions with Banco do Brasil S.A. The above-mentioned transactions with Banco do Brasil had a negative net balance of \$U.S.\$2,002 million as of December 31, 2011. See Note 18.1 to our audited consolidated financial statements as of December 31, 2011.

As of December 31, 2011, we had a receivable (the Petroleum and Alcohol Account) from the Brazilian federal government, our controlling shareholder, of U.S.\$444 million secured by a U.S.\$53 million blocked deposit account. See Note 18.3 to our audited consolidated financial statements as of December 31, 2011.

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We also have restricted deposits made by us, which serve as collateral for legal proceedings involving the Brazilian federal government. As of December 31, 2011, these deposits amounted to U.S.\$1,693 million. See Note 18.1 to our audited consolidated financial statements as of December 31, 2011.

In addition, according to Brazilian law, we are only permitted to invest in securities issued by the Brazilian federal government in Brazil. This restriction does not apply to investment outside of Brazil. As of December 31, 2011, the value of these marketable securities that has been directly acquired and held by us amounted to U.S.\$11,954 million. See Note 18.1 to our audited consolidated financial statements as of December 31, 2011.

For additional information regarding our principal transactions with related parties, see Note 18 to our audited consolidated financial statements as of December 31, 2011.

**PifCo Related Party Transactions**

PifCo has in the past engaged in both commercial operations and in financing activities for us. PifCo ceased its commercial operations altogether and has become our finance subsidiary, functioning as a vehicle to raise funds for us primarily through the issuance of debt securities in the international capital markets, among other means.

PifCo accounted for its cessation of commercial operations, as well as its sale to PIB B.V. of two of its wholly-owned subsidiaries, PEL and PSPL, as discontinued operations under IFRS issued by IASB. PifCo's balance and results of commercial operations, and PEL and PSPL and their respective cash flows, have been removed from PifCo's results of continuing operations and cash flows for all years presented in this report. For more information, see Note 13 to our consolidated financial statements as of and for the year ending December 31, 2011.

In addition, on September 1, 2011, PifCo terminated the financing program carried out by its subsidiary Petrobras Finance Limited (PFL), a Cayman Islands company that carries out a financing program supported by future sales of fuel oil. PifCo expects to continue its insurance-related activities through its wholly-owned subsidiary Bear Insurance Company (BEAR), a Bermuda company that contracts insurance for us and our subsidiaries. We will continue to support PifCo's debt obligations through unconditional and irrevocable guaranties of payment.

Since PifCo's inception there have been no, and there are no proposed, material transactions with any of PifCo's officers and directors. PifCo does not extend any loans to its officers and directors.





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PifCo's transactions with related parties resulted in the following balances in 2011 and 2010:

	<b>December 31, 2011</b>		<b>December 31, 2010</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>(U.S.\$ million)</b>			
<b>Assets</b>				
Current:				
Accounts receivable	2	—	—	—
Marketable securities	558	—	2,429	—
Discontinued operations	1,547	—	5,964	—
Other non-current:				
Marketable securities	4,611	—	2,729	—
Notes receivable	12,387	—	3,067	—
Discontinued operations	—	—	194	—
<b>Liabilities</b>				
Current:				
Accounts payable	—	6	—	31
Discontinued operations	—	160	—	2,139
Total	19,105	166	14,383	2,170
Current	2,107	166	8,393	2,170
Long-term	16,998	—	5,990	—

PifCo's principal transactions with related parties are as follows:

	<b>Year Ended December 31,</b>					
	<b>2011</b>		<b>2010</b>		<b>2009</b>	
	<b>Income</b>	<b>Expense</b>	<b>Income</b>	<b>Expense</b>	<b>Income</b>	<b>Expense</b>
	<b>(U.S.\$ million)</b>					
<b>General and administrative expenses</b>						
Petróleo Brasileiro S.A. – Petrobras	—	(13)	—	(11)	—	(9)
<b>Other operating income</b>						
Petrobras International Braspetro B.V. - PIB BV and its subsidiaries	4	—	2	—	—	—
<b>Financial income</b>						
Petrobras International Braspetro B.V. - PIB BV	311	—	78	—	77	—

and its subsidiaries						
Petrobras Netherlands B.V.						
- PNBV	115	—	—	—	—	—
Braspetro Oil Services						
Company – Brasoil	53	—	1	—	—	—
Other	—	—	—	—	1	—
<b>Financial expense</b>						
Petróleo Brasileiro S.A. –	—	—	—	(107)	—	(937)
Petrobras						
<b>Discontinued</b>						
<b>operations</b>						
Petróleo Brasileiro S.A. –	—	(2,190)	20	—	2,139	—
Petrobras						
Petrobras International						
Braspetro B.V. - PIB BV						
and its subsidiaries	2,046	—	1,752	—	1,185	—
Petrobras Netherlands B.V.	3	—	—	—	1	—
- PNBV						
Downstream Participações						
S.A. and its subsidiaries	607	—	1,414	—	1,594	—
Other	22	—	310	—	86	—
<b>Total</b>	<b>3,161</b>	<b>(2,203)</b>	<b>3,577</b>	<b>(118)</b>	<b>5,083</b>	<b>(946)</b>

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See Item 18. “Financial Statements” and “Index to Financial Statements.”

**PifCo Consolidated Statements and Other Financial Information**

See Item 18. “Financial Statements” and “Index to Financial Statements.”

**Legal Proceedings***Petrobras*

We are currently subject to numerous legal proceedings relating to civil, tax, labor, corporate and environmental issues arising in the normal course of our business. Several individual disputes account for a significant part of the total amount of claims against us. Our audited consolidated financial statements only include provisions for probable and reasonably estimable losses and expenses we may incur in connection with pending proceedings. Our material legal proceedings are described in Note 28 to our audited consolidated financial statements included in this annual report, and that description is incorporated by reference under this Item.

*PifCo*

There is no litigation or governmental proceeding pending or, to PifCo’s knowledge, threatened against PifCo’s or any of its subsidiaries that, if adversely determined, would have a significant effect on its financial position or profitability.

**Dividend Distribution***Petrobras*

The tables below describe our cash dividends for the last five three years, including amounts paid in the form of interest on shareholders’ equity.

	<b>For the Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(U.S.\$ million)</b>		
Total benefits paid	6,422	5,398	7,724

Our dividend policy has been to pay the minimum dividend required by Brazilian Corporate Law and our bylaws. In 2011, the minimum preferred dividend that we are required to pay to preferred shareholders exceeded the amount of the mandatory distribution that would be ordinarily paid to all shareholders. It has been our policy to pay the same amount of dividends to common and preferred shareholders as we did in 2011. For Brazilian Corporate Law’s minimum dividend distribution requirements, see Item 10. “Additional

Information—Memorandum and Articles of Incorporation of Petrobras—Payment of Dividends and Interest on Shareholders' Equity” and Item 10. “Additional Information—Memorandum and Articles of Incorporation of Petrobras—Mandatory Distribution.” We may change our dividend policy at any time within the limits set forth by Brazilian law.

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*PifCo*

For a description of PifCo’s dividend distribution policy, see Item 10. “Additional Information—Memorandum and Articles of Association of PifCo—Dividends.”

**Item 9. The Offer and Listing**

**Petrobras**

*Trading Markets*

Our shares and ADSs are listed or quoted on the following markets:

Common Shares	São Paulo Stock Exchange (BM&FBOVESPA)— São Paulo (ticker symbol PETR3);  Mercado de Valores Latinoamericanos en Euros (Latibex)—Madrid, Spain (ticker symbol XPBR);  Bolsa de Comercio de Buenos Aires (BCBA)—Buenos Aires, Argentina (ticker symbol APBR)
Preferred Shares	São Paulo Stock Exchange (BM&FBOVESPA)—São Paulo (ticker symbol PETR4);  Mercado de Valores Latinoamericanos en Euros (Latibex)—Madrid, Spain (ticker symbol XPBRA);  Bolsa de Comercio de Buenos Aires (BCBA)—Buenos Aires, Argentina (ticker symbol APBRA)
Common ADSs	New York Stock Exchange (NYSE)—New York (ticker symbol PBR)
Preferred ADSs	New York Stock Exchange (NYSE)—New York (ticker symbol PBRA)

Our common and preferred shares have been traded on the BM&FBOVESPA since 1968. Our ADSs representing two common shares and our ADSs representing two preferred shares have been traded on the New York Stock Exchange since 2000 and 2001, respectively. The Bank of New York Mellon serves as depository for both the common and preferred ADSs.

Our common and preferred shares have been traded on the LATIBEX since 2002. The LATIBEX is an electronic market created in 1999 by the Madrid Stock Exchange in order to enable trading of Latin American equity securities in euro denominations.

Our common and preferred shares have been traded on the *Bolsa de Comercio de Buenos Aires* (Buenos Aires Stock Exchange) since April 27, 2006.

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The following table sets forth information for our common shares and preferred shares, as reported by the BM&FBOVESPA, and for our common and preferred ADSs, as reported by the New York Stock Exchange, for the periods indicated.

	<b>Reais Per Common Share</b>		<b>Reais Per Preferred Share</b>		<b>U.S. Dollars Per Common ADS</b>		<b>U.S. Dollars Per Preferred ADS</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
<b>2007</b>	<b>52.50</b>	<b>22.43</b>	<b>44.20</b>	<b>20.09</b>	<b>58.81</b>	<b>21.13</b>	<b>49.83</b>	<b>18.88</b>
<b>2008</b>	<b>62.30</b>	<b>20.21</b>	<b>52.51</b>	<b>16.89</b>	<b>75.19</b>	<b>14.94</b>	<b>63.51</b>	<b>12.56</b>
<b>2009</b>	<b>45.10</b>	<b>27.45</b>	<b>39.79</b>	<b>23.06</b>	<b>53.01</b>	<b>23.01</b>	<b>46.91</b>	<b>19.48</b>
<b>2010</b>	<b>41.81</b>	<b>26.68</b>	<b>37.50</b>	<b>24.16</b>	<b>48.90</b>	<b>31.90</b>	<b>43.82</b>	<b>28.63</b>
<b>2011:</b>								
First quarter	33.65	29.12	29.08	26.18	41.56	35.40	35.94	31.92
Second quarter	33.09	25.20	28.74	22.87	41.40	31.87	36.21	28.92
Third quarter	26.38	20.75	23.80	18.65	34.75	22.45	31.39	20.72
Fourth quarter	25.39	19.80	23.32	18.21	28.44	21.50	26.44	19.85
November 2011	24.62	22.75	22.68	21.01	28.44	24.41	26.44	22.64
December 2011	25.39	22.70	23.32	21.12	28.27	24.03	26.15	22.55
<b>2012:</b>								
January 2012	27.73	23.21	25.40	21.73	31.81	24.85	29.35	23.49
February 2012	27.75	24.67	25.60	23.10	32.12	28.62	29.74	26.73

*BM&FBOVESPA*

As of December 31, 2011, Petrobras' common and preferred shares represented approximately 13% of the total market capitalization of the BM&FBOVESPA and Petrobras was the second most actively traded company of the BM&FBOVESPA. At December 31, 2011, the aggregate market capitalization of the 373 companies listed on the BM&FBOVESPA was approximately U.S.\$1,223 billion and the ten largest companies represented approximately 53% of the total market capitalization of all listed companies. All the outstanding shares of an exchange-listed company may trade on the BM&FBOVESPA, but in most cases, only a portion of the listed shares are actually available for trading by the public. The remainder is held by small groups of controlling persons, by governmental entities or by one principal shareholder.

Trading on the BM&FBOVESPA by a holder not deemed to be a resident of Brazil for Brazilian tax and regulatory purposes (a non-Brazilian holder) is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on the BM&FBOVESPA in accordance with the requirements of Resolution No. 2,689 of the CMN. Resolution No. 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank of Brazil and the CVM. In addition, Resolution No. 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock

exchanges or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through a private transaction.

### **PifCo**

PifCo's common stock is not registered and there is no trading market for it. PifCo's Senior Notes due 2018, 2022 and 2026 as well as PifCo's Global Notes due 2013 and 2014 are listed in the Luxembourg Stock Exchange. PifCo's Global Notes due 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2040 and 2041 are listed on the New York Stock Exchange. PifCo's other debt securities have not been listed on any securities exchange.



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**Item 10. Additional Information**

**Memorandum and Articles of Incorporation of Petrobras**

*General*

We are a publicly traded company duly registered with the CVM under identification number 951-2. Article 3 of our bylaws establishes our corporate purposes as research, prospecting, extraction, processing, trade and transportation of crude oil from wells, shale and other rocks, of its derivatives, natural gas and other fluid hydrocarbons, as well as other related or similar activities, such as activities connected with energy, including research, development, production, transportation, distribution, sale and trade of all forms of energy, as well as other related or similar activities. We may conduct outside Brazil, directly or through our subsidiaries, any of the activities within our corporate purpose.

*Qualification of Directors*

Law No. 12,431, enacted on June 24, 2011, amended the Brazilian Corporate Law by eliminating the previous requirement that only shareholders of a company may be appointed to its board of directors. Therefore, directors are no longer required to be shareholders of the company, but the members of our board of executive officers must be Brazilian nationals and reside in Brazil. Our directors and executive officers are prevented from voting on any transaction involving companies in which they hold more than 10% of the total capital stock or of which they have held a management position in the period immediately prior to their taking office. Under our bylaws, shareholders set the aggregate compensation payable to directors and executive officers. The board of directors allocates the compensation among its members and the executive officers.

In addition, Law No. 12,353, enacted on December 28, 2010, requires that public and mixed-capital companies in which the Brazilian federal government holds directly or indirectly a majority of the voting rights include a director on the board of directors that is a representative elected by the company's employees, such director to be elected by means of a separate voting procedure.

*Allocation of Net Income*

At each annual general shareholders' meeting, our board of directors is required to recommend how net profits for the preceding fiscal year are to be allocated. The Brazilian Corporate Law defines net profits as net income after income taxes and social contribution taxes for such fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to employees' and management's participation in our profits. In accordance with the Brazilian Corporate Law, the amounts available for dividend distribution or payment of interest on shareholders' equity equals net profits less any amounts allocated from such net profits to the legal reserve.

We are required to maintain a legal reserve, to which we must allocate 5% of net profits for each fiscal year until the amount for such reserve equals 20% of our paid-in capital. However, we are not required to make any allocations to our legal reserve in a fiscal year in which the legal reserve, when added to our other established capital reserves, exceeds 30% of our capital. The legal reserve can only be used to offset losses or to increase our capital.

As long as we are able to make the minimum mandatory distribution described below, we must allocate an amount equivalent to 0.5% of subscribed and fully paid-in capital at year-end to a statutory reserve. The reserve is used to fund the costs of research and technological development programs. The accumulated balance of this reserve cannot exceed 5% of the subscribed and fully paid-in capital stock.

Brazilian law also provides for three discretionary allocations of net profits that are subject to approval by the shareholders at the annual general shareholders' meeting, as follows:

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- first, a percentage of net profits may be allocated to a contingency reserve for anticipated losses that are deemed probable in future years. Any amount so allocated in a prior year must be either reversed in the fiscal year in which the reasons justifying the reserve cease to exist, or written off in the event that the anticipated loss occurs;
- second, if the mandatory distributable amount exceeds the sum of realized net profits in a given year, this excess may be allocated to an unrealized revenue reserve. The Brazilian Corporate Law defines realized net profits as the amount of net profits that exceeds the sum of the net positive result of equity adjustments and profits or revenues from operations whose financial results take place after the end of the next succeeding fiscal year; and
- third, a portion of our net profits that exceeds the minimum mandatory distribution may be allocated to fund working capital needs and investment projects, as long as such allocation is based on a capital budget previously approved by our shareholders. Capital budgets for more than one year must be reviewed at each annual shareholders' meeting.

*Mandatory Distribution*

Under Brazilian Corporate Law, the bylaws of a Brazilian corporation with a class of non-voting shares, such as ours, may specify a minimum percentage of the amounts available for distribution by such corporation for each fiscal year that must be distributed to shareholders as dividends or interest on shareholders' equity, also known as the mandatory distributable amount, which cannot be lower than 25% of the adjusted net profit for the fiscal year. Under our bylaws, the mandatory distributable amount has been fixed at an amount equal to not less than 25% of our net profits, after the allocations to the legal reserve, contingency reserve and unrealized revenue reserve. Furthermore, the net profits that are not allocated to the reserves above to fund working capital needs and investment projects as described above or to the statutory reserve must be distributed to our shareholders as dividends or interest on shareholders' equity.

The Brazilian Corporate Law, however, permits a publicly held company, such as ours, to suspend the mandatory distribution if the board of directors and the Fiscal Council report to the annual general shareholders' meeting that the distribution would be inadvisable in view of the company's financial condition. The suspension is subject to approval of holders of common shares. In this case, the board of directors must file a justification for such suspension with the CVM. Profits not distributed by virtue of the suspension mentioned above shall be allocated to a special reserve and, if not absorbed by subsequent losses, shall be distributed as soon as the financial condition of the company permits such payments.

*Payment of Dividends and Interest on Shareholders' Equity*

We are required by the Brazilian Corporate Law and by our bylaws to hold an annual general shareholders' meeting by the fourth month after the end of each fiscal year at which, among other things, the shareholders have to decide on the payment of an annual dividend. The payment of annual dividends is based on the financial statements prepared for the relevant fiscal year.

Law No. 9,249 of December 26, 1995, as amended, provides for distribution of interest attributed to shareholders' equity to shareholders as an alternative form of distribution. Such interest is limited to the daily *pro rata* variation of the TJLP interest rate, the Brazilian federal government's long-term interest rate.

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We may treat these payments as a deductible expense for corporate income tax and social contribution purposes, but the deduction cannot exceed the greater of:

- 50% of net income (before taking into account such distribution and any deductions for income taxes and after taking into account any deductions for social contributions on net profits) for the period in respect of which the payment is made; or
- 50% of retained earnings.

Any payment of interest on shareholders' equity to holders of ADSs or common shares, whether or not they are Brazilian residents, is subject to Brazilian withholding tax at the rate of 15% or 25%. The 25% rate applies if the beneficiary is resident in a tax haven. See "—Taxation Relating to Our ADSs and Common and Preferred Shares—Brazilian Tax Considerations." The amount paid to shareholders as interest attributed to shareholders' equity, net of any withholding tax, may be included as part of any mandatory distribution of dividends. Under the Brazilian Corporate Law, we are required to distribute to shareholders an amount sufficient to ensure that the net amount received, after payment by us of applicable Brazilian withholding taxes in respect of the distribution of interest on shareholders' equity, is at least equal to the mandatory dividend.

Under the Brazilian Corporate Law and our bylaws, dividends generally are required to be paid within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which the dividend was declared. The amounts of dividends due to our shareholders are subject to financial charges at the SELIC rate from the end of each fiscal year through the date we actually pay such dividends. Shareholders have a three-year period from the dividend payment date to claim dividends or interest payments with respect to their shares, after which the amount of the unclaimed dividends reverts to us.

Pursuant to our bylaws, holders of preferred shares are entitled to minimum annual dividends equal to (i) 5% of their pro rata share of our paid-in capital, or (ii) 3% of the book value of their preferred shares, whichever is higher. Holders of preferred shares participate equally with common shareholders in corporate capital increases obtained from the incorporation of reserves and profits. To the extent that we declare dividends in any particular year in an amount that exceeds the minimum preferential dividends on preferred shares, holders of common shares and preferred shares will receive the same additional dividend amount per share. Based on our equity capital at year-end 2011, we paid to holders of preferred shares a preferential dividend equal to 3% of the book value of their preferred shares.

Our board of directors may distribute dividends or pay interest based on the profits reported in interim financial statements. The amount of interim dividends distributed cannot exceed the amount of our capital reserves.

*Shareholders' Meetings*

Our shareholders have the power to decide on any matters related to our corporate purposes and to pass any resolutions they deem necessary for our protection and development, through voting at a general shareholders' meeting.

Until 2011, we convened our shareholders' meetings by publishing a notice in the *Diário Oficial da União* and *Jornal do Commercio*. As of 2012, we intend to publish notices in the *Diário Oficial do Estado* and *Jornal do Commercio*. The notice must be published no fewer than three times, beginning at least 15 calendar days prior to the scheduled meeting date. The notice must contain the meeting's agenda and, in the case of a proposed amendment to the bylaws, an indication of the subject matter. For ADS holders, we are required to provide notice to the ADS depository at least 30 calendar days prior to a shareholders' meeting, when practicable.

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The board of directors or, in some specific situations set forth in the Brazilian Corporate Law, the shareholders, call our general shareholders' meetings. A shareholder may be represented at a general shareholders' meeting by an attorney-in-fact, so long as the attorney-in-fact was appointed within a year of the meeting. The attorney-in-fact must be a shareholder, a member of our management, a lawyer or a financial institution. The attorney-in-fact's power of attorney must comply with certain formalities set forth by Brazilian law.

In order for a valid action to be taken at a shareholders' meeting, shareholders representing at least one quarter of our issued and outstanding common shares must be present at the meeting. However, in the case of a general meeting to amend our bylaws, shareholders representing at least two-thirds of our issued and outstanding common shares must participate in person. If no such quorum is present, the board may call a second meeting giving at least eight calendar days notice prior to the scheduled meeting in accordance with the rules of publication described above. The quorum requirements will not apply to the second meeting, subject to the voting requirements for certain matters described below. Beginning in 2010, our shareholders may also register online to exercise their voting rights electronically in shareholders' meetings. In addition, our shareholders may also vote electronically in proxy contests (*pedido público de procuração*). Electronic participation in shareholders' meetings is not available to our ADR holders.

***Voting Rights***

Pursuant to the Brazilian Corporate Law and our bylaws, each of our common shares carries the right to vote at a general meeting of shareholders. The Brazilian federal government is required by law to own at least a majority of our voting stock. Pursuant to our bylaws, our preferred shares generally do not confer voting rights.

Holders of common shares, voting at a general shareholders' meeting, have the exclusive power to:

- amend our bylaws;
- approve any capital increase;
- approve any capital reduction;
- elect or dismiss members of our board of directors and Fiscal Council, subject to the right of our preferred shareholders to elect or dismiss one member of our board of directors and to elect one member of our Fiscal Council;
- receive the yearly financial statements prepared by our management and accept or reject management's financial statements, including the allocation of net profits for payment of the mandatory dividend and allocation to the various reserve accounts;
- authorize the issuance of debentures, except for the issuance of non-convertible unsecured debentures, which may be approved by our board of directors;

- suspend the rights of a shareholder who has not fulfilled the obligations imposed by law or by our bylaws;
- accept or reject the valuation of assets contributed by a shareholder in consideration for issuance of capital stock;
- pass resolutions to approve corporate restructurings, such as mergers, spin-offs and transformation into another type of company;



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- participate in a centralized group of companies;
- approve the disposal of the control of our subsidiaries;
- approve the disposal of convertible debentures issued by our subsidiaries and held by us;
- establish the compensation of our senior management;
- approve the cancellation of our registration as a publicly-traded company;
- decide on our dissolution or liquidation;
- waive the right to subscribe to shares or convertible debentures issued by our subsidiaries or affiliates; and
- choose a specialized company to work out the appraisal of our shares by economic value, in cases of the canceling of our registry as a publicly-traded company or deviation from the standard rules of corporate governance defined by a stock exchange or an entity in charge of maintaining an organized over-the-counter market registered with the CVM, in order to comply with such corporate governance rules and with contracts that may be executed by us and such entities.

Except as otherwise provided by law, resolutions of a general shareholders' meeting are passed by the majority of the outstanding common shares. Abstentions are not taken into account.

The approval of holders of at least one-half of the issued and outstanding common shares is required for the following actions involving our company:

- reduction of the mandatory dividend distribution;
- merger into another company or consolidation with another company, subject to the conditions set forth in the Brazilian Corporate Law;
- participation in a group of companies subject to the conditions set forth in the Brazilian Corporate Law;
- change of our corporate purpose, which must be preceded by an amendment in our bylaws by federal law as we are controlled by the government and our corporate purpose is established by law;
- cessation of the state of liquidation;
- spin-off of a portion of our company, subject to the conditions set forth in the Brazilian Corporate Law;

- transfer of all our shares to another company or receipt of shares of another company in order to make the company whose shares are transferred a wholly owned subsidiary of such company, known as *incorporação de ações*; and
- approval of our liquidation.

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Under Brazilian Corporate law, if shareholder has a conflict of interest with the company in connection with any proposed transaction, the shareholder may not vote in any decision regarding such transaction. For example, an interested shareholder may not vote to approve the valuation of assets contributed by that shareholder in exchange for capital stock or, when the shareholder is a member of senior management, to approve the management's report on the company's financial statements. Any transaction approved with the vote of a shareholder with a conflict of interest may be annulled and such shareholder may be liable for any damages caused and be required to return to the company any gain it may have obtained as a result of the transaction.

According to the Brazilian Corporate Law, the following actions shall be submitted for approval by the outstanding adversely affected preferred shares before they are submitted for approval of at least half of the issued and outstanding common shares:

- creation of preferred shares or increase in the existing classes of preferred shares, without preserving the proportions to any other class of preferred shares, except as set forth in or authorized by the company's bylaws;
- change in the preferences, privileges or redemption or amortization conditions of any class of preferred shares; and
- creation of a new class of preferred shares entitled to more favorable conditions than the existing classes.

Decisions on our transformation into another type of company require the unanimous approval of our shareholders, including the preferred shareholders, and an amendment of our bylaws by the federal law.

Our preferred shares will acquire voting rights if we fail to pay the minimum dividend to which such shares are entitled for three consecutive fiscal years. The voting right shall continue until payment has been made. Preferred shareholders also obtain the right to vote if we enter into a liquidation process.

Under Brazilian Corporate Law, shareholders representing at least 10% of the company's voting capital have the right to demand that a cumulative voting procedure be adopted to entitle each common share to as many votes as there are board members and to give each common share the right to vote cumulatively for only one candidate or to distribute its votes among several candidates. Pursuant to CVM regulations, the 10% threshold requirement for the exercise of cumulative voting procedures may be reduced.

Furthermore, minority common shareholders holding at least 10% of our voting capital also have the right to appoint or dismiss one member to or from our Fiscal Council.

Preferred shareholders holding, individually or as a group, 10% of our total capital have the right to appoint and/or dismiss one member to or from our board of directors. Preferred shareholders have the right to separately appoint one member to our Fiscal Council.

In addition, pursuant to Law No. 12,353, our employees have the right to appoint or dismiss one member of our board of directors in accordance with a separate voting procedure.

Our bylaws provide that, independently from the exercise of the rights above granted to minority shareholders, through cumulative voting process, the Brazilian federal government always has the right to appoint the majority of our directors.

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*Preemptive Rights*

Pursuant to the Brazilian Corporate Law, each of our shareholders has a general preemptive right to subscribe for shares or securities convertible into shares in any capital increase, in proportion to the number of shares held by them. In the event of a capital increase that would maintain or increase the proportion of capital represented by the preferred shares, holders of preferred shares would have preemptive rights to subscribe to newly issued preferred shares only. In the event of a capital increase that would reduce the proportion of capital represented by the preferred shares, holders of preferred shares would have preemptive rights to subscribe to any new preferred shares in proportion to the number of shares held by them, and to common shares only to the extent necessary to prevent dilution of their interests in our total capital.

A period of at least 30 days following the publication of notice of the issuance of new shares or securities convertible into shares is allowed for exercise of the right, and the right is negotiable.

In the event of a capital increase by means of the issuance of new shares, holders of ADSs, of common or preferred shares, would have, except under circumstances described above, preemptive rights to subscribe for any class of our newly issued shares. However, holders of ADSs may not be able to exercise the preemptive rights relating to the preferred shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. See Item 3. “Key Information—Risk Factors—Risks Relating to Our Equity and Debt Securities.”

*Redemption and Rights of Withdrawal*

Brazilian law provides that, under limited circumstances, a shareholder has the right to withdraw his or her equity interest from the company and to receive payment for the portion of shareholder’s equity attributable to his or her equity interest.

This right of withdrawal may be exercised by the holders of the adversely affected common or preferred shares in the event that we decide:

- to create preferred shares or to increase the existing classes of preferred shares, without preserving the proportions to any other class of preferred shares, except as set forth in or authorized by our bylaws; or
- to change the preferences, privileges or redemption or amortization conditions of any class of preferred shares or to create a new class of preferred shares entitled to more favorable conditions than the existing classes.

Holders of our common shares may exercise their right of withdrawal in the event we decide:

- to merge into another company or to consolidate with another company, subject to the conditions set forth in the Brazilian Corporate Law; or
- to participate in a centralized group of companies as defined under the Brazilian Corporate Law and subject to the conditions set forth therein.

The right of withdrawal may also be exercised by our dissenting shareholders in the event we decide:

- to reduce the mandatory distribution of dividends;
- to change our corporate purposes;

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- to spin-off a portion of our company, subject to the conditions set forth in the Brazilian Corporate Law;
- to transfer all of our shares to another company or to receive shares of another company in order to make the company whose shares are transferred a wholly owned subsidiary of our company, known as *incorporação de ações*, subject to the conditions set forth in Brazilian Corporate Law; or
- to acquire control of another company at a price, which exceeds the limits set forth in the Brazilian Corporate Law, subject to, the conditions set forth in the Brazilian Corporate Law.

This right of withdrawal may also be exercised in the event that the entity resulting from a merger, *incorporação de ações*, as described above, or consolidation or spin-off of a listed company fails to become a listed company within 120 days of the shareholders' meeting at which such decision was taken.

Any redemption of shares arising out of the exercise of such withdrawal rights would be made based on the book value per share, determined on the basis of the last balance sheet approved by our shareholders. However, if a shareholders' meeting giving rise to redemption rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such shareholders' meeting. The right of withdrawal lapses 30 days after publication of the minutes of the shareholders' meeting that approved the corporate actions described above. We would be entitled to reconsider any action giving rise to withdrawal rights within ten days following the expiration of such rights if the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

*Other Shareholders' Rights*

According to the Brazilian Corporate Law, neither a company's bylaws nor actions taken at a general meeting of shareholders may deprive a shareholder of some specific rights, such as:

- the right to participate in the distribution of profits;
- right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;
- the right to supervise the management of the corporate business as specified in the Brazilian Corporate Law;
- the right to preemptive rights in the event of a subscription of shares, debentures convertible into shares or subscription bonuses (other than with respect to a public offering of such securities, as may be set out in the bylaws); and
- the right to withdraw from the company in the cases specified in the Brazilian Corporate Law.

### *Liquidation*

In the event of a liquidation, holders of preferred shares are entitled to receive, prior to any distribution to holders of common shares, an amount equal to the paid-in capital with respect to the preferred shares.

### *Conversion Rights*

According to our bylaws, our common shares are not convertible into preferred shares, nor are preferred shares convertible into common shares.



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*Liability of Our Shareholders for Further Capital Calls*

Neither Brazilian law nor our bylaws provide for capital calls. Our shareholders' liability for capital calls is limited to the payment of the issue price of the shares subscribed or acquired.

*Form and Transfer*

Our shares are registered in book-entry form and we have hired Banco do Brasil to perform all the services of safe-keeping and transfer of shares. To make the transfer, Banco do Brasil makes an entry in the register, debits the share account of the transferor and credits the share account of the transferee.

Our shareholders may choose, at their individual discretion, to hold their shares through the *Companhia Brasileira de Liquidação e Custódia* or CBLC. Shares are added to the CBLC system through Brazilian institutions, which have clearing accounts with the CBLC. Our shareholder registry indicates which shares are listed on the CBLC system. Each participating shareholder is in turn registered in a registry of beneficial shareholders maintained by the CBLC and is treated in the same manner as our registered shareholders.

*Dispute Resolution*

Our bylaws provide for mandatory dispute resolution through arbitration, in accordance with the rules of the *Câmara de Arbitragem do Mercado* (Market Arbitration Chamber), with respect to any dispute regarding us, our shareholders, the officers, directors and Fiscal Council members and involving the provisions of the Brazilian Corporate Law, our bylaws, the rules of the CMN, the Central Bank of Brazil and the CVM or any other capital markets legislation, including the provisions of any agreement entered into by us with any stock exchange or over-the-counter entity registered with the CVM, relating to adoption of differentiated corporate governance practices.

However, decisions of the Brazilian federal government, as exercised through voting in any general shareholders' meeting, are not subject to this arbitration proceeding, in accordance with Article 238 of the Brazilian Corporate Law.

*Self-dealing Restrictions*

Our controlling shareholder, the Brazilian federal government, and the members of our board of directors, board of executive officers and Fiscal Council are required, in accordance with our bylaws, to:

- refrain from dealing with our securities either in the one-month period prior to any fiscal year-end, up to the date when our financials are published, or in the period between any corporate decision to raise or reduce our stock capital, to distribute dividends or stock, and to issue any security, up to the date when the respective public releases are published; and

- communicate to us and to the stock exchange their periodical dealing plans with respect to our securities, if any, including any change or default in these plans. If the communication is an investment or divestment plan, the frequency and planned quantities must be included.

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**Restrictions on Non-Brazilian Holders**

Non-Brazilian holders face no legal restrictions on the ownership of our common or preferred shares or of ADSs based on our common or preferred shares, and are entitled to all the rights and preferences of such common or preferred shares, as the case may be.

However, the ability to convert dividend payments and proceeds from the sale of common or preferred shares or preemptive rights into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, the registration of the relevant investment with the Central Bank of Brazil. Nonetheless, any non-Brazilian holder who registers with the CVM in accordance with CMN Resolution No. 2,689 may buy and sell securities on the BM&FBOVESPA without obtaining a separate certificate of registration for each transaction.

In addition, Annex III to Resolution No. 1,289 of the CMN, as amended, known as Annex III Regulations, allows Brazilian companies to issue depositary receipts in foreign exchange markets. We currently have an ADR program for our common and preferred shares duly registered with the CVM and the Central Bank of Brazil. The proceeds from the sale of ADSs by holders outside Brazil are free of Brazilian foreign exchange controls.

**Transfer of Control**

According to Brazilian law and our bylaws, the Brazilian federal government is required to own at least the majority of our voting shares. Therefore, any change in our control would require a change in the applicable legislation.

**Disclosure of Shareholder Ownership**

Brazilian regulations require that any person or group of persons representing the same interest that has directly or indirectly acquired or sold an interest corresponding to 5% of the total number of shares of any type or class must disclose its share ownership or divestment to the CVM and the BM&FBOVESPA. In addition, a statement containing the required information must be published in the newspapers. Any subsequent increase or decrease by 5% or more in ownership of shares of any type or class must be similarly disclosed.

**Memorandum and Articles of Association of PifCo**

*Register*

PifCo is an exempted company incorporated with limited liability in the Cayman Islands under the Companies Law, as amended, with company registration number 76600. PifCo registered and filed its Memorandum and Articles of Association with the Registrar of Companies on September 24, 1997. The company adopted an Amended and Restated Memorandum and Articles of Association by sole shareholder special resolution on May 7, 2007, adopted a further Amended and Restated Memorandum and Articles of Association by sole shareholder special resolution on February 23, 2008 and adopted a further Amended and Restated Memorandum and Articles of Association on September 9, 2011. PifCo was initially incorporated with the name Brasoil Finance Company, which name was changed by special

resolution of PifCo's shareholder to Petrobras International Finance Company on September 25, 1997. The last amendment to PifCo's Memorandum and Articles of Association occurred on September 9, 2011, to amend the stated objects and purposes of PifCo.

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*Objects and Purposes*

PifCo's Memorandum and Articles of Association grants PifCo full power and authority to carry out any object not prohibited by law, as provided by Section 7(4) of the Companies Law. In particular (but without limitation), PifCo's primary object is to finance our business operations by, among other means, engaging in borrowings in the international capital markets supported by us through unconditional and irrevocable guaranties of payment for PifCo's outstanding debt obligations.

*Directors*

Directors may vote on a proposal, arrangement or contract in which they are interested. However, interested directors must declare the nature of their interest at a directors' meeting. If the interested directors declare their interest, their votes are counted and they are counted in the quorum of such meeting.

The directors may, in PifCo's name, exercise their powers to borrow money, issue debt securities and to mortgage or charge any of the undertaking or property of PifCo and are generally responsible for its day-to-day management and administration.

Directors are not required to own shares.

*Rights and Obligations of Shareholders*

*Dividends*

PifCo's shareholder may declare dividends in a general meeting but the dividends cannot exceed the amount recommended by the directors. The directors may pay the shareholder interim dividends and may, before recommending any dividend, set aside reserves out of profits. The directors can invest these reserves in their discretion or employ them in PifCo's business.

Dividends may be paid in cash or in kind but may only be paid out of profits or, subject to certain restrictions of Cayman Islands law, a share premium account.

*Voting Rights*

Votes may be cast at a general meeting by a show of hands or by a poll (if demanded by one or more members present in person or by proxy entitled to vote prior to or on the declaration of the result of the show of hands). On a vote by a show of hands, each shareholder or shareholder represented by proxy has one vote. On a vote by a poll, each shareholder or shareholder represented by proxy has one vote for each share owned.

Directors are elected by ordinary resolution by the shareholders at general meetings or by a board resolution of the directors. Shareholders are not entitled to vote at a general meeting unless calls or other amounts payable on their shares have been paid. In lieu of voting on a

matter at a general meeting, the shareholders entitled to vote on that matter may adopt the matter by signing a written resolution.

*Redemption*

PifCo may issue shares, which are redeemable by PifCo or by its shareholder, on such terms and in such manner as the directors may determine before the issuance of such shares. PifCo may repurchase its own shares on such terms and in such manner as the directors may determine and agree with the relevant shareholder.

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*Shareholder Rights Upon Liquidation*

If PifCo is liquidated, the liquidator may (in accordance with an ordinary shareholder resolution):

- set a fair value on PifCo's assets, divide all or part of PifCo's assets among the shareholders and determine how the assets will be divided among shareholders or classes of shareholders; and
- vest all or part of PifCo's assets in trustees.

Shareholders will not be compelled to accept any securities on which there is a liability.

*Calls on Shares*

Directors may make calls on the shareholders to the extent any amounts remain unpaid on their shares (subject to giving such shareholder at least fourteen days notice specifying the time or times of payment). Each shareholder shall pay to the company the amounts called on such shares.

*Change to Rights of Shareholders*

Shareholders may change the rights of their class of shares by:

- getting the written consent of two-thirds of the shareholders of that class; or
- passing a special resolution at a meeting of the shareholders of that class.

There are no general limitations on the rights to own shares specified by the articles.

*General Meetings*

A general meeting may be convened:

- by the directors at any time; or
- by any two shareholders holding not less than 10% of the paid-up voting share capital of PifCo, by written request.

Notice of a general meeting is given to all shareholders.

All business carried out at a general meeting is considered special business except:

- sanctioning a dividend;
- consideration of the accounts, balance sheets, and ordinary report of the directors and auditors;
- appointment and removal of directors; and
- fixing of remuneration of the auditors.

Unanimous shareholder consent is required to carry out special business at a meeting unless notice of the special business is given in the notice of the meeting. A quorum of shareholders is required to be present at any meeting in order to carry out business. One or more shareholders holding at least a majority of the shares of PifCo that are present in person or represented by proxy is a quorum.



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There is no requirement under Cayman Islands law to convene an annual meeting or to convene any general meeting of the shareholders. The directors are permitted to designate any general meeting of shareholders as an annual general meeting.

*Liability of Shareholders*

In normal circumstances, the liability of any shareholder to PifCo is limited to the amount, which such shareholder has agreed to pay in respect of the subscription of his shares.

*Changes in Capital*

PifCo may increase its authorized share capital by ordinary resolution. The new shares will be subject to all of the provisions to which the original shares are subject.

PifCo may also by ordinary resolution:

- consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- convert all or any part of its paid-up shares into stock and reconvert that stock into paid-up shares of any denomination;
- split existing shares into shares of a smaller amount, subject to the provisions of Section 13 of the Companies Law; and
- cancel any shares, which, at the date of the resolution, are not held or agreed to be held by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

PifCo may reduce its share capital and any capital redemption reserve by special resolution in accordance with relevant provision of Cayman Islands law.

*Indemnity*

PifCo's directors and officers are indemnified out of its assets and funds against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities which they incur or sustain in or regarding the conduct of PifCo's business or affairs in the execution or discharge of their respective duties, powers, authorities or discretions. Under PifCo's Memorandum of Association, directors and officers are excused from all liability to PifCo, except for any losses, which arise as a result of such party's own dishonesty.

*Accounts*

Accounts relating to PifCo's affairs are kept in such manner as may be determined from time to time by the directors and may be audited in such manner as may be determined from time to time by the directors. There is, however, no requirement as a matter of Cayman Islands law to have PifCo's accounts audited.

*Amendment of the Articles*

PifCo may, by special resolution of the shareholders, amend its memorandum and articles of association.

*Transfer out of Jurisdiction*

PifCo may, by special resolution of the shareholders, transfer out of the Cayman Islands into any jurisdiction permitting such transfer.

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**Material Contracts**

*Petrobras*

*Assignment Agreement (Cessão Onerosa)*

On September 3, 2010, we entered into an agreement with the Brazilian federal government, under which the government assigned to us the right to conduct activities for the exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. The Assignment Agreement was entered into pursuant to specific provisions of Law No. 12,276. The draft of the Assignment Agreement was approved by our Board of Directors on September 1, 2010 and by the CNPE on September 1, 2010, following a negotiation between us and the Brazilian federal government based on independent experts reports obtained by us and the ANP according to a valuation procedure as required by Law No. 12,276.

*Basic Terms*

*Purpose.* Under the Assignment Agreement, we paid an initial contract price for the right to conduct activities of exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. Although the Assignment Agreement grants certain rights to us that are similar to those of a concession, the Assignment Agreement is a specific regime for exploration and production, not a concession under Brazilian law.

*Area Covered.* The Assignment Agreement covers six firm blocks plus one contingent block, located in the pre-salt areas and identified in the Assignment Agreement. These blocks are located in the Santos Basin and have expected geological characteristics similar to the discoveries made elsewhere in the pre-salt area.

*Supervision and Inspection.* The ANP has regulatory authority and inspection rights over our activities in the areas subject to the Assignment Agreement, as well as over our compliance with the Assignment Agreement.

*Costs and Risks.* All our exploration, development and production activities under the Assignment Agreement will be conducted at our expense and at our risk.

*Price*

The initial contract price for our rights under the Assignment Agreement was R\$74,807,616,407, which was equivalent to U.S.\$42,533,327,500 as of September 1, 2010. As provided by Law No. 12,276, the contract price was determined by negotiation between us and the Brazilian federal government, based on the reports of independent experts obtained by us and by the ANP, which took into consideration a number of factors, including market conditions, current oil prices and industry costs.

We have used part of the proceeds of our sale of shares in the global offering for the payment of the initial contract price, including the use of LFTs we received from the Brazilian federal government in the global offering. The LFTs were valued at the same price at which they were valued for purposes of the global offering.

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The Assignment Agreement sets forth the initial prices and volumes for each block, as follows:

	INITIAL EVALUATIONS		
	Volume (million of boe)	Price (U.S.\$/boe)	Value (U.S.\$)
<b>Block 1</b>			
Florim	467	9.0094	4,207,389,800
<b>Block 2</b>			
Franco	3,058	9.0400	27,644,320,000
<b>Block 3</b>			
Guará South	319	7.9427	2,533,721,300
<b>Block 4</b>			
Surrounding Iara	600	5.8157	3,489,420,000
<b>Block 5</b>			
Tupi South	128	7.8531	1,005,196,800
<b>Block 6</b>			
Tupi Northeast	428	8.5357	3,653,279,600
<b>Block 7</b> (contingent block)			
Peroba	—	—	—
<b>Initial Contract Price of the Assignment Agreement</b>			<b>42,533,327,500</b>

*Duration*

The term of the Assignment Agreement is 40 years, which may be extended for an additional five years, upon our request, in cases of (i) force majeure, (ii) delay in obtaining applicable environmental licenses, provided that such delay is attributable only to the relevant environmental authority, (iii) suspension of the activities by determination of the ANP, or (iv) changes in the geological conditions forecast for each area. The extension will only apply to areas in which the ANP identifies the occurrence of one of the events specified above. The ANP will take into account the period of time of the delay occurred to determine the length of the extension, subject to the five-year limit indicated above. In addition, the duration of the Assignment Agreement is subject to the revision process.

### *Contingent Area*

We may request that the Brazilian federal government grant us the right to perform the activities set forth in the mandatory exploration program in the contingent block within four years from the date of the Assignment Agreement, and provided that it is proved, based on oil and gas industry best practices, that the total volume recoverable in the other blocks is less than the maximum volume initially provided by the Assignment Agreement.

The activities set forth in the mandatory exploration program for the contingent block must be performed within the term of the exploration phase. At any time, in case we or the Brazilian federal government identify the possibility of producing the maximum volume initially provided for in the Assignment Agreement in the other blocks, we will be required to return the contingent block to the Brazilian federal government immediately.

### *Revision*

The Assignment Agreement is subject to a revision process. We will notify the Brazilian federal government and the ANP ten months before the date expected for the declaration of commerciality of each area covered by the agreement, in order to initiate the revision process, which will begin immediately after the declaration of commerciality of each field in each of the blocks. The revision process will be concluded when we issue our last declaration of commerciality, based on each area's revised prices and volumes, for all the areas subject to the Assignment Agreement. The contingent area will also be subject to the revision process.

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The conclusion of the revision process may result in the renegotiation of the contract price, the maximum production volume of five billion barrels of oil equivalent, the duration, and the minimum levels of goods and services to be acquired from Brazilian providers.

If the revised contract price is higher than the initial contract price, we may agree with the Brazilian federal government on one or more of the following payment options: (i) a payment to be made by us, in cash or LFTs, to the Brazilian federal government in an amount equal to the difference between the revised contract price (resulting from the revision process) and the initial contract price; or (ii) a reduction in the maximum production volume of five billion barrels of oil equivalent, where we may agree to return one or more of the areas covered by the Assignment Agreement. If the revised contract price is lower than the initial contract price, then the Brazilian federal government will pay us in cash, LFTs, securities issued by us or through other means agreed between us, the difference between the revised contract price and the initial contract price. In either case, the difference between the revised contract price and the initial contract price in U.S. dollars will be converted into Brazilian *reais*, based on the average PTAX exchange rate for the purchase of U.S. dollars published by the Central Bank of Brazil for the 30 days preceding the revision of each area and will be adjusted by the interest rate of the Brazilian Special Clearance and Custody System (*Sistema Especial de Liquidação e Custódia*), or the SELIC rate, until the payment date. Payments must be made within three years of the completion of the revision process.

The revision process will be based on reports of independent experts to be engaged by us and by the ANP. The following factors will be considered in the revision process: Reference Date: the date of the reports obtained by us and the ANP for purposes of negotiating the initial contract price;

- Discount Rate: a discount rate of 8.83% per year;
- Oil Reference Price: will be equal to the average trading price of the month preceding the revision date (Crude Light West Texas Intermediate — WTI), in U.S.\$/barrel, as published by the New York Mercantile Exchange, the NYMEX, under the code “CL,” for the eighteenth futures contract in terms of maturity, minus the differential in relation to Brent crude oil. The Brent crude oil differential (the price of WTI minus the Brent price) shall be calculated using yearly averages of monthly projections as specified in the most recently published reports of the Pira Energy Group (available on their website for a fee) for the year following the revision, or, if not available, a comparable forecast published by an international entity renowned for its technical competence in the oil and natural gas industry. For each area under the Assignment Agreement, the calculation of the differential of the price of barrel of oil equivalent applicable to each area in relation to Brent crude oil shall be based on the most recent fluid characterization data available as of the revision date, and shall be conducted in accordance with the methodology specified in the ANP Ordinance No. 206/2000.
- Natural Gas Reference Price in U.S.\$/MMBtu: the natural gas reference price equals the price in the reference market (PMR) minus installments in connection with transportation fees (TTr), processing fees (TP), transfer fees (TT) and sales expenses (DC), according to the following formula:  $PRGN = PMR - (TTr + TP + TT + DC)$ , where:

- The price in the reference market (PMR) in U.S./MMBtu is the average sale price of domestic natural gas in the twelve months preceding the revision date, weighed per volume, consistent with our practices of firm commitments to the non-thermoelectric market in the states of Rio de Janeiro and São Paulo.
- Transportation fees (TTr) in U.S./MMBtu are contractual fees of gas pipelines used to transport natural gas between our processing plants and the delivery points, as follows:  $TTr = \sum TTr(n)$ , where TTr (n) equals the transportation fees of gas pipeline n.



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- The processing fees (TP) in U.S.\$/MMBtu are based on the cost of processing pre-salt natural gas, in our Cabiúnas terminal in Macaé, State of Rio de Janeiro, taking into account the revenues from the commercialization of liquid hydrocarbons which will result from the processing of natural gas.
- The transfer fees (TT) in U.S.\$/MMBtu are based on the cost of transferring natural gas from the pre-salt areas from our production units to the Cabiúnas terminal.
- Sales Expenses (DC) in U.S.\$/MMBtu correspond to the costs incurred in the commercialization of natural gas, which include, among others, the preparation and management of natural gas commercialization contracts, logistics costs of supplying natural gas and invoicing costs.
- Calculations of the processing and transfer fees will be based on audited information we have available for equivalent projects involving processing and transfer of pre-salt natural gas. Calculations of sales expenses will be based on audited information we have available regarding natural gas commercialization.
- Tax: Applicable taxes will be the Brazilian taxes applicable to fields under the Assignment Agreement, in force at the revision period;
- Cost:
  - For operations between the date of the execution of the Assignment Agreement and the revision date, the cost shall be the effective cost incurred by us, in U.S.\$, separately for each area under the Assignment Agreement, provided they have been audited and are consistent with common market practices.
  - Investments and operational costs, and additional future costs will be estimated according to best practices in the oil industry, taking into consideration the operational environment, and based on the market prices practiced for each good or service at the revision date.
  - Lease and rent: in case lease and rent are applicable, they will be considered according to best practices in the oil industry, for production assets including, but not limited to, production units and underwater equipment. Lease and rent payments will be estimated based on daily lease rates of recent lease or rental contracts of Stationary Production Units that have an equivalent market value (CAPEX). Any taxes due pursuant to the remittance of lease and rent payments will be added to the lease and rent payments.
  - Investment costs, operating costs and additional expenses will be calculated in U.S. dollars; and
- Exchange Rate: the exchange rate to be applied in the conversions from U.S. dollars to Brazilian *reais* will be the average PTAX exchange rate for the purchase of U.S. dollars (calculated by the Brazilian Central Bank) for the 30 days immediately preceding the payment.



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*Phases*

Our performance under the Assignment Agreement is divided into two phases:

- **Exploration phase.** This phase comprises the appraisal for purposes of determining the commerciality of any discoveries of oil, natural gas and other fluid hydrocarbons. The exploration phase began as of the date of the execution of the Assignment Agreement and will end upon the declaration of commerciality of each respective reservoir discovered in each area covered by the Assignment Agreement. We will have four years, which may be extended for an additional two-year period, to comply with the mandatory working program and other ANP-approved activities as set forth in the Assignment Agreement. If we discover oil and decide to appraise such discovery, we must issue a notice of discovery to the ANP. Upon completion of the mandatory working program in each block, we may notify the ANP in writing that we are ending the exploration phase by issuing a declaration of commerciality of each reservoir discovered within a given block or that there have been no discoveries which would justify the development of a given block.
- **Production Phase.** The production phase begins as of the date of delivery of the declaration of commerciality by us to the ANP, and it lasts until the termination of the Assignment Agreement. It comprises a development period, during which we will carry out activities pursuant to a development plan approved by the ANP. Following the development period, we may start production pursuant to a notification to the ANP.

*Mandatory Exploration Program*

During the exploration phase, we are required to perform a mandatory working program, as specified in an annex to the Assignment Agreement. We may perform other activities outside the scope of the mandatory working program, provided that such activities are approved by the ANP.

The ANP will impose fines on us for delays in the performance of the mandatory exploration program. If the delay is less than 24 months, the fine will correspond to the amount of such non-performed activities, proportional to the number of outstanding days. If the delay is greater than 24 months, then the fine will be equal to twice the amount of the activities of the mandatory exploration program for the relevant block.

*Reallocation of Volumes*

The Brazilian federal government and we may negotiate the reallocation of the volume of oil and natural gas originally assigned for each block, observing the price per barrel of oil equivalent applicable to each area, in the following scenarios: (i) the relevant environmental authority does not grant a permanent license for the performance of oil and natural gas exploration and production activities in a certain block or field, or (ii) the production of the volume allotted for any block is not feasible under petroleum industry best practices due to the geological features of the reservoirs, observing the economic parameters established in the revision process (as discussed below).

Once reallocations are completed, the number of barrels of oil equivalent to be produced in the new block will equal the multiplication of (i) the number of barrels of oil equivalent that were reallocated from the original block to the new block and (ii) the value of the barrel of oil equivalent in the original block, to be divided by the value of the barrel of oil equivalent in the new block.

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If it is not possible to reallocate all of the volumes of oil and natural gas not produced by us, the reallocation procedure will be performed in part, and the Brazilian federal government will pay us the amount resulting from the multiplication of the volume not subject to the reallocation by the value of the barrel in the block to which the reallocation has been made. This dollar amount will be converted to *reais* using the average PTAX exchange rate for the purchase of U.S. dollars for the 30 days preceding the date of the reallocation process of such block, and adjusted by the SELIC rate during the period between the date of the reallocation process of such block and the date of payment by the Brazilian federal government.

If it is determined that it is not possible to reallocate any volumes of oil, natural gas and other hydrocarbons fluids as described above, the Brazilian federal government will reimburse us for an amount equivalent to total volume of barrels of oil equivalent that was not produced multiplied by the dollar price of barrel of oil equivalent applicable to the relevant block, converted in *reais* using the average PTAX exchange rate for the purchase of U.S. dollars for the 30 days preceding the date of the reallocation process, and adjusted by the SELIC rate from the date of the reallocation process of such block to the date of payment by the Brazilian federal government.

The manner and terms of payment of the reimbursement in either case will be negotiated by us and the Brazilian federal government. Payments will be made no later than three years after the conclusion of the reallocation process.

*Unitization*

A reservoir covered by a block assigned to us in the Assignment Agreement may extend to adjacent areas outside such block. In such case, we must notify the ANP immediately after identifying the extension and we will be prevented from performing the exploration and production activities within such block, until we have negotiated an unitization agreement with the third-party concessionaire or contractor under a different exploration and production regime who has rights over such adjacent areas. The ANP will inform such third-party that we should negotiate an "Unitization Agreement." If the adjacent area is not licensed, the Brazilian federal government shall indicate a representative to negotiate with us.

If the parties are unable to reach an agreement within a deadline established by the ANP, the agency will determine the terms and obligations related to such unitization, on the basis of an expert report, and will also notify us and the third-party or the Brazilian federal government representative, as applicable, of such determination. Until the unitization agreement is approved by the ANP, operations for the development and production of such reservoir must remain suspended, unless otherwise authorized by the ANP. Our refusal to execute the unitization agreement will imply the return to the Brazilian federal government of the area subject to the unitization process.

*Licenses, Authorizations and Permissions*

We are required to obtain all licenses, authorizations, permissions and rights required by applicable law, as determined by the relevant authorities or based on rights of third parties whether or not contemplated in the Assignment Agreement, that may be necessary to perform our operations under the Assignment Agreement.

*Environmental*

We are required to preserve the environment and protect the ecosystem in the area subject to the Assignment Agreement, to avoid damages and losses to the fauna, flora and natural resources, and we will be liable for all damages arising from our operations, including for any recovery measures in the case of damage to the environment.

**TABLE OF CONTENTS***Brazilian Content*

The Assignment Agreement requires us to acquire a minimum level of goods and services from Brazilian providers and to provide equal conditions for such providers to compete with foreign companies for the sale of goods and services. The minimum Brazilian content requirement is listed in the Assignment Agreement and specifies certain equipment, goods and services, as well as different levels of content requirement in accordance with the different phases and periods of the Assignment Agreement. The Brazilian content threshold is 37% for the exploration phase. For the development period, it is (i) 55% for the development periods beginning production by 2016, (ii) 58% for the development periods beginning production between 2017 and 2019, and (iii) 65% for the development periods beginning production as of 2020. Despite the minimum percentages set forth for each development period timeframes, the average global percentage of Brazilian content in the development period shall be at least 65%. If we fail to comply with the Brazilian content obligations, we may be subject to specific fines imposed by the ANP.

*Royalties and expenses with Research and Development*

Once we begin commercial production in each field, we will be required to pay monthly royalties in an amount equal to 10% of the oil and natural gas production. We are also required to invest 0.5% of our yearly gross revenues from oil, natural gas and other fluid hydrocarbons production under the Assignment Agreement in research and development activities related to energy and environmental issues being conducted in universities and national research and technical development institutions, public or private, previously registered with the ANP for this purpose.

*Miscellaneous Provisions*

- We shall not assign our rights under the Assignment Agreement.
- Any breach of the Assignment Agreement or of any regulations of the ANP caused by us may lead to administrative sanctions and fines to be imposed by the ANP, in accordance with applicable legislation and the terms of this Assignment Agreement, and respecting the due process of law.
- If our breach of the Assignment Agreement is considered by the ANP not to be significant, intentional, or a result of negligence, imprudence or recklessness, or it is proved that we worked diligently to curing such breach, the ANP may, instead of terminating the Assignment Agreement, apply the sanctions mentioned above.
- The Assignment Agreement shall terminate upon (i) the production of the maximum volume of barrels of oil equivalent as specified in the Assignment Agreement, (ii) the expiration of the term, or (iii) upon the request of the ANP, if we fail to observe the cure period established by the ANP in connection with the breach of an obligation that proves relevant for the continuation of operations in each block. Such cure period may not be less than 90 days, except in cases of extreme emergency.

- The Brazilian federal government and we will only be excused from the performance of the activities set forth in the Assignment Agreement in cases of force majeure, which includes, among others, delays in the obtaining an environmental license, provided that such delay is attributable only to the relevant environmental authority.
- The Assignment Agreement is subject to Brazilian law.



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- The Brazilian federal government and we will use our best efforts to settle any disputes amicably. If we are unable to do so, we may submit such dispute for arbitral review by the Brazilian Federal Attorney’s Office (Advocacia-Geral da União Federal), which may rely on independent experts to address technical matters, or initiate a legal proceeding at the Federal Court located in Brasília, Brazil.

For information concerning our other material contracts, see Item 4. “Information on the Company” and Item 5. “Operating and Financial Review and Prospects.”

**PifCo**

For information concerning PifCo’s material contracts, see Item 4. “Information on the Company” and Item 5. “Operating and Financial Review and Prospects.”

Statements contained in this annual report regarding the contents of any contract or other document are not necessarily complete, and, where the contract or other document is an exhibit to the annual report, each of these statements is qualified in all aspects by the provisions of the actual contract or other documents.

**Petrobras Exchange Controls**

There are no restrictions on ownership of the common or preferred shares by individuals or legal entities domiciled outside Brazil.

The right to convert dividend payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil may be subject to restrictions under foreign investment legislation, which generally requires, among other things, that the relevant investments be registered with the Central Bank of Brazil. If any restrictions are imposed on the remittance of foreign capital abroad, they could hinder or prevent *Companhia Brasileira de Liquidação e Custódia*, or CBLC, as custodian for the common and preferred shares represented by the ADSs, or registered holders who have exchanged ADSs for common shares or preferred shares, from converting dividends, distributions or the proceeds from any sale of such common shares or preferred shares, as the case may be, into U.S. dollars and remitting the U.S. dollars abroad.

Foreign investors may register their investment under Law No. 4,131 of September 3, 1962 or CMN Resolution No. 2,689. Registration under CMN Resolution No. 2,689 affords favorable tax treatment to foreign investors who are not resident in a tax haven, as defined by Brazilian tax laws. See “—Taxation Relating to Our ADSs and Common and Preferred Shares—Brazilian Tax Considerations.”

Under CMN Resolution No. 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with CMN Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Under CMN Resolution No. 2,689, a foreign investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment;
- appoint an authorized custodian in Brazil for its investments;
- register as a foreign investor with the CVM; and
- register its foreign investment with the Central Bank of Brazil.

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Securities and other financial assets held by CMN Resolution No. 2,689 investors must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank of Brazil or the CVM. In addition, any transfer of securities held under CMN Resolution No. 2,689 must be carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization or occurring upon the death of an investor by operation of law or will.

Holders of ADSs who have not registered their investment with the Central Bank of Brazil could be adversely affected by delays in, or refusals to grant, any required government approval for conversions of payments made in *reais* and remittances abroad of these converted amounts.

Annex III Regulations provide for the issuance of depositary receipts in foreign markets with respect to shares of Brazilian issuers. The depositary of the ADSs has obtained from the Central Bank of Brazil an electronic certificate of registration with respect to our existing ADR program. Pursuant to the registration, the custodian and the depositary will be able to convert dividends and other distributions with respect to the relevant shares represented by ADSs into foreign currency and to remit the proceeds outside Brazil. Following the closing of an international offering, the electronic certificate of registration will be amended by the depositary with respect to the ADSs sold in the international offering and will be maintained by the Brazilian custodian for the relevant shares on behalf of the depositary.

In the event that a holder of ADSs exchanges such ADSs for the underlying shares, the holder will be entitled to continue to rely on such electronic registration for five business days after the exchange. Thereafter, unless the relevant shares are held pursuant to Resolution No. 2,689 by a duly registered investor, or a holder of the relevant shares applies for and obtains a new certificate of registration from the Central Bank of Brazil, the holder may not be able to convert into foreign currency and to remit outside Brazil the proceeds from the disposition of, or distributions with respect to, the relevant shares, and the holder, if not registered under Resolution No. 2,689, will be subject to less favorable Brazilian tax treatment than a holder of ADSs. In addition, if the foreign investor resides in a “tax haven” jurisdiction, the investor will be also subject to less favorable tax treatment. See Item 3. “Key Information—Risk Factors—Risks Relating to Our Equity and Debt Securities” and “—Taxation Relating to Our ADSs and Common and Preferred Shares—Brazilian Tax Considerations.”

*PifCo*

There are:

- no governmental laws, decrees or regulations in Cayman Islands that restrict the export or import of capital, including dividend and other payments to holders of notes who are not residents of the Cayman Islands, provided that such holders are not resident in countries subject to certain sanctions by the United Nations or the European Union; and

- no limitations on the right of nonresident or foreign owners imposed by Cayman Island law or PifCo's Memorandum of Association to hold or vote PifCo's shares.

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**Taxation Relating to Our ADSs and Common and Preferred Shares**

The following summary contains a description of material Brazilian and U.S. federal income tax considerations that may be relevant to the purchase, ownership and disposition of preferred or common shares or ADSs by a holder. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than Brazil and the United States.

This summary is based upon the tax laws of Brazil and the United States as in effect on the date of this annual report, which are subject to change (possibly with retroactive effect). This summary is also based upon the representations of the depositary and on the assumption that the obligations in the deposit agreement and any related documents will be performed in accordance with their respective terms.

This description is not a comprehensive description of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules that are generally applicable to all taxpayers or to certain classes of investors or rules that investors are generally assumed to know. Prospective purchasers of common or preferred shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of common or preferred shares or ADSs.

There is no income tax treaty between the United States and Brazil. In recent years, the tax authorities of Brazil and the United States have held discussions that may culminate in such a treaty. We cannot predict, however, whether or when a treaty will enter into force or how it will affect the U.S. Holders of common or preferred shares or ADSs.

*Brazilian Tax Considerations*

*General*

The following discussion summarizes the material Brazilian tax consequences of the acquisition, ownership and disposition of preferred or common shares or ADSs, as the case may be, by a holder that is not deemed to be domiciled in Brazil for purposes of Brazilian taxation, also called a non-Brazilian holder.

Under Brazilian law, investors may invest in the preferred or common shares under Resolution No. 2,689 or under Law No. 4,131 of September 3, 1962. The rules of Resolution No. 2,689 allow foreign investors to invest in almost all instruments and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are met. In accordance with Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Pursuant to this rule, foreign investors must: (i) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (ii) complete the appropriate foreign investor registration form; (iii) register as a foreign investor with the CVM;

and (iv) register the foreign investment with the Central Bank of Brazil.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank of Brazil or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or organized over-the-counter markets licensed by the CVM.

**TABLE OF CONTENTS***Taxation of Dividends*

Dividends paid by us, including stock dividends and other dividends paid in property to the depositary in respect of the ADSs, or to a non-Brazilian holder in respect of the preferred or common shares, are currently not subject to withholding income tax in Brazil, to the extent that such amounts are related to profits generated as of January 1, 1996. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, depending on the year the profits were generated.

We must pay to our shareholders (including non-Brazilian holders of common or preferred shares or ADSs) interest on the amount of dividends payable to them, at the SELIC rate, from the end of each fiscal year through the date of effective payment of those dividends. These interest payments are considered as fixed-yield income and are subject to withholding income tax at varying rates depending on the length of period of interest accrual. The tax rate varies from 15%, in case of interest accrued for a period greater than 720 days, 17.5% in case of interest accrued for a period between 361 and 720 days, 20% in case of interest accrued for a period between 181 and 360 days, and to 22.5%, in case of interest accrued for a period up to 180 days. However, the withholding income tax is reduced to 15% in the case of a non-Brazilian holder of ADSs or common or preferred shares investing under Resolution No. 2,689 who is not resident or domiciled in a country or other jurisdiction that does not impose income tax or imposes it at a maximum income tax rate lower than 20% (a Low or Nil Tax Jurisdiction) or, based on the position of the Brazilian tax authorities, a country or other jurisdiction where the local legislation does not allow access to information related to the shareholding composition of legal entities, to their ownership or to the identity of the effective beneficiary of the income attributed to shareholders (the Non-Transparency Rule). See “—Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction.”

*Taxation on Interest on Shareholders' Equity*

Any payment of interest on shareholders' equity to holders of ADSs or preferred or common shares, whether or not they are Brazilian residents, is subject to Brazilian withholding income tax at the rate of 15% at the time we record such liability, whether or not the effective payment is made at that time. See “— Memorandum and Articles of Incorporation of Petrobras— Payment of Dividends and Interest on Shareholders' Equity.” In the case of non-Brazilian residents that are resident in a Low or Nil Tax Jurisdiction (including in the view of Brazilian authorities the jurisdictions to which the Non-Transparency Rule applies), the applicable withholding income tax rate is 25%. See “—Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction.” The payment of interest at the SELIC rate that is applicable to payments of dividends applies equally to payments of interest on shareholders' equity. The determination of whether or not we will make distributions in the form of interest on shareholders' equity or in the form of dividends is made by our board of directors at the time distributions are to be made. We cannot determine how our board of directors will make these determinations in connection with future distributions.

*Taxation of Gains*

For purposes of Brazilian taxation on capital gains, two types of non-Brazilian holders have to be considered: (i) non-Brazilian holders of ADSs, preferred shares or common shares that are not resident or domiciled in a Low or Nil Tax Jurisdiction, and that, in the case of preferred or common shares have registered before the Central Bank of Brazil and the CVM in accordance with Resolution No. 2,689; and (ii) any other non-Brazilian holder, including non-Brazilian holders who invest in Brazil not in accordance with Resolution No. 2,689 (including registration under Law No. 4,131 of 1962) and who are resident or domiciled in a Low or Nil Tax Jurisdiction. See “—Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction.”



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According to Law No. 10,833, dated December 29, 2003, capital gains realized on the disposition of assets located in Brazil by non-Brazilian holders, whether or not to other non-residents and whether made outside or within Brazil, may be subject to taxation in Brazil. With respect to the disposition of common or preferred shares, as they are assets located in Brazil, the non-Brazilian holder may be subject to income tax on any gains realized, following the rules described below, regardless of whether the transactions are conducted in Brazil or with a Brazilian resident. We understand the ADSs do not fall within the definition of assets located in Brazil for the purposes of this law, but there is still neither pronouncement from tax authorities nor judicial court rulings in this respect. Therefore, we are unable to predict whether such understanding will prevail in the courts of Brazil.

Although there are grounds to sustain otherwise, the deposit of preferred or common shares in exchange for ADSs may be subject to Brazilian taxation on capital gains if the acquisition cost of the preferred or common shares is lower than: (i) the average price per preferred or common share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit; or (ii) if no preferred or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred or common shares were sold in the 15 trading sessions immediately preceding such deposit. In such a case, the difference between the amount previously registered and the average price of the preferred or common shares calculated as above, will be considered a capital gain.

The difference between the acquisition cost and the average price of the preferred or common shares calculated as described above will be considered to be a capital gain realized that is subject to taxation as described below. There are grounds to sustain that such taxation is not applicable with respect to non-Brazilian holders registered under the rules of Resolution No. 2,689 and not resident or domiciled in a Low or Nil Tax Jurisdiction.

The withdrawal of ADSs in exchange for preferred or common shares should not be considered as giving rise to a capital gain subject to Brazilian income tax, provided that on receipt of the underlying preferred or common shares, the non-Brazilian holder complies with the registration procedure with the Central Bank of Brazil as described below in "Registered Capital."

Capital gains realized by a non-Brazilian holder on a sale or disposition of preferred or common shares carried out on a Brazilian stock exchange (which includes transactions carried out on the organized over-the-counter market) are:

- exempt from income tax when the non-Brazilian holder (i) has registered its investment in accordance with Resolution No. 2,689 and (ii) is not resident or domiciled in a Low or Nil Tax Jurisdiction; or
- in all other cases, including a case of capital gains realized by a non-Brazilian holder that is not registered in accordance with Resolution No. 2,689 and/or is resident or domiciled in a Low or Nil Tax Jurisdiction, subject to income tax at a 15% rate. In these cases, a withholding income tax at a rate of 0.005% of the sale value is levied on the transaction which can be

offset against the eventual income tax due on the capital gain.

Any capital gains realized on a disposition of preferred or common shares that is carried out outside the Brazilian stock exchange are subject to income tax at the rate of 15%, or 25% in case of gains realized by a non-Brazilian holder that is domiciled or resident in a Low or Nil Tax Jurisdiction or a jurisdiction to which the Non-Transparency Rule applies. In this last case, for the capital gains related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% will also apply and can be offset against the eventual income tax due on the capital gain.

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In the case of a redemption of preferred or common shares or ADSs or a capital reduction made by us, the positive difference between the amount received by the non-Brazilian holder and the acquisition cost of the preferred or common shares or ADSs redeemed or reduced is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore generally subject to income tax at the rate of 15% or 25%, as the case may be. See “—Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction.”

Any exercise of preemptive rights relating to the preferred or common shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of preferred or common shares.

No assurance can be made that the current preferential treatment of non-Brazilian holders of the ADSs and some non-Brazilian holders of the preferred or common shares under Resolution No. 2,689 will continue to apply in the future.

*Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction*

Law No. 9,779 of January 1, 1999 states that, except for limited prescribed circumstances, income derived from transactions by a person resident or domiciled in a Low or Nil Tax Jurisdiction will be subject to withholding income tax at the rate of 25%. A Low or Nil Tax Jurisdiction is generally considered to be a country or other jurisdiction which does not impose any income tax or which imposes such tax at a maximum rate lower than 20%. Under certain circumstances, the Non-Transparency Rule is also taken into account for determining whether a country or other jurisdiction is a Low or Nil Tax Jurisdiction. In addition, Law No. 11,727 of June 23, 2008 introduced the concept of a “privileged tax regime”, which is defined as a tax regime which (i) does not tax income or taxes it at a maximum rate lower than 20%; (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out a substantial economic activity in the country or other jurisdiction or (b) contingent on the non-exercise of a substantial economic activity in the country or other jurisdiction; or (iii) does not tax or that taxes foreign source income at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out. We believe that the best interpretation of Law No. 11,727/08 is that the new concept of a “privileged tax regime” will apply solely for purposes of the transfer pricing rules in export and import transactions, deductibility for Brazilian corporate income taxes and the thin capitalization rules and, would therefore generally not have an impact on the taxation of a non-Brazilian holder of preferred or common shares or ADSs, as discussed herein. However, we are unable to ascertain whether the privileged tax regime concept will also apply in the context of the rules applicable to Low or Nil Tax Jurisdictions, although the Brazilian tax authorities appear to agree with our position, in view of the provisions of the recently introduced Normative Ruling No. 1,037 of June 4, 2010.



**TABLE OF CONTENTS*****Taxation of Foreign Exchange Transactions (IOF/Exchange)***

Brazilian law imposes the IOF/Exchange on the conversion of reais into foreign currency and on the conversion of foreign currency into *reais*. Currently, for most foreign currency exchange transactions, the rate of IOF/Exchange is 0.38%. However, foreign exchange transactions related to inflows of funds to Brazil for investments made by foreign investors in the Brazilian financial and capital markets are generally subject to IOF/Exchange at a rate of 6%, except for foreign exchange transactions in connection with (i) investments in variable income carried out in the Brazilian stock, commodities and/or future exchanges (except for derivatives with predetermined income), (ii) acquisitions of stock of Brazilian publicly traded companies in a public offer, and (iii) subscriptions of stock of Brazilian publicly traded companies, which are subject to IOF/Exchange at a zero percent rate. Foreign exchange transactions related to outflows of proceeds from Brazil in connection with investments made by foreign investors in the Brazilian financial and capital markets are also subject to the IOF/Exchange tax at a zero percent rate. This zero percent rate applies to payments of dividends and interest on shareholders' equity received by foreign investors with respect to investments in the Brazilian financial and capital markets, such as investments made by a non-Brazilian holder as provided for in Resolution No. 2,689. The Brazilian Executive Branch may increase such rates at any time, up to 25% of the amount of the foreign exchange transaction, but not with retroactive effect.

***Taxation on Bonds and Securities Transactions (IOF/Bonds)***

Brazilian law imposes IOF/Bonds on transactions involving equity securities, bonds and other securities, including those carried out on a Brazilian stock exchange. The rate of IOF/Bonds applicable to transactions involving preferred or common shares is currently zero. However, the Brazilian government may increase such rate at any time up to 1.5% of the transaction amount per day, but the tax cannot be applied retroactively. The deposit of preferred or common shares for issuance of ADSs is subject to IOF/Bonds at a rate of 1.5%.

***Other Brazilian Taxes***

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred or common shares or ADSs by a non-Brazilian holder, except for gift and inheritance taxes which are levied by certain states of Brazil on gifts made or inheritances bestowed by a non-Brazilian holder to individuals or entities resident or domiciled within such states in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred or common shares or ADSs.

***Registered Capital***

The amount of an investment in preferred or common shares held by a non-Brazilian holder who obtains registration under Resolution No. 2,689, or by the depositary representing such holder, is eligible for registration with the Central Bank of Brazil; such registration (the amount so registered being called registered capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of

distributions on, and amounts realized with respect to dispositions of, such preferred or common shares. The registered capital for each preferred or common share purchased as part of the international offering or purchased in Brazil after the date hereof, and deposited with the depository will be equal to its purchase price (in U.S. dollars). The registered capital for a preferred or common share that is withdrawn upon surrender of an ADS will be the U.S. dollar equivalent of:

- (a) the average price of a preferred or common share on the Brazilian stock exchange on which the greatest number of such shares were sold on the day of withdrawal; or
- (b) if no preferred or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred or common shares were sold in the 15 trading sessions immediately preceding such withdrawal.

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The U.S. dollar value of the average price of preferred or common shares is determined on the basis of the average of the U.S. dollar/*real* commercial market rates quoted by the Central Bank of Brazil information system on that date (or, if the average price of preferred or common shares is determined under the second option above, the average of such average quoted rates on the same 15 dates used to determine the average price of preferred or common shares).

A non-Brazilian holder of preferred or common shares may experience delays in effecting such registration, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder. See Item 3. “Key Information—Risk Factors—Risks Relating to Our Equity and Debt Securities.”

**U.S. Federal Income Tax Considerations**

This summary describes the principal U.S. federal income tax consequences of the ownership and disposition of common or preferred shares or ADSs, based on the U.S. Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings by the U.S. Internal Revenue Service (IRS), and court decisions, all as in effect as of the date hereof, and all of which are subject to change or differing interpretations, possibly with retroactive effect. This summary does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision to hold or dispose of common or preferred shares or ADSs. This summary applies only to purchasers of common or preferred shares or ADSs who hold the common or preferred shares or ADSs as “capital assets” (generally, property held for investment), and does not apply to special classes of holders such as dealers or traders in securities or currencies, holders whose functional currency is not the U.S. dollar, holders of 10% or more of our shares (taking into account shares held directly or through depository arrangements), tax-exempt organizations, partnerships or partners therein, financial institutions, holders liable for the alternative minimum tax, securities traders who elect to account for their investment in common or preferred shares or ADSs on a mark-to-market basis, persons that enter into a constructive sale transaction with respect to common or preferred shares or ADSs, and persons holding common or preferred shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction.

**EACH HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR CONCERNING THE OVERALL TAX CONSEQUENCES IN ITS PARTICULAR CIRCUMSTANCES, INCLUDING THE CONSEQUENCES UNDER LAWS OTHER THAN U.S. FEDERAL INCOME TAX LAWS, OF AN INVESTMENT IN COMMON OR PREFERRED SHARES OR ADSs.**

Shares of our preferred stock will be treated as equity for U.S. federal income tax purposes. In general, a holder of an ADS will be treated as the holder of the shares of common or preferred stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange ADSs for the shares of common or preferred stock represented by that ADS.

In this discussion, references to ADSs refer to ADSs with respect to both common and preferred shares, and references to a “U.S. Holder” are to a holder of an ADS that is:

- an individual who is a citizen or resident of the United States;
- a corporation organized under the laws of the United States, any state thereof, or the District of Columbia; or
- otherwise subject to U.S. federal income taxation on a net basis with respect to the shares or the ADS.



**TABLE OF CONTENTS***Taxation of Distributions*

A U.S. Holder will recognize ordinary dividend income for U.S. federal income tax purposes in an amount equal to the amount of any cash and the value of any property we distribute as a dividend to the extent that such distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, when such distribution is received by the custodian, or by the U.S. Holder in the case of a holder of common or preferred shares. The amount of any distribution will include distributions characterized as interest on shareholders' equity and the amount of Brazilian tax withheld on the amount distributed, and the amount of a distribution paid in *reais* will be measured by reference to the exchange rate for converting *reais* into U.S. dollars in effect on the date the distribution is received by the custodian, or by a U.S. Holder in the case of a holder of common or preferred shares. If the custodian, or U.S. Holder in the case of a holder of common or preferred shares, does not convert such *reais* into U.S. dollars on the date it receives them, it is possible that the U.S. Holder will recognize foreign currency loss or gain, which would be U.S. source ordinary loss or gain, when the *reais* are converted into U.S. dollars. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations under the Code.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by a non-corporate U.S. Holder prior to January 1, 2013, with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a "passive foreign investment company" as defined for U.S. federal income tax purposes (a PFIC). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on the Company's audited financial statements and relevant market and shareholder data, the Company believes that it should not be treated as a PFIC for U.S. federal income tax purposes with respect to its 2010 or 2011 taxable year. In addition, based on the Company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its 2011 taxable year. Based on existing guidance, it is not clear whether dividends received with respect to the shares will be treated as qualified dividends, because the shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to treat dividends as qualified for tax reporting purposes. Because such procedures have not yet been issued, it is not clear whether the Company would be able to comply with these procedures. U.S. Holders of our ADSs should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their particular circumstances.

Distributions out of earnings and profits with respect to the shares or ADSs generally will be treated as dividend income from sources outside of the United States and generally will be

treated as “passive category income” for U.S. foreign tax credit purposes. Subject to certain limitations, Brazilian income tax withheld in connection with any distribution with respect to the shares or ADSs may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, or, at the U.S. Holder’s election, such Brazilian withholding tax may be taken as a deduction against taxable income. A U.S. foreign tax credit may not be allowed for Brazilian withholding tax imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. Holder’s expected economic profit is insubstantial. U.S. Holders should consult their own tax advisors regarding the availability of the U.S. foreign tax credit, including the translation of *reais* into U.S. dollar for these purposes, in light of their particular circumstances.

Holders of ADSs that are foreign corporations or nonresident alien individuals (non-U.S. Holders) generally will not be subject to U.S. federal income tax, including withholding tax, on distributions with respect to shares or ADSs that are treated as dividend income for U.S. federal income tax purposes unless such dividends are effectively connected with the conduct by the holder of a trade or business in the United States.

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Holders of shares and ADSs should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of the considerations discussed above and their own particular circumstances.

*Taxation of Capital Gains*

Upon the sale or other disposition of a share or an ADS, a U.S. Holder will generally recognize U.S. source capital gain or loss for U.S. federal income tax purposes, equal to the difference between the amount realized on the disposition and the U.S. Holder's tax basis in such share or ADS. Any gain or loss will be long-term capital gain or loss if the shares or ADSs have been held for more than one year. Non-corporate U.S. Holders of shares or ADSs may be eligible for a preferential rate of U.S. federal income tax in respect of long-term capital gains. Capital losses may be deducted from taxable income, subject to certain limitations. For U.S. federal income tax purposes, such disposition would not result in foreign source-income to a U.S. Holder. As a result, a U.S. Holder may not be able to use the foreign tax credit associated with any Brazilian income taxes imposed on such gains, unless such holder can use the credit against U.S. tax due on other foreign-source income. U.S. Holders should consult their own tax advisers regarding the availability of the U.S. foreign tax credit, including the translation of *reais* into U.S. dollar for purposes of their investment in our shares or ADSs.

A non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax on gain realized on the sale or other disposition of a share or an ADS, unless:

- such gain is effectively connected with the conduct by the holder of a trade or business in the United States; or
- such holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

*Information Reporting and Backup Withholding*

The payment of dividends on, and proceeds from the sale or other disposition of, the ADSs or common or preferred shares to a U.S. Holder within the United States (or through certain U.S. related financial intermediaries) will generally be subject to information reporting unless the U.S. Holder is a corporation or other exempt recipient. Such dividends and proceeds may be subject to backup withholding unless the U.S. Holder (i) is an exempt recipient, or (ii) timely provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Backup withholding is not an additional tax. The amount of any backup withholding collected from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, so long as the required information is properly furnished to the IRS.

U.S. Holders should consult their own tax advisers about any additional reporting requirements that may arise as a result of their purchasing, holding or disposing of our ADSs, or common or preferred shares.

A non-U.S. Holder generally will be exempt from these information reporting requirements and backup withholding tax, but may be required to comply with certain certification and identification procedures in order to establish its eligibility for such exemption.

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**Taxation Relating to PifCo's Notes**

The following summary contains a description of material Cayman Islands, Brazilian and U.S. federal income tax considerations that may be relevant to the purchase, ownership, and disposition of PifCo's debt securities. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the Cayman Islands, Brazil and the United States.

This summary is based on the tax laws of the Cayman Islands, Brazil and the United States as in effect on the date of this annual report, which are subject to change (possibly with retroactive effect). This description is not a comprehensive description of all tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules generally applicable to all taxpayers or to certain classes of investors or that investors are generally assumed to know. Prospective purchasers of notes should consult their own tax advisors regarding the tax consequences of the acquisition, ownership and disposition of the notes.

There is no tax treaty to avoid double taxation between the Cayman Islands and the United States, the Cayman Islands and Brazil or Brazil and the United States. In recent years, the tax authorities of Brazil and the United States have held discussions that may culminate in such a treaty. We cannot predict, however, whether or when a treaty will enter into force or how it will affect the U.S. Holders of notes.

***Cayman Islands Taxation***

Under current law, PifCo is not subject to income, capital, transfer, sales or other taxes in the Cayman Islands.

PifCo was incorporated as an exempted company under the laws of the Cayman Islands on September 24, 1997. PifCo has received an Undertaking as to Tax Concessions pursuant to Section 6 of the Tax Concessions Law (1999 Revision) which provides that, for a period of twenty years from the date thereof no law hereafter enacted in the Cayman Islands imposing any tax or duty to be levied on income or on capital assets, gains or appreciation will apply to any of PifCo's income or property and which is deemed to provide that no tax is to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable or in respect of shares, debentures or other of PifCo's obligations, or by way of withholding of any part of a payment of principal due under a debenture or other of PifCo's obligations.

No Cayman Islands withholding tax applies to distributions by PifCo in respect of the notes. Noteholders are not subject to any income, capital, transfer, sales or other taxes in the Cayman Islands in respect of their purchase, holding or disposition of the notes.

Noteholders whose notes are brought into or issued in the Cayman Islands will be liable to pay stamp duty of up to C.I.\$250 on each note, unless stamp duty of C.I.\$500 has been paid in respect of the entire issue of notes (in which case no further stamp duty in respect of such

notes is payable).

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*Brazilian Taxation*

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the notes by a non-resident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible consequences relating to an investment in the notes.

**INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES OR COUPONS.**

Generally, an individual, entity, trust or organization domiciled for tax purposes outside Brazil, or a “Non-resident,” is taxed in Brazil only when income is derived from Brazilian sources or when the transaction giving rise to such earnings involves assets in Brazil. Therefore, any gains or interest (including original issue discount), fees, commissions, expenses and any other income paid by PifCo in respect of the notes issued by it in favor of Non-resident holders are not subject to Brazilian taxes.

Interest, fees, commissions, expenses and any other income payable by Petrobras as guarantor resident in Brazil to a Non-resident are generally subject to income tax withheld at source. The rate of withholding income tax in respect of interest payments is generally 15%, unless (i) the holder of the notes is resident or domiciled in a “tax haven jurisdiction” (that is deemed to be a country or jurisdiction which does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20% or where the local legislation imposes restrictions on disclosing the identities of shareholders, the ownership of investments, or the ultimate beneficiary of earnings distributed to the Non-resident— “tax haven jurisdiction”), in which case the applicable rate is 25% or (ii) such other lower rate as provided for in an applicable tax treaty between Brazil and another country where the beneficiary is domiciled. In case the guarantor is required to assume the obligation to pay the principal amount of the notes, Brazilian tax authorities could attempt to impose withholding income tax at the rate of up to 25% as described above. Although Brazilian legislation does not provide a specific tax rule for such cases and there is no official position from tax authorities or precedents from the Brazilian court regarding the matter, we believe that the remittance of funds by Petrobras as a guarantor for the payment of the principal amount of the notes will not be subject to income tax in Brazil, because the mere fact that the guarantor is making the payment does not convert the nature of the principal due under the notes into income of the beneficiary.

If the payments with respect to the notes are made by Petrobras, as provided for in the guaranties, the Non-resident holders will be indemnified so that, after payment of all applicable Brazilian taxes collectable by withholding, deduction or otherwise, with respect to principal, interest and additional amounts payable with respect to the notes (plus any interest and penalties thereon), a Non-resident holder will receive an amount equal to the amount that

such Non-resident holder would have received as if no such Brazilian taxes (plus interest and penalties thereon) were withheld. The Brazilian obligor will, subject to certain exceptions, pay additional amounts in respect of such withholding or deduction so that the Non-resident holder receives the net amount due.

Gains on the sale or other disposition of the notes made outside of Brazil by a Non-resident, other than a branch or a subsidiary of Brazilian resident, to another Non-resident are not subject to Brazilian income tax.

In addition, payments made from Brazil are subject to the tax on foreign exchange transactions (*IOF/Câmbio*), which is levied on the conversion of Brazilian currency into foreign currency and on the conversion of foreign currency into Brazilian currency at a general rate of 0.38%. Other IOF/Câmbio rates may apply to specific transactions. In any case, the Brazilian federal government may increase, at any time, such rate up to 25% but only with respect to future transactions.



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Generally, there are no inheritance, gift, succession, stamp, or other similar taxes in Brazil with respect to the ownership, transfer, assignment or any other disposition of the notes by a Non-resident, except for gift and inheritance taxes imposed by some Brazilian states on gifts or bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states.

*U.S. Federal Income Taxation*

The following summary sets forth certain United States federal income tax considerations that may be relevant to a holder of a note that is, for U.S. federal income purposes, a citizen or resident of the United States or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the notes (a "U.S. Holder"). This summary is based upon the Code, its legislative history, existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings by the IRS, and court decisions, all as in effect as of the date hereof, all of which are subject to change or differing interpretations, possibly with retroactive effect. This summary does not purport to discuss all aspects of the United States federal income taxation which may be relevant to special classes of investors, such as financial institutions, insurance companies, dealers or traders in securities or currencies, securities traders who elect to account for their investment in notes on a mark-to-market basis, regulated investment companies, tax-exempt organizations, partnerships or partners therein, holders that are subject to the alternative minimum tax, certain short-term holders of notes, persons that hedge their exposure in the notes or hold notes as part of a position in a "straddle" or as part of a hedging transaction or "conversion transaction" for U.S. federal tax purposes, persons that enter into a "constructive sale" transaction with respect to the notes or U.S. Holder whose functional currency is not the U.S. dollar. U.S. Holders should be aware that the U.S. federal income tax consequences of holding the notes may be materially different for investors described in the prior sentence.

In addition, this summary does not discuss any foreign, state or local tax considerations. This summary only applies to original purchasers of notes who have purchased notes at the original issue price and hold the notes as "capital assets" (generally, property held for investment).

**EACH INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR CONCERNING THE OVERALL TAX CONSEQUENCES IN ITS PARTICULAR CIRCUMSTANCES, INCLUDING THE CONSEQUENCES UNDER LAWS OTHER THAN U.S. FEDERAL INCOME TAX LAWS, OF AN INVESTMENT IN THE NOTES.**

*Payments of Interest*

Payment of "qualified stated interest," as defined below, on a note (including additional amounts, if any) generally will be taxable to a U.S. holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. holder's applicable method of accounting for U.S. federal tax purposes. In general, if the "issue price" of a note is less than the "stated redemption price at maturity" by more than *de minimis* amount, such note will be considered to have "original issue discount," or OID. The "issue price" of a note is the first price

at which a substantial amount of such notes are sold to investors. The stated redemption price at maturity of a note generally includes all payments other than payments of qualified stated interest.

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In general, each U.S. Holder of a note, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in gross income as ordinary interest income the sum of the “daily portions” of OID on the note, if any, for all days during the taxable year that the U.S. Holder owns the note. The daily portions of OID on a note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. In general, in the case of an initial holder, the amount of OID on a note allocable to each accrual period is determined by (i) multiplying the “adjusted issue price,” as defined below, of the note at the beginning of the accrual period by the yield to maturity of the note, and (ii) subtracting from that product the amount of qualified stated interest allocable to that accrual period. U.S. Holders should be aware that they generally must include OID in gross income as ordinary interest income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income. The “adjusted issue price” of a note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such note in all prior accrual periods. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of a note at a single fixed rate of interest, or subject to certain conditions, based on one or more interest indices.

Interest income, including OID, in respect of the notes will constitute foreign source income for U.S. federal income tax purposes and, with certain exceptions, will be treated separately, together with other items of “passive category income,” for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. The calculation of foreign tax credits, involves the application of complex rules that depend on a U.S. Holder’s particular circumstances. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits and the treatment of additional amounts.

***Sale or Disposition of Notes***

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange, retirement or other disposition of a note in an amount equal to the difference between the amount realized upon such sale, exchange, retirement or other disposition (other than amounts attributable to accrued qualified stated interest, which will be taxed as such) and such U.S. Holder’s adjusted tax basis in the note. A U.S. Holder’s adjusted tax basis in the note generally will equal the U.S. Holder’s cost for the note increased by any amounts included in gross income by such U.S. Holder as OID, if any, and reduced by any payments other than payments of qualified stated interest on that note. Gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other disposition of a note generally will be U.S. source gain or loss for U.S. federal income tax purposes unless it is attributable to an office or other fixed place of business outside the United States and certain other conditions are met. The gain or loss realized by a U.S. Holder will be capital gain or loss, and will be long-term capital gain or loss if the notes were held for more than one year. The net amount of long-term capital gain recognized by an individual holder before January 1, 2013 generally is subject to taxation at a maximum rate of 15%. Capital losses may be deducted from taxable income, subject to

certain limitations.

*Backup Withholding and Information Reporting*

A U.S. Holder may, under certain circumstances, be subject to “backup withholding” with respect to certain payments to that U.S. Holder, unless the holder (i) is an exempt recipient, and demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules generally will be creditable against the U.S. Holder’s U.S. federal income tax liability. While non-U.S. Holders generally are except from backup withholding, a non-U.S. Holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove entitlement to this exemption.

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U.S. Holders should consult their own tax advisors about any additional reporting requirements that may arise as a result of their purchasing, holding or disposing of the notes.

*Non-U.S. Holder*

A holder or beneficial owner of a note that is not a U.S. Holder (a “non-U.S. Holder”) generally will not be subject to U.S. federal income or withholding tax on interest received on the notes. In addition, a non-U.S. Holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale of notes unless such gain is effectively connected with the conduct by such holder of a trade or business in the United States or, in the case of gain realized by an individual non-U.S. Holder, the non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

**Documents on Display**

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and accordingly file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can obtain further information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect Petrobras’ reports and other information at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, on which Petrobras’ ADSs are listed. Our SEC filings are also available to the public from the SEC’s Web site at <http://www.sec.gov>. For further information on obtaining copies of Petrobras’ public filings at the New York Stock Exchange, you should call (212) 656-5060.

We also file financial statements and other periodic reports with the CVM.

**Item 11. Qualitative and Quantitative Disclosures about Market Risk**

**Petrobras**

*Risk Management*

We are exposed to a number of risks arising from our operations. Such risks include the possibility that changes in prices of oil and oil products, foreign currency exchange rates or interest rates may adversely affect the value of our financial assets, liabilities, future cash flows and earnings.

We are also exposed to the credit risk of customers and financial institutions, arising from our business operations and cash management. Such risks involve the possibility of the non-receipt of sales made and amounts invested, deposited or guaranteed by financial institutions.

We adopt the practice of integrated risk management according to which management focuses not on the individual risks of operations or business units, but takes a wider view of

the consolidated corporation, capturing possible natural hedges where available. For the management of market risk, financial structural actions are taken through the proper management of capital and indebtedness of the company rather than the use of derivative financial instruments.

**TABLE OF CONTENTS***Commodity Price Risk*

Our sales of crude oil and oil products are related to international prices, which exposes us to price fluctuations in international markets.

For the purposes of managing our exposure to price fluctuations, we avoid, whenever possible and reasonable, the use of derivatives for hedging systemic operations (namely, buying and selling oil and products in order to provide for our operational needs).

The derivatives transactions are intended to protect the expected results of the transactions carried out abroad. Our derivatives contracts provide economic hedges for anticipated crude oil and byproducts purchases and sales in the international markets, generally forecast to occur within a 30- to 360-day period. Our exposure on these contracts is limited to the difference between contract value and market value on the volumes hedged. See Note 31 to our audited consolidated financial statements for more information about our commodity derivative transactions.

The following table sets forth a sensitivity analysis demonstrating the net change in fair value of a 10% adverse change in the price of the underlying commodity as of December 31, 2011, which is a 10% increase in the price of the underlying commodity for options, futures and swaps.

<b>Outstanding as of December 2011</b>	<b>Petrobras</b>		
	<b>Quantity (mbbl)</b>	<b>Fair Value(1) (U.S.\$ million)</b>	<b>+10% Sensitivity (U.S.\$ million)</b>
<b>Options:</b>			
Buy contracts	6,728		
Sell contracts	(7,458)		
		(2)	(2)
<b>Futures:</b>			
Buy contracts	30,193		
Sell contracts	(36,410)		
		18	(121)
<b>Swaps:</b>			
Receive variable/pay fixed	275		
Receive fixed/pay variable	0		
		0	0

(1) Fair value represents an estimate of gain or loss that would be realized if contracts were settled at the balance sheet date.

**TABLE OF CONTENTS***Interest Rate and Exchange Rate Risk*

The table below provides summary information regarding our exposure to interest rate and exchange rate risk in our total debt portfolio for 2011 and 2010. Total debt portfolio includes long-term debt, capital leases, project financings, and current portions thereof, and short-term debt.

	<b>Total Debt Portfolio</b>	
	<b>2011</b>	<b>2010</b>
	(%)	
<b>Real-denominated:</b>		
Fixed rate	0.3	0.3
Floating rate	23.4	25.0
Sub-total	23.7	25.3
<b>U.S.dollar-denominated:(1)</b>		
Fixed rate	39.1	39.0
Floating rate (includes short-term debt)	31.0	33.5
Sub-total	70.1	72.5
<b>Other currencies:</b>		
Fixed rate	4.7	0.4
Floating rate	1.5	1.8
Sub-total	6.2	2.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Floating rate debt:</b>		
<i>Real</i> -denominated	23.4	25.0
Foreign currency-denominated	32.6	35.3
<b>Fixed rate debt:</b>		
<i>Real</i> -denominated	0.3	0.3
Foreign currency denominated	43.7	39.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
U.S. dollars(1)	70.1	72.5
Euro	3.0	0.0
GBP	1.3	0.0
Japanese Yen	1.9	2.2
Brazilian <i>reais</i>	23.7	25.3
<b>Total</b>	<b>100.00</b>	<b>100.0</b>

(1) Includes PifCo's 2.15% Japanese Yen Bonds due 2016, where payment of principal and interest has been fixed in U.S. dollars under the cross currency swap described below.

In general, our foreign currency floating rate debt is principally subject to fluctuations in LIBOR. Our floating rate debt denominated in *reais* is principally subject to fluctuations in the *Certificado de Depósito Interbancário* (Interbank Deposit Certificate, or CDI) and in the *Taxa de Juros de Longo Prazo* (Brazilian long-term interest rate, or TJLP), as fixed by the CMN.



We do not currently utilize derivative instruments to manage our exposure to interest rate fluctuation. We have been considering various forms of derivatives to reduce our exposure to interest rate fluctuations and may utilize these financial instruments in the future.

The exchange rate risk to which we are exposed is limited to the balance sheet and derives principally from the incidence of non-*real* denominated obligations in our debt portfolio. See Item 5. “Operating and Financial Review and Prospects—Inflation and Exchange Rate Variation.”

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The table below provides information about our total debt obligations as of December 31, 2011, which are sensitive to changes in interest rates and exchange rates. This table presents, by expected maturity dates and currency, the principal cash flows and related average interest rates of these obligations. Variable interest rates are based on the applicable reference rate, LIBOR, TJLP, IGP-M or CDI as of December 31, 2011.

	2012	2013	2014	2015	2016	2017-2041	Total	Fair Value as of December 31, 2011
<b>(U.S.\$ million, except for percentages)</b>								
<b>Debt in GBP:</b>								
Fixed rate debt	–	–	–	–	–	1,088	1,088	1,069
Average interest rate	–	–	–	–	–	6.3%	–	–
<b>Debt in Euro:</b>								
Fixed rate debt	–	–	–	–	–	2,397	2,397	2,371
Average interest rate	–	–	–	–	–	5.2%	–	–
Variable rate debt	9	9	9	7	–	–	34	32
Average interest rate	1.6%	1.7%	1.6%	1.7%	–	–	–	–
<b>Debt in Japanese Yen:</b>								
Fixed rate debt	263	77	–	–	–	–	341	343
Average interest rate	3.3%	1.7%	–	–	–	–	–	–
Variable rate debt	155	296	166	166	166	294	1,244	1,181
Average interest rate	0.9%	1.2%	1.0%	1.0%	1.1%	1.5%	–	–
<b>Debt in U.S. dollars:(1)</b>								
Fixed rate debt	238	724	530	112	4,470	25,975	32,048	37,854
Average interest rate	5.1%	8.1%	7.2%	4.1%	4.6%	6.9%	–	–
Variable rate debt	6,714	464	2,051	3,864	2,785	9,576	25,454	24,881
Average interest rate	2.5%	1.5%	2.4%	3.0%	3.3%	4.2%	–	–
<b>Debt in Brazilian reais:</b>								
Fixed rate debt	22	33	33	33	33	115	270	248
Average interest rate	4.6%	4.5%	4.5%	4.5%	4.5%	4.5%	–	–
Variable rate debt	1,832	833	1,697	1,170	5,813	7,828	19,173	19,332
Average interest rate	10.2%	9.7%	10.3%	9.9%	10.8%	9.9%	–	–
<b>Total debt obligations.</b>	<b>9,232</b>	<b>2,436</b>	<b>4,487</b>	<b>5,353</b>	<b>13,267</b>	<b>47,273</b>	<b>82,048</b>	<b>87,311</b>

(1) Includes PifCo's 2.15% Japanese Yen Bonds due 2016, where payment of principal and interest has been fixed in U.S. dollars under the cross currency swap described below.

Our foreign currency risk management strategy includes the use of derivative instruments to protect against foreign exchange rate volatility, which may impact the value of certain of our obligations.

## **PifCo**

PifCo faces market risks in the normal course of business, including interest rate risk, risk related to changes in oil and oil products prices, and risk related to changes in foreign exchange rates. PifCo makes limited use of derivatives to manage its exposure to these market risks.

### *Commodity Price Risk*

In the past, PifCo entered into derivative transactions in order to mitigate the impact of fluctuations in the price of crude oil and byproducts. PifCo used futures contracts, swaps and options to protect its margins in anticipation of purchases and sales in the international markets. PifCo does not hold derivative instruments for trading purposes as at December 31, 2011.

**TABLE OF CONTENTS***Interest Rate and Exchange Rate Risk*

PifCo is exposed to market risks through eventual variations in interest rates or exchange rates, which may negatively affect the value of the company's financial assets and liabilities. PifCo follows the risk management policies of Petrobras.

The table below sets forth the amounts and related weighted average annual interest rates by expected maturity dates for PifCo's long-term debt obligations at December 31, 2011:

<b>Debt Obligations</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018-2042</b>	<b>Total</b>	<b>Fair Value as of December 31, 2011</b>
<b>(U.S.\$ million, except for percentages)</b>								
<b>Debt in GBP:</b>								
Fixed rate debt	–	–	–	–	–	1,088	1,088	1,069
Average interest rate	–	–	–	–	–	6.3%	–	–
<b>Debt in Euro:</b>								
Fixed rate debt	–	–	–	–	–	2,397	2,397	2,371
Average interest rate	–	–	–	–	–	5.2%	–	–
<b>Debt in U.S. Dollars:(1)</b>								
Fixed rate debt	374	398	–	3,854	–	12,473	17,099	19,465
Average interest rate	9.1%	7.8%	–	4.2%	–	6.5%	–	–
Variable rate debt	103	109	50	14	70	–	346	341
Average interest rate	2.0%	1.9%	2.6%	2.9%	3.1%	–	–	–
<b>Total debt obligations</b>	<b>477</b>	<b>507</b>	<b>50</b>	<b>3,868</b>	<b>70</b>	<b>15,958</b>	<b>20,930</b>	<b>23,245</b>

(1) Includes PifCo's 2.15% Japanese Yen Bonds due 2016, where payment of principal and interest has been fixed in U.S. dollars under the cross currency swap described below.

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b>Total Debt Portfolio</b>		
<b>Debt in GBP:</b>		
Fixed rate debt	4.6%	0.0%
Floating rate debt	0.0%	0.0%
<b>Debt in Euro:</b>		
Fixed rate debt	10.2%	0.0%
Floating rate debt	0.0%	0.0%
<b>Debt in U.S. Dollars:(1)</b>		
Fixed rate debt	72.8%	78.8%

Floating rate debt	12.4%	21.2%
<b>Total debt portfolio</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Includes PifCo's 2.15% Japanese Yen Bonds due 2016, where payment of principal and interest has been fixed in U.S. dollars under the cross currency swap described below.

PifCo's long-term financings in U.S. dollars are derived mainly from notes and commercial banks, including trade lines of credit. The interest rates for PifCo's long-term banking financings range from 1.57% to 3.38% at December 31, 2011.

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The table below sets forth the value of PifCo's cross currency swap, in which it swaps principal and interest payments on Yen denominated funding into U.S. dollar amounts.

<b>Cross Currency Swaps Maturing in 2016</b>	<b>Interest Rate (%)</b>	<b>Notional Amount (Japanese Yen million)</b>	<b>Fair Value</b>	
			<b>December 31, 2011</b>	<b>December 31, 2010</b>
Fixed to fixed		35,000	130	115
Average pay rate (U.S.\$)	5.69			
Average receive rate (Japanese Yen)	2.15			
<b>Total cross currency swaps</b>		<b>35,000</b>	<b>130</b>	<b>115</b>

**Item 12. Description of Securities other than Equity Securities****American Depositary Shares**

Effective January 3, 2012, The Bank of New York Mellon succeeded JPMorgan Chase Bank, N.A. as the Depositary for both of our common and preferred ADSs. In its capacity as Depositary, The Bank of New York Mellon will register and deliver the ADSs, each of which represents (i) two shares (or a right to receive two shares) deposited with the principal São Paulo office of Itaú Unibanco S.A., as custodian for the Depositary, and (ii) any other securities, cash or other property which may be held by the Depositary. The Depositary's corporate trust office at which the ADSs will be administered is located at 101 Barclay Street, New York, New York 10286.

**Fees Payable by holders of our ADSs**

ADR holders are required to pay various fees to the Depositary, and the Depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADR holders are required to pay the Depositary: (i) an annual fee of U.S.\$0.02 (or less) per ADS for administering the ADR program, and (ii) amounts in respect of expenses incurred by the Depositary or its agents on behalf of ADR holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, facsimile transmission, or conversion of foreign currency into U.S. dollars. In both cases, the depositary may decide in its sole discretion to seek payment by directly billing investors, by deducting the applicable amount from cash distributions or by charging the book-entry system accounts of ADR holders or their representatives. ADR holders may also be required to pay additional fees for certain services provided by the depositary, as set forth in the table below.

**Depositary service**

Issuance and delivery of ADSs, including issuances resulting from a distribution of shares or rights or other property  
Distribution of dividends  
Cancellation of ADSs for the purpose of withdrawal

**Fee payable by ADR holders**

U.S.\$5.00 per 100 ADSs (or portion thereof)  
U.S.\$0.02 (or less) per ADS per year  
U.S.\$5.00 per 100 ADSs (or portion thereof)



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*Fees Payable by the Depositary to Petrobras*

Effective January 3, 2012, the Depositary will reimburse us for certain expenses we incur in connection with the administration and maintenance of the ADR program. These reimbursable expenses will comprise investor relations expenses, listing fees, legal fees and other expenses related to the administration and maintenance of the ADR program. In addition, the Depositary has agreed to provide us with an additional reimbursement per annum equal to 80% of the dividend fee collected by the Depositary.

Prior to The Bank of New York Mellon succeeding JPMorgan Chase Bank, N.A. as Depositary on January 3, 2012, JPMorgan Chase Bank, N.A. reimbursed us for certain expenses we incurred in connection with the ADR program. These reimbursable expenses comprised investor relations expenses, listing fees, legal and accounting fees and fees payable to service providers for the distribution of materials to ADR holders. For the year ended December 31, 2011, the gross aggregate amount of such reimbursements was approximately U.S.\$7.8 million.

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Both PifCo and we have evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of December 31, 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2011 were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.





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**Management's Report on Internal Control over Financial Reporting**

The managements of Petróleo Brasileiro S.A.—Petrobras and Petrobras International Finance Company—PifCo (each, a “Company”) are responsible for establishing and maintaining effective internal control over financial reporting and for their assessments of the effectiveness of internal control over financial reporting.

Each Company's internal control over financial reporting is a process designed by, or under the supervision of Petrobras' Audit Committee and each of the Company's Chief Executive Officer and Chief Financial Officer, and effected by each Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS, as issued by the IASB.

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

Each of the Company's management has assessed the effectiveness of each Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such assessment and criteria, each of the Company's management has concluded that each Company's internal control over financial reporting was effective as of December 31, 2011.

The effectiveness of each of the Company's internal control over financial reporting as of December 31, 2011, has been audited by KPMG Auditores Independentes, an independent registered public accounting firm, as stated in their report which appears herein.

**Changes in Internal Controls**

The management of each Company identified no change in its internal control over financial reporting during the fiscal year ended December 31, 2011, that has materially affected or is reasonably likely to materially affect its internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

On June 17, 2005, our board of directors approved the appointment of an audit committee for purposes of the Sarbanes-Oxley Act of 2002. Mr. Sérgio Franklin Quintella is the audit committee financial expert and he is independent, as defined in 17 CFR 240.10A-3.

PifCo's board of directors currently serves as its audit committee for purposes of the Sarbanes-Oxley Act of 2002. Mr. Marcos Antonio Silva Menezes is an "audit committee financial expert" within the meaning of this Item 16A, and he is not independent, as defined in 17 CFR 240.10A-3.

**TABLE OF CONTENTS****Item 16B. Code of Ethics**

We guide our business and our relations with third parties by ethical principles. In 1998, our board of executive officers approved the Petrobras Code of Ethics, which was extended to all Petrobras companies in 2002, and renamed Petrobras System's Code of Ethics.

In 2006, after undergoing a revision process with wide participation from our business segments, employees and subsidiaries, the Code of Ethics was approved by the board of executive officers and the board of directors. Our board of executive officers further developed our ethics management through the creation of the Petrobras Ethics Commission in 2008. The Code of Ethics is applicable to all employees and the members of the board of executive officers and the board of directors. The document is available on our website at <http://www.petrobras.com.br/en/investors>. It is the responsibility of the Ethics Commission to promote compliance with ethical principles and act as a forum for discussion of subjects related to ethics.

**Item 16C. Principal Accountant Fees and Services****Audit and Non-Audit Fees***Petrobras*

The following table sets forth the fees billed to us by our independent auditors, KPMG Auditores Independentes, during the fiscal years ended December 31, 2011 and 2010:

	<b>Year Ended December</b>	
	<b>31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(U.S.\$ thousand)</b>	
Audit fees	16,445	15,446
Audit-related fees	546	320
Tax fees	377	398
<b>Total fees</b>	<b>17,368</b>	<b>16,164</b>

Audit fees in the above table are the aggregate fees billed by KPMG Auditores Independentes in connection with the audit of our annual financial statements (IFRS and Brazilian GAAP), interim reviews (IFRS and Brazilian GAAP), subsidiary audits (IFRS and Brazilian GAAP, among others) and review of periodic documents filed with the SEC. In 2011, audit fees include the aggregate fees billed by KPMG Auditores Independentes, in the amount of U.S.\$1,588 thousand, related to the audit of the internal controls. "Audit-related fees" in the above table are the aggregate fees billed by KPMG Auditores Independentes for assurance and related services that are reasonably related to the performance of the audit or reviews of our financial statements and are not reported under "audit fees."

Tax fees in the above table are fees billed by KPMG Auditores Independentes for services related to tax compliance reviews of the annual federal tax return and procedures with

respect to income and sales taxes.

Our contract with KPMG Auditores Independentes was signed in 2006. Under this contract, KPMG Auditores Independentes was hired to provide specialized technical accounting audit services for fiscal years 2006, 2007 and 2008. In April 2009, the contract was extended for two more years to cover fiscal years 2009 and 2010. In April 2011, we signed a new contract with KPMG Auditores Independentes to provide specialized technical accounting audit services for fiscal year 2011.

In January 2012, we signed a contract with PricewaterhouseCoopers Auditores Independentes–PwC, under which PwC was hired to provide specialized technical accounting audit services for fiscal years 2012, 2013 and 2014.

**TABLE OF CONTENTS***PifCo*

The following table sets forth the fees billed to PifCo by its independent auditors KPMG Auditores Independentes, during the fiscal years ended December 31, 2011 and 2010:

	<b>Year Ended December</b>	
	<b>31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(U.S.\$ thousand)</b>	
Audit fees	337	540
Audit-related fees	18	36
Total fees	<b>355</b>	<b>576</b>

Audit fees in the above table are the aggregate fees billed by KPMG Auditores Independentes in connection with the audit of PifCo's annual financial statements (IFRS and Brazilian GAAP), interim reviews (IFRS and Brazilian GAAP), subsidiary audits (IFRS and local GAAP) and review of periodic documents filed with the SEC. In 2011, audit fees include the aggregate fees billed by KPMG Auditores Independentes, in the amount of U.S.\$18 thousand, related to the audit of the internal controls. Fees disclosed under the category "audit-related fees" relate to services provided in connection with the issuance of PifCo's notes in the international capital markets and assurance and related services that are reasonably related to the performance of the audit or reviews of PifCo's financial statements and are not reported under "audit fees."

PifCo's contract with KPMG Auditores Independentes was signed in 2006. Under this contract, KPMG Auditores Independentes was hired to provide specialized technical accounting audit services for fiscal years 2006, 2007 and 2008. In April 2009, the contract was extended for two more years to cover fiscal years 2009 and 2010. In April 2011, we signed a new contract with KPMG Auditores Independentes to provide specialized technical accounting audit services for fiscal year 2011.

In January 2012, PifCo signed a contract with PricewaterhouseCoopers Auditores Independentes-PwC, under which PwC was hired to provide specialized technical accounting audit services for fiscal years 2012, 2013 and 2014.

### **Audit Committee Approval Policies and Procedures**

Our audit committee has the authority to recommend pre-approval policies and procedures to our board of directors for the engagement of our or PifCo's independent auditor for services. At present, our board of directors has decided not to establish such pre-approval policies and procedures. Our board of directors expressly approves on a case-by-case basis any engagement of our independent auditors for all services provided to our subsidiaries or to us. Our bylaws prohibit our independent auditor from providing any consulting services to our

subsidiaries or to us during the term of such auditor's contract.

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**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Under the listed company audit committee rules of the NYSE and the SEC, we must comply with Exchange Act Rule 10A-3, which requires that we establish an audit committee composed of members of the board of directors that meets specified requirements. In reliance on the exemption in Rule 10A-3(b)(iv)(E), we have designated two members to our audit committee, Francisco Roberto de Albuquerque and Sergio Franklin Quintella, who are designees of the Brazilian federal government, which is our controlling shareholder and therefore one of our affiliates. In our assessment, each of these members acts independently in performing the responsibilities of an audit committee member under the Sarbanes-Oxley Act and satisfy the other requirements of Exchange Act Rule 10A-3.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

*Petrobras*

During the fiscal year ended December 31, 2011, neither any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act, nor we have purchased any of our equity securities.

**Item 16F. Change in Registrant’s Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

**Comparison of Petrobras’ Corporate Governance Practices with NYSE Corporate Governance Requirements Applicable to U.S. Companies**

Under the rules of the New York Stock Exchange, foreign private issuers are subject to a more limited set of corporate governance requirements than U.S. domestic issuers. As a foreign private issuer, we must comply with four principal NYSE corporate governance rules: (i) we must satisfy the requirements of Exchange Act Rule 10A-3; (ii) our Chief Executive Officer must promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with the applicable NYSE corporate governance rules; (iii) we must provide the NYSE with annual and interim written affirmations as required under the NYSE corporate governance rules; and (iv) we must provide a brief description of any significant differences between its corporate governance practices and those followed by U.S. companies under NYSE listing standards.



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The table below briefly describes the significant differences between our domestic practices and the NYSE corporate governance rules.

<b>Section</b>	<b>New York Stock Exchange Corporate Governance Rules for U.S. Domestic Issuers</b>	<b>Petrobras' Practices</b>
	<b>Director Independence</b>	
303A.01	Listed companies must have a majority of independent directors.  “Controlled companies” are not required to comply with this requirement.	Petrobras is a controlled company because more than a majority of its voting power is controlled by the Brazilian Federal Government. As a controlled company, Petrobras would not be required to comply with the majority of independent directors requirement if it were a U.S. domestic issuer. There is no legal provision or policy that requires us to have independent directors.
303A.03	The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	With the exception of the CEO of the company (who is also a director), all of Petrobras' directors are non-management directors. The internal regulation of Petrobras' board of directors provides for the occurrence of an executive session without the presence of the CEO if a particular matter may represent a conflict of interests.
	<b>Nominating/Corporate Governance Committee</b>	
303A.04	Listed companies must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties.  “Controlled companies” are not required to comply with this requirement.	Petrobras does not have a nominating committee. Petrobras also does not have a corporate governance committee composed of directors.  Petrobras' board of directors develops, evaluates and approves corporate governance principles. As a controlled company, Petrobras would not be required to comply with the nominating/corporate governance committee requirement if it were a U.S. domestic issuer.
	<b>Compensation Committee</b>	
303A.05	Listed companies must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties.	Petrobras has a committee that advises the board of directors with respect to compensation and management succession. There is no legal provision or policy that requires the members of this committee to be independent.

“Controlled companies” are not required to comply with this requirement.

As a controlled company, Petrobras would not be required to comply with the compensation committee requirement if it were a U.S. domestic issuer.

**Audit Committee**

303A.06  
303A.07

Listed companies must have an audit committee with a minimum of three independent directors that satisfy the independence requirements of Rule 10A-3 under the Exchange Act, with a written charter that covers certain minimum specified duties.

Petrobras’ Audit Committee is an advisory committee to the board of directors and is composed of independent members according to Rule 10A-3 under the Exchange Act. The Audit Committee has a written charter that sets forth its responsibilities that include, among other things: (i) strengthening ties with the external auditors, permitting closer supervision of their work and of issues regarding their competency and independence, (ii) assuring legal and regulatory compliance, including with regard to certification, internal controls, compliance procedures and ethics, and (iii) monitoring the financial position of the company, especially as to risks, internal auditing work and financial disclosure.

**Equity Compensation Plans**

303A.08

Shareholders must have the opportunity to vote for compensation plans through shares and material reviews, with limited exceptions as set forth by the NYSE’s rules.

Under the Brazilian Corporate Law, shareholder approval is required for the adoption and revision of any equity compensation plans. Petrobras does not currently have any equity compensation plans.

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The table below briefly describes the significant differences between our domestic practices and the NYSE corporate governance rules.

<b>Section</b>	<b>New York Stock Exchange Corporate Governance Rules for U.S. Domestic Issuers Corporate Governance Guidelines</b>	<b>Petrobras' Practices</b>
303A.09	Listed companies must adopt and disclose corporate governance guidelines.	Petrobras has a set of Corporate Governance Guidelines ( <i>Diretrizes de Governança Corporativa</i> ) that address director qualification standards, responsibilities, compensation, orientation, self-appraisals and access to management. The guidelines do not reflect the independence requirements set forth in Sections 303A.01 and 303A.02 of the NYSE rules. Certain portions of the guidelines, including the responsibilities and compensation sections, are not discussed with the same level of detail set forth in the commentaries to the NYSE rules. The guidelines are available on Petrobras' website.
	<b>Code of Ethics for Directors, Officers and Employees</b>	
303A.10	Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Petrobras has a Code of Ethics ( <i>Código de Ética</i> ) applicable to its employees and a Code of Good Practices ( <i>Código de Boas Práticas</i> ) applicable to directors and executive officers. No waivers of the provisions of the Code of Ethics or Code of Good Practices are permitted. Both documents are available on Petrobras' website.
	<b>Certification Requirements</b>	
303A.12	Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards.	Our CEO will promptly notify the NYSE in writing if any executive officer becomes aware of any material noncompliance with any applicable provisions of the NYSE corporate governance rules.

**TABLE OF CONTENTS****PART III****Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

See pages F-2 through F-156, incorporated herein by reference.

**Item 19. Exhibits**

<b><u>No.</u></b>	<b><u>Description</u></b>
1.1	<u>Amended Bylaws of Petróleo Brasileiro S.A.-Petrobras, dated as of February 28, 2012.</u>
1.2	Memorandum and Articles of Association of Petrobras International Finance Company (incorporated by reference to Exhibit 1 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on July 1, 2002, and amendments to which were filed on December 13, 2002, March 20, 2003 (File No. 333-14168) and June 26, 2007 and May 19, 2008 (File No. 001-331121). PifCo's Memorandum and Articles of Association were last amended on February 23, 2008.
2.1	<u>Amended and Restated Deposit Agreement, dated as of January 3, 2012, among Petrobras, The Bank of New York Mellon, as depositary, and registered holders and beneficial owners from time to time of the ADSs, representing the common shares of Petrobras, and Form of ADR evidencing ADSs representing the common shares of Petrobras.</u>
2.2	<u>Amended and Restated Deposit Agreement, dated as of January 3, 2012, among Petrobras, The Bank of New York Mellon, as depositary, and registered holders and beneficial owners from time to time of the ADSs, representing the preferred shares of Petrobras, and Form of ADR evidencing ADSs representing the preferred shares of Petrobras.</u>
2.3	Indenture, dated as of July 19, 2002, between Petrobras International Finance Company and JPMorgan Chase Bank, as Trustee (incorporated by reference to exhibit 4.5 of the Registration Statement of Petrobras International Finance Company and Petrobras on Form F-3, filed with the Securities and Exchange Commission on July 5, 2002, and amendments to which were filed on July 19, 2002 and August 14, 2002 (File No. 333-92044-01)).
2.4	Amended and Restated First Supplemental Indenture, originally dated as of July 6, 2001, as supplemented as of November 26, 2001, as amended and restated as of March 31, 2010, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 9.750% Senior Notes due 2011 (incorporated by reference to Exhibit 2.8 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
2.5	Amended and Restated Second Supplemental Indenture, initially dated as of July 2, 2003, as amended and restated as of September 18, 2003, as amended and restated as of March 31, 2010, among Petrobras International Finance Company, Petrobras and JPMorgan Chase Bank, as Trustee, relating to the 9.125% Global Notes due 2013 (incorporated by reference to Exhibit 2.9 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
2.6	

Amended and Restated Third Supplemental Indenture, initially dated as of December 10, 2003, as amended and restated as of March 31, 2010, among Petrobras International Finance Company, Petrobras and JPMorgan Chase Bank, as Trustee, relating to the 8.375% Global Notes due 2018 (incorporated by reference to Exhibit 2.10 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).

2.7 Indenture, dated as of July 6, 2001, between Petrobras International Finance Company and The Bank of New York Mellon, as Trustee, relating to the 9 ¾% Senior Notes due 2011 (incorporated by reference to Exhibit 4.1 to the Registration Statement of Petrobras International Finance Company and Petrobras on Form F-4, filed with the Securities and Exchange Commission on December 6, 2001 (File No. 333-14170)).

2.8 Amended and Restated Fourth Supplemental Indenture, initially dated as of September 15, 2004, as amended and restated as of March 31, 2010, between Petrobras International Finance Company, Petrobras and JPMorgan Chase Bank, as Trustee, relating to the 7.75% Global Notes due 2014 (incorporated by reference to Exhibit 2.12 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).

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<b><u>No.</u></b>	<b><u>Description</u></b>
2.9	Registration Rights Agreement, dated as of July 6, 2001, among Petrobras International Finance Company, Petrobras, USB Warburg LLC, Banc of America Securities LLC, J.P. Morgan Securities Inc., RBC Dominion Securities Corporation and Santander Central Hispano Investment Securities Inc. (incorporated by reference to Exhibit 4.4 to the Registration Statement of Petrobras International Finance Company and Petrobras on Form F-4, filed with the Securities and Exchange Commission on December 6, 2001 (File No. 333-14170)).
2.10	Amended and Restated Fifth Supplemental Indenture, initially dated as of October 6, 2006, as amended and restated as of February 7, 2007, as amended and restated as of March 31, 2010, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as successor to JPMorgan Chase Bank, N.A., as Trustee, relating to the 6.125% Global Notes due 2016 (incorporated by reference to Exhibit 2.14 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
<u>2.11</u>	<u>Sixth Supplemental Indenture, dated as of February 10, 2012, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee.</u>
2.12	Amended and Restated First Supplemental Indenture, initially dated as of November 1, 2007, as amended and restated as of January 11, 2008, as amended and restated as of March 31, 2010, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 5.875% Global Notes due 2018 (incorporated by reference to Exhibit 2.15 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
2.13	Guaranty for the 9.125% Global Notes due 2013, dated as of March 31, 2010, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.16 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
<u>2.14</u>	<u>Amended and Restated Guaranty for the 9.125% Global Notes due 2013, dated as of February 10, 2012, between Petrobras and The Bank of New York Mellon, as Trustee.</u>
2.15	Guaranty for the 8.375% Global Notes due 2018, dated as of March 31, 2010, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.17 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
<u>2.16</u>	<u>Amended and Restated Guaranty for the 8.375% Global Notes due 2018, dated as of February 10, 2012, between Petrobras and The Bank of New York Mellon, as Trustee.</u>
2.17	Master Export Contract, dated as of December 21, 2001, between Petrobras and Petrobras Finance Ltd. (incorporated by reference to Exhibit 2.14 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on July 1, 2002, and amendments to which were filed on December 13, 2002 and March 20, 2003 (File No. 333-14168)).
2.18	Amendment to the Master Export Contract, dated as of May 21, 2003, among Petrobras and Petrobras Finance Ltd. (incorporated by reference to Exhibit 2.18 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on June 19, 2003 (File No. 333-14168)).
2.19	Depositary Agreement, dated as of December 21, 2001, among U.S. Bank, National Association, Cayman Islands Branch, in capacity as Trustee of the PF Export Receivables Master Trust, Citibank, N.A., in capacity as Securities Intermediary, and Petrobras Finance Ltd. (incorporated by reference to Exhibit 2.15

to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on July 1, 2002, and amendments to which were filed on December 13, 2002 and March 20, 2003 (File No. 333-14168)).

- 2.20 Letter Agreement relating to the Depositary Agreement, dated as of May 16, 2003 (incorporated by reference to Exhibit 2.20 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on June 19, 2003 (File No. 333-14168)).
- 2.21 Administrative Services Agreement, dated as of December 21, 2001, between Petrobras, as Delivery and Sales Agent, and Petrobras Finance Ltd. (incorporated by reference to Exhibit 2.16 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on July 1, 2002, and amendments to which were filed on December 13, 2002 and March 20, 2003 (File No. 333-14168)).
- 2.22 Letter Agreement relating to the Administrative Services Agreement, dated as of May 16, 2003 (incorporated by reference to Exhibit 2.22 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on June 19, 2003 (File No. 333-14168)).

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<b><u>No.</u></b>	<b><u>Description</u></b>
2.23	Amended and Restated Trust Deed, dated as of December 21, 2001, among U.S. Bank, National Association, Cayman Islands Branch, in capacity as Trustee of the PF Export Receivables Master Trust, Citibank, N.A., in capacity as Paying Agent, Transfer Agent, Registrar and Depositary Bank, and Petrobras International Finance Company, as Servicer (incorporated by reference to Exhibit 2.17 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on July 1, 2002, and amendments to which were filed on December 13, 2002 and March 20, 2003 (File No. 333-14168)).
2.24	Receivables Purchase Agreement, dated as of December 21, 2001, among Petrobras Finance Ltd., Petrobras and U.S. Bank, National Association, Cayman Islands Branch, solely in capacity as Trustee of the PF Export Receivables Master Trust (incorporated by reference to Exhibit 2.18 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on July 1, 2002, and amendments to which were filed on December 13, 2002 and March 20, 2003 (File No. 333-14168)).
2.25	Amended and Restated Receivables Purchase Agreement, dated as of May 21, 2003, among Petrobras Finance Ltd., Petrobras and U.S. Bank, National Association, Cayman Islands Branch, solely in capacity as Trustee of the PF Export Receivables Master Trust (incorporated by reference to Exhibit 2.25 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on June 19, 2003 (File No. 333-14168)).
2.26	Prepayment Agreement, dated as of December 21, 2001, between Petrobras and Petrobras Finance Ltd. (incorporated by reference to Exhibit 2.26 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on June 19, 2003 (File No. 333-14168)).
2.27	Amended and Restated Prepayment Agreement, dated as of May 2, 2003, between Petrobras and Petrobras Finance Ltd. (incorporated by reference to Exhibit 2.27 to the Annual Report on Form 20-F of Petrobras International Finance Company, filed with the Securities and Exchange Commission on June 19, 2003 (File No. 333-14168)).
2.28	Guaranty for the 7.75% Global Notes due 2014, dated as of March 31, 2010, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.30 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
<u>2.29</u>	<u>Amended and Restated Guaranty for the 7.75% Global Notes due 2014, dated as of February 10, 2012, between Petrobras and The Bank of New York Mellon, as Trustee.</u>
2.30	Guaranty for the 6.125% Global Notes due 2016, dated as of March 31, 2010, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.31 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
<u>2.31</u>	<u>Amended and Restated Guaranty for the 6.125% Global Notes due 2016, dated as of February 10, 2012, between Petrobras and The Bank of New York Mellon, as Trustee.</u>
2.32	Guaranty for the 5.875% Global Notes due 2018, dated as of March 31, 2010, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.32 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
<u>2.33</u>	<u>Amended and Restated Guaranty for the 5.875% Global Notes due 2018, dated as of February 10, 2012, between Petrobras and The Bank of New York Mellon, as Trustee.</u>
2.34	



Amended and Restated Second Supplemental Indenture, initially dated as of February 11, 2009, as amended and restated as of July 9, 2009, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 7.875% Global Notes due 2019 (incorporated by reference to Exhibit 2.33 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).

2.35 Amended and Restated Guaranty, initially dated as of February 11, 2009, as amended and restated as of July 9, 2009, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.34 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).

2.36 Third Supplemental Indenture, dated as of October 30, 2009, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 5.75% Global Notes due 2020 (incorporated by reference to Exhibit 2.35 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).

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<b><u>No.</u></b>	<b><u>Description</u></b>
2.37	Fourth Supplemental Indenture, dated as of October 30, 2009, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 6.875% Global Notes due 2040 (incorporated by reference to Exhibit 2.36 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
2.38	Guaranty for the 5.75% Global Notes due 2020, dated as of October 30, 2009, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.37 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
2.39	Guaranty for the 6.875% Global Notes due 2040, dated as of October 30, 2009, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.38 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2010 (File Nos. 001-15106 and 001-33121)).
2.40	Fifth Supplemental Indenture, dated as of January 27, 2011, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 3.875% Global Notes due 2016 (incorporated by reference to Exhibit 2.39 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2011 (File Nos. 001-15106 and 001-33121)).
2.41	Guaranty for the 3.875% Global Notes due 2016, dated as of January 27, 2011, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.40 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2011 (File Nos. 001-15106 and 001-33121)).
2.42	Sixth Supplemental Indenture, dated as of January 27, 2011, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 5.375% Global Notes due 2021 (incorporated by reference to Exhibit 2.41 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2011 (File Nos. 001-15106 and 001-33121)).
2.43	Amended and Restated Sixth Supplemental Indenture, dated as of February 6, 2012, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 5.375% Global Notes due 2021 (incorporated by reference to Exhibit 4.2 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on February 6, 2012 (File Nos. 001-15106 and 001-33121)).
2.44	Guaranty for the 5.375% Global Notes due 2021, dated as of January 27, 2011, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.42 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2011 (File Nos. 001-15106 and 001-33121)).
2.45	Amended and Restated Guaranty for the 5.375% Global Notes due 2021, dated as of February 6, 2012, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on February 6, 2012 (File Nos. 001-15106 and 001-33121)).
2.46	Seventh Supplemental Indenture, dated as of January 27, 2011, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 6.750% Global Notes due 2041 (incorporated by reference to Exhibit 2.43 to the Annual Report on Form 20-F of Petrobras and

Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2011 (File Nos. 001-15106 and 001-33121)).

- 2.47 Amended and Restated Seventh Supplemental Indenture, dated as of February 6, 2012, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 6.750% Global Notes due 2041 (incorporated by reference to Exhibit 4.5 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on February 6, 2012 (File Nos. 001-15106 and 001-33121)).
- 2.48 Guaranty for the 6.750% Global Notes due 2041, dated as of January 27, 2011, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 2.44 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2011 (File Nos. 001-15106 and 001-33121)).
- 2.49 Amended and Restated Guaranty for the 6.750% Global Notes due 2041, dated as of February 6, 2012, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.4 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on February 6, 2012 (File Nos. 001-15106 and 001-33121)).

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<b><u>No.</u></b>	<b><u>Description</u></b>
2.50	Eighth Supplemental Indenture, dated as of December 9, 2011, among Petrobras International Finance Company, Petrobras, The Bank of New York Mellon, as Trustee, The Bank of New York Mellon, London Branch, as Principal Paying Agent and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg Paying Agent, relating to the 4.875% Global Notes due 2018 (incorporated by reference to Exhibit 4.2 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on December 9, 2011 (File Nos. 001-15106 and 001-33121)).
2.51	Guaranty for the 4.875% Global Notes due 2018, dated as of December 9, 2011, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on December 9, 2011 (File Nos. 001-15106 and 001-33121)).
2.52	Ninth Supplemental Indenture, dated as of December 9, 2011, among Petrobras International Finance Company, Petrobras, The Bank of New York Mellon, as Trustee, The Bank of New York Mellon, London Branch, as Principal Paying Agent and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg Paying Agent, relating to the 5.875% Global Notes due 2022 (incorporated by reference to Exhibit 4.5 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on December 9, 2011 (File Nos. 001-15106 and 001-33121)).
2.53	Guaranty for the 5.875% Global Notes due 2022, dated as of December 9, 2011, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.4 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on December 9, 2011 (File Nos. 001-15106 and 001-33121)).
2.54	Tenth Supplemental Indenture, dated as of December 12, 2011, among Petrobras International Finance Company, Petrobras, The Bank of New York Mellon, as Trustee, The Bank of New York Mellon, London Branch, as Principal Paying Agent and The Bank of New York Mellon (Luxembourg) S.A., as Luxembourg Paying Agent, relating to the 6.250% Global Notes due 2026 (incorporated by reference to Exhibit 4.2 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on December 12, 2011 (File Nos. 001-15106 and 001-33121)).
2.55	Guaranty for the 6.250% Global Notes due 2026, dated as of December 12, 2011, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on December 12, 2011 (File Nos. 001-15106 and 001-33121)).
2.56	Eleventh Supplemental Indenture, dated as of February 6, 2012, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 2.875% Global Notes due 2015 (incorporated by reference to Exhibit 4.8 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on February 6, 2012 (File Nos. 001-15106 and 001-33121)).
2.57	Guaranty for the 2.875% Global Notes due 2015, dated as of February 6, 2012, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.7 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on February 6, 2012 (File Nos. 001-15106 and 001-33121)).
2.58	Twelfth Supplemental Indenture, dated as of February 6, 2012, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee, relating to the 3.500% Global Notes due 2017 (incorporated by reference to Exhibit 4.11 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on February 6, 2012 (File Nos.

- 001-15106 and 001-33121)).
- 2.59 Guaranty for the 3.500% Global Notes due 2017, dated as of February 6, 2012, between Petrobras and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.10 to Form 6-K of Petrobras and Petrobras International Finance Company, furnished to the Securities and Exchange Commission on February 6, 2012 (File Nos. 001-15106 and 001-33121)).
- 2.60 Thirteenth Supplemental Indenture, dated as of February 10, 2012, among Petrobras International Finance Company, Petrobras and The Bank of New York Mellon, as Trustee.
- 2.61 Amendment No. 2, dated as of September 16, 2010, to the Amended and Restated Deposit Agreement, dated as of January 2, 2007, among Petrobras, JPMorgan Chase Bank, N.A., as depositary, and registered holders and beneficial owners from time to time of the ADSs, representing the common shares of Petrobras (incorporated by reference to Exhibit 99.A.3 of the Registration Statement of Petrobras and Petrobras International Finance Company on Form F-6 filed with the Securities and Exchange Commission on September 16, 2010 (File No. 333-169430)).
- 2.62 Amendment No. 2, dated as of September 16, 2010, to the Amended and Restated Deposit Agreement, dated as of January 2, 2007, among Petrobras, JPMorgan Chase Bank, N.A., as depositary, and registered holders and beneficial owners from time to time of the ADSs, representing the preferred shares of Petrobras (incorporated by reference to Exhibit 99.A.3 of the Registration Statement of Petrobras and Petrobras International Finance Company on Form F-6 filed with the Securities and Exchange Commission on September 16, 2010 (File No. 333-169429)).
- 2.63 Assignment Agreement, dated as of September 3, 2010, among Petrobras, the Brazilian federal government and the National Petroleum, Natural Gas and Biofuels Agency (incorporated by reference to Exhibit 2.47 to the Annual Report on Form 20-F of Petrobras and Petrobras International Finance Company, filed with the Securities and Exchange Commission on May 26, 2011 (File Nos. 001-15106 and 001-33121)).

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<b><u>No.</u></b>	<b><u>Description</u></b>
	The amount of long-term debt securities of Petrobras authorized under any given instrument does not exceed 10% of its total assets on a consolidated basis. Petrobras hereby agrees to furnish to the SEC, upon its request, a copy of any instrument defining the rights of holders of its long-term debt or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.
4.1	Form of Concession Agreement for Exploration, Development and Production of crude oil and natural gas executed between Petrobras and the ANP (incorporated by reference to Exhibit 10.1 of Petrobras' Registration Statement on Form F-1 filed with the Securities and Exchange Commission on July 14, 2000 (File No. 333-12298)).
4.2	Purchase and Sale Agreement of natural gas, executed between Petrobras and Yacimientos Petrolíferos Fiscales Bolivianos-YPFB (together with and English version) (incorporated by reference to Exhibit 10.2 to Petrobras' Registration Statement on Form F-1 filed with the Securities and Exchange Commission on July 14, 2000 (File No. 333-12298)).
8.1	<u>List of subsidiaries.</u>
12.1	<u>Petrobras' Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
12.2	<u>PifCo's Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
13.1	<u>Petrobras' Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
13.2	<u>PifCo's Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
15.1	<u>Consent letter of KPMG.</u>
15.2	<u>Consent letter of KPMG.</u>
15.3	<u>Consent letter of DeGolyer and MacNaughton.</u>
99.1	<u>Third Party Reports of DeGolyer and MacNaughton.</u>

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**SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Rio de Janeiro, on March 30, 2012.

Petróleo Brasileiro S.A.—PETROBRAS

By: /s/ Maria das Graças Silva Foster

Name: Maria das Graças Silva Foster  
Title: Chief Executive Officer

By: /s/ Almir Guilherme Barbassa

Name: Almir Guilherme Barbassa  
Title: Chief Financial Officer and Chief Investor      Relations Officer

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**SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Rio de Janeiro, on March 30, 2012.

Petrobras International Finance Company—PifCo

By:       /s/ Daniel Lima de Oliveira

Name: Daniel Lima de Oliveira

Title: Chairman and Chief Executive Officer

By:       /s/ Sérgio Túlio da Rosa Tinoco

Name: Sérgio Túlio da Rosa Tinoco

Title: Chief Financial Officer



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Review Report of Independent Registered Public Accounting Firm

To

The Board of Directors and Shareholders of

Petróleo Brasileiro S.A. - Petrobras

Rio de Janeiro - RJ

We have audited the accompanying consolidated statements of financial position of Petróleo Brasileiro S.A. - Petrobras and subsidiaries (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited the Company’s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petróleo Brasileiro S.A. - Petrobras and subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Also in our opinion, Petróleo Brasileiro S.A. – Petrobras and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in COSO.

/s/ KPMG Auditores Independentes





KPMG Auditores Independentes

Rio de Janeiro, Brazil  
March 30, 2012

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Statement of Financial Position

**Years ended December 31, 2011 and 2010***(In millions of Dollars)*

<b>Assets</b>	<b>Note</b>	<b>As of December 31,</b>		<b>Liabilities</b>	<b>Note</b>	<b>As of December 31,</b>	
		<b>2011</b>	<b>2010</b>			<b>2011</b>	<b>2010</b>
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and cash equivalents	5	19,057	17,655	Trade accounts payable	15	11,863	10,427
Marketable securities	6	8,961	15,612	Current debt	16	10,067	8,951
Accounts receivable, net	7	11,756	10,845	Current portion of finance lease obligations	17.1	44	105
Inventories	8	15,165	11,808	Taxes payable	20.2	5,847	6,038
Recoverable taxes	20.1	6,848	5,262	Dividends payable		2,067	2,158
Advances to suppliers		740	786	Payroll and related charges		1,696	1,531
Other current assets		2,065	1,591	Profit sharing	22	832	1,014
		<b>64,592</b>	<b>63,559</b>	Employees' postretirement benefits obligations - Pension and health care	21.5	761	782
				Other current liabilities		3,187	2,571
						<b>36,364</b>	<b>33,577</b>

<b>Non-current assets</b>				<b>Non-current liabilities</b>			
Accounts receivable, net	7	3,253	3,260	Long-term debt	16	72,718	60,417
Marketable securities	6	3,064	3,120	Finance lease obligations	17.1	98	115
Restricted deposits for legal proceedings and guarantees	9	1,575	1,674	Deferred tax liabilities	20.3	17,736	15,543
Deferred tax assets	20.3	9,199	10,226	Employees' postretirement benefits obligations - Pension and health care	21.5	8,878	9,169
Advances to suppliers		3,141	2,979	Legal proceedings provisions	28	726	759
Other long-term receivables		1,725	1,378	Provision for decommissioning cost	19	4,712	3,904
		<b>21,957</b>	<b>22,637</b>	Other non-current liabilities		1,068	761
						<b>105,936</b>	<b>90,668</b>
<b>Investments</b>	11.2	6,530	6,957				
<b>Property, plant and equipment, net</b>	12	182,465	168,104				
<b>Intangible assets</b>	13	43,866	48,937	<b>Shareholders' equity</b>	23		
		<b>232,861</b>	<b>223,998</b>	Paid in capital		107,355	107,341
				Additional paid in capital		316	7
				Profit reserves		60,224	46,417
				Accumulated other comprehensive income		7,943	30,345
				<b>Petrobras shareholder's equity</b>		<b>175,838</b>	<b>184,110</b>

			<b>Non-controlling interests</b>	1,272	1,839
			<b>Total equity</b>	<b>177,110</b>	<b>185,949</b>
			<b>Total liabilities and shareholder's equity</b>		
<b>Total assets</b>	<b>319,410</b>	<b>310,194</b>		<b>319,410</b>	<b>310,194</b>

See the accompanying notes to the consolidated financial statements.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Statement of Income

**Years ended December 31, 2011, 2010 and 2009***(In millions of Dollars, except income per share)*

		<b>Year ended December 31,</b>		
	<b>Note</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Sales revenues</b>	24	<b>145,915</b>	<b>120,452</b>	<b>91,146</b>
Cost of sales	25	(99,595)	(77,145)	(54,023)
<b>Gross profit</b>		<b>46,320</b>	<b>43,307</b>	<b>37,123</b>
<b>Income (expenses)</b>				
Selling expenses	25	(5,346)	(4,863)	(3,693)
Administrative and general expenses	25	(5,161)	(4,441)	(3,662)
Exploration costs		(2,630)	(2,168)	(2,061)
Research and development expenses		(1,454)	(989)	(685)
Other taxes		(460)	(509)	(327)
Other operating income and expenses, net	26	(3,984)	(3,965)	(3,772)
		<b>(19,035)</b>	<b>(16,935)</b>	<b>(14,200)</b>
<b>Net income before financial results, profit sharing and income taxes</b>		<b>27,285</b>	<b>26,372</b>	<b>22,923</b>
Financial income (expenses), net	27	76	1,551	97
Equity in results of non consolidated companies		230	347	120
Profit sharing	22	(867)	(996)	(860)

<b>Income before income taxes</b>		<b>26,724</b>	<b>27,274</b>	<b>22,280</b>
Income tax	20.5	(6,732)	(6,825)	(5,421)
<b>Net income</b>		<b>19,992</b>	<b>20,449</b>	<b>16,859</b>
Net income (loss) attributable to:				
<b>Shareholders of Petrobras</b>		<b>20,121</b>	<b>20,055</b>	<b>15,308</b>
<b>Non-controlling interests</b>		(129)	394	1,551
		<b>19,992</b>	<b>20,449</b>	<b>16,859</b>
<b>Basic and diluted earnings per share in U.S. dollar</b>	23.6	<b>1.54</b>	<b>2.03</b>	<b>1.74</b>

See the accompanying notes to the consolidated financial statements.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Statement of Comprehensive Income

**Years ended December 31, 2011, 2010 and 2009***(In millions of Dollars)*

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Net income before non-controlling interest</b>	<b>19,992</b>	<b>20,449</b>	<b>16,859</b>
<b>Other comprehensive income</b>			
Cummulative translation adjustments	(21,859)	7,157	23,443
Deemed cost of associates	6	6	4
Unrealized results on available-for-sale securities			
Recognized in shareholders' equity	72	185	346
Reclassified to profit or loss	14	(4)	18
Unrealized results on cash flow hedge			
Recognized in shareholders' equity	(29)	8	(49)
Reclassified to profit or loss	4	(7)	
Deferred income tax	(25)	(62)	(79)
	(21,817)	7,283	23,683
<b>Total comprehensive income (loss)</b>	<b>(1,825)</b>	<b>27,732</b>	<b>40,542</b>
<b>Comprehensive income attributable to:</b>			
Shareholders of Petrobras	(1,671)	27,382	38,457
Non-controlling interests	(154)	350	2,085
<b>Total comprehensive income (loss)</b>	<b>(1,825)</b>	<b>27,732</b>	<b>40,542</b>

See the accompanying notes to the consolidated financial statements.





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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Statement of Changes in Shareholders' Equity

**Years ended December 31, 2011, 2010 and 2009***(In millions of Dollars)*

	Additional paid-in capital		Capital reserves	Accumulated other comprehensive income		Legal	Statutory	Pro
	Paid-in capital	Shares issuance costs	Change in interest in subsidiaries	Tax incentives	Cumulative translation adjustment	Other comprehensive income		inc
<b>Adjusted balances at January 1, 2009</b>	<b>33,790</b>			<b>220</b>		<b>(132)</b>	<b>4,038</b>	<b>385</b>
Change in interest in subsidiaries			849					
Net income								
Other comprehensive income:								
Cumulative translation adjustments					22,909			
Unrealized gains in available-for-sale securities and cash flow hedge						237		

Realization of deemed cost						(4)		
Distributions:								
Allocations of net income in reserves							765	169
Dividends								
<b>Balance at December 31, 2009</b>	<b>33,790</b>		<b>849</b>	<b>220</b>	<b>22,909</b>	<b>101</b>	<b>4,803</b>	<b>554</b>
Capital increase with reserves	3,471			(220)				(520)
Capital increase with issuing of shares	70,080	(279)						
Change in interest in subsidiaries			(563)					
Net income								
Other comprehensive income:								
Cumulative translation adjustments					7,221			
Unrealized gains in available-for-sale securities and cash flow hedge							120	
Realization of deemed cost							(6)	
Distributions:								
Allocations of net income in reserves							1,003	537
Dividends								
<b>Balance at December 31, 2010</b>	<b>107,341</b>	<b>(279)</b>	<b>286</b>		<b>30,130</b>	<b>215</b>	<b>5,806</b>	<b>571</b>
Capital increase with reserves	14							
Capital increase with issuing of shares								

Change in interest in subsidiaries			309					
Net income								
Other comprehensive income:								
Cumulative translation adjustments				(22,433)				
Unrealized gains in available-for-sale securities and cash flow hedge							37	
Realization of deemed cost							(6)	
Distributions:								
Allocations of net income in reserves							1,006	537
Dividends	107,355	(279)	595	7,697	246	6,812		1,108
<b>Balance at December 31, 2011</b>	<b>107,355</b>	<b>316</b>		<b>7,943</b>				<b>60,22</b>

See the accompanying notes to the consolidated financial statements.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Statement of Cash Flows

**Years ended December 31, 2011, 2010 and 2009***(In millions of Dollars)*

	<b>Year ended December, 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from Operating activities</b>			
Net income attributable to the shareholders of Petrobras	20,121	20,055	15,308
<b>Adjustments for:</b>			
Non-controlling interests	(129)	394	1,551
Equity in results of non-consolidated companies	(230)	(347)	(120)
Depreciation, depletion and amortization	10,535	8,308	7,129
Impairment	1,056	402	572
Dry hole costs	1,480	1,215	1,158
Losses (gains) on disposal of non-current assets	527	179	108
Exchange variation, monetary and finance charges	3,799	(7)	(1,293)
Deferred income taxes, net	3,599	3,299	880
<b>Increase/decrease in assets</b>			
Accounts receivable	(2,326)	(2,454)	(191)
Inventories	(5,035)	(453)	(1,500)
Other assets	(2,537)	13	1,433
<b>Increase/decrease in liabilities</b>			
Trade accounts payable	2,455	248	610
Taxes payable	(1,991)	(2,089)	297
Employee's post-retirement benefits obligations - Pension and health care	893	780	531
Other liabilities	1,481	567	(528)
<b>Net cash provided by operating activities</b>	<b>33,698</b>	<b>30,110</b>	<b>25,945</b>
<b>Cash flows from Investment activities</b>			

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"Cessão Onerosa" - Concession rights acquired		(43,868)	
Settlement made through LFTs		39,517	
Settlement made through cash and cash equivalents		(4,351)	
Other investments in exploration and production of oil and gas		(16,936)	
Investments in exploration and production of oil and gas	(18,714)	(21,287)	(16,055)
Investments in refining, transportation and marketing	(15,683)	(15,982)	(9,711)
Investments in gas and power	(2,627)	(4,135)	(5,241)
Investment in international segment	(2,360)	(2,332)	(3,197)
Investments in distribution	(630)	(494)	(291)
Investments in biofuel	(299)	(688)	(121)
Other investments	(1,400)	(607)	(768)
Marketable securities	6,683	(14,652)	194
Dividends received	411	226	34
<b>Net cash used in investment activities</b>	<b>(34,619)</b>	<b>(59,951)</b>	<b>(35,156)</b>

See the accompanying notes to the consolidated financial statements.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Statement of Cash Flows (Continued)

**Years ended December 31, 2011, 2010 and 2009***(In millions of Dollars)*

	<b>Year ended December, 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from Financing activities</b>			
Capital issuance		70,080	
Contribution in LFTs		(39,517)	
Proceeds from share issuance	-	30,563	-
Shares issuance costs	-	(279)	-
Acquisition of non-controlling interest	27	(342)	-
Financing and loans, net	-	-	-
Proceeds from borrowings	23,951	21,781	37,498
Repayment of principal	(8,750)	(11,347)	(11,992)
Repayment of interest	(4,574)	(3,659)	(1,693)
Assignments of credit rights - FIDC NP	-	-	-
Dividends paid	(6,422)	(5,398)	(7,724)
<b>Net cash provided by financing activities</b>	<b>4,232</b>	<b>31,319</b>	<b>16,089</b>
	-		
<b>Effect of exchange rate on cash and cash equivalents</b>	<b>(1,909)</b>	<b>(45)</b>	<b>2,845</b>
<b>Net increase/ (decrease) in cash and cash equivalents in the year</b>	<b>1,402</b>	<b>1,433</b>	<b>9,723</b>
	-	-	-
<b>Cash and cash equivalents at the beginning of the year</b>	<b>17,655</b>	<b>16,222</b>	<b>6,499</b>
	-		
<b>Cash and cash equivalents at the end of the year</b>	<b>19,057</b>	<b>17,655</b>	<b>16,222</b>
	-		
	-	-	-
	-	-	-

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<b>Additional information on cash flows:</b>	-		
<b>Amounts paid and received during the year</b>	-		
Income tax	2,053	2,658	4,298
Third party income tax withheld at source	2,366	1,652	1,938
	<b>4,419</b>	<b>4,310</b>	<b>6,236</b>
<b>Investment and financing transactions not involving cash</b>	-		
Acquisition of property, plant and equipment on credit	10	30	61
Acquisition of property, plant and equipment on contract with the transfer of benefits, risks and control of assets	21	-	55
Capital increase with public bonds, used for purchase of exploration rights (“cessão onerosa” - concession rights acquired)	-	39,517	-
Formation of provision for decommissioning cost	1,375	964	(369)

See the accompanying notes to the consolidated financial statements.



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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Segment Information

**Years ended December 31, 2011, 2010 and 2009***(In millions of Dollars)*

Revenues and net income by segment are follows:

	Year ended December 31, 2011							Eli
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Biofuel(1)	Distribution	International	Corporate (1)	
<b>Sales revenues</b>	<b>74,117</b>	<b>118,630</b>	<b>9,738</b>	<b>320</b>	<b>44,001</b>	<b>16,956</b>	-	
Intersegments	73,601	38,146	1,304	288	731	3,777	-	
Third parties	516	80,484	8,434	32	43,270	13,179	-	
Cost of sales	(32,883)	(122,897)	(5,698)	(351)	(40,347)	(12,933)	-	
<b>Gross profit</b>	<b>41,234</b>	<b>(4,267)</b>	<b>4,040</b>	<b>(31)</b>	<b>3,654</b>	<b>4,023</b>	-	
<b>Income</b>								
<b>(expenses)</b>	<b>(4,198)</b>	<b>(4,194)</b>	<b>(1,519)</b>	<b>(134)</b>	<b>(2,459)</b>	<b>(1,901)</b>	<b>(4,809)</b>	
Selling, administrative and general expenses	(489)	(3,306)	(1,038)	(66)	(2,403)	(928)	(2,456)	
Exploration costs	(2,182)	-	-	-	-	(448)	-	
Research and development expenses	(743)	(280)	(69)	(30)	(5)	-	(327)	
Other taxes	(48)	(53)	(97)	(1)	(24)	(113)	(124)	
Other operating income and expenses, net	(736)	(555)	(315)	(37)	(27)	(412)	(1,902)	
<b>Income (loss) before financial results, profit sharing and income taxes</b>	<b>37,036</b>	<b>(8,461)</b>	<b>2,521</b>	<b>(165)</b>	<b>1,195</b>	<b>2,122</b>	<b>(4,809)</b>	
Financial income (expenses), net	-	-	-	-	-	-	-	76

Equity in results of non-consolidated companies	44	(98)	238	15	5	24	2
Profit sharing	(271)	(194)	(34)	(1)	(66)	(29)	(272)
<b>Income (loss) before income taxes</b>	<b>36,809</b>	<b>(8,753)</b>	<b>2,725</b>	<b>(151)</b>	<b>1,134</b>	<b>2,117</b>	<b>(5,003)</b>
Income tax	(12,495)	3,025	(845)	56	(360)	(926)	4,145
<b>Net income (loss)</b>	<b>24,314</b>	<b>(5,728)</b>	<b>1,880</b>	<b>(95)</b>	<b>774</b>	<b>1,191</b>	<b>(858)</b>
Net income (loss) attributable to:							
Shareholders of Petrobras	24,326	(5,718)	1,862	(95)	774	1,179	(721)
Non-controlling interests	(12)	(10)	18	-	-	12	(137)
	<b>24,314</b>	<b>(5,728)</b>	<b>1,880</b>	<b>(95)</b>	<b>774</b>	<b>1,191</b>	<b>(858)</b>

(1) As from 2011 Biofuel's results are presented separately. This information was previously included in the Corporate Segment. For comparative purposes, the 2010 and 2009 information was reclassified.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Segment Information (Continued)

Years ended December 31, 2011, 2010 and 2009

*(In millions of Dollars)*

	Year ended December 31, 2010							Eli
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Biofuel(1)	Distribution	International	Corporate (1)	
<b>Sales revenues</b>	<b>54,273</b>	<b>97,936</b>	<b>8,492</b>	<b>272</b>	<b>37,282</b>	<b>13,519</b>	-	
Intersegments	54,031	32,539	1,001	238	718	2,795	-	
Third parties	242	65,397	7,491	34	36,564	10,724	-	
Cost of sales	(25,201)	(91,170)	(6,232)	(273)	(34,078)	(10,565)	-	
<b>Gross profit</b>	<b>29,072</b>	<b>6,766</b>	<b>2,260</b>	<b>(1)</b>	<b>3,204</b>	<b>2,954</b>	-	
<b>Income</b>								
<b>(expenses)</b>	<b>(3,316)</b>	<b>(3,594)</b>	<b>(1,412)</b>	<b>(70)</b>	<b>(2,057)</b>	<b>(1,860)</b>	<b>(4,793)</b>	
Selling, administrative and general expenses	(452)	(2,924)	(1,036)	(40)	(1,976)	(875)	(2,141)	
Exploration costs	(1,485)	-	-	-	-	(683)	-	
Research and development expenses	(440)	(216)	(73)	-	(5)	(1)	(254)	
Other taxes	(124)	(68)	(30)	(1)	(17)	(119)	(150)	
Other operating income and expenses, net	(815)	(386)	(273)	(29)	(59)	(182)	(2,248)	
<b>Income (loss) before financial results, profit sharing and income taxes</b>	<b>25,756</b>	<b>3,172</b>	<b>848</b>	<b>(71)</b>	<b>1,147</b>	<b>1,094</b>	<b>(4,793)</b>	
	-	-	-	-	-	-	1,551	

Financial income (expenses), net							
Equity in results of non-consolidated companies	-	192	181	(6)	4	(13)	(11)
Profit sharing	(317)	(223)	(39)	-	(70)	(28)	(319)
<b>Income (loss) before income taxes</b>	<b>25,439</b>	<b>3,141</b>	<b>990</b>	<b>(77)</b>	<b>1,081</b>	<b>1,053</b>	<b>(3,572)</b>
Income tax	(8,641)	(1,015)	(275)	24	(371)	(254)	3,429
<b>Net income (loss)</b>	<b>16,798</b>	<b>2,126</b>	<b>715</b>	<b>(53)</b>	<b>710</b>	<b>799</b>	<b>(143)</b>
Net income (loss) attributable to:							
Shareholders of Petrobras	16,874	2,088	736	(53)	710	730	(527)
Non-controlling interests	(76)	38	(21)	-	-	69	384
	<b>16,798</b>	<b>2,126</b>	<b>715</b>	<b>(53)</b>	<b>710</b>	<b>799</b>	<b>(143)</b>

(1) As from 2011 Biofuel's results are presented separately. This information was previously included in the Corporate Segment. For comparative purposes, the 2010 and 2009 information was reclassified.

See the accompanying notes to the consolidated financial statements.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Segment Information (Continued)

**Years ended December 31, 2011, 2010 and 2009***(In millions of Dollars)*

	Year ended December 31, 2009							Elimina
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Biofuel (1)	Distribution	International	Corporate (1)	
<b>Sales revenues</b>	<b>38,759</b>	<b>74,381</b>	<b>4,923</b>	<b>118</b>	<b>29,652</b>	<b>10,239</b>	-	(6
Intersegments	38,286	25,136	938	117	685	1,764	-	(6
Third parties	473	49,245	3,985	1	28,967	8,475	-	
Cost of sales	(19,907)	(61,376)	(3,377)	(137)	(27,081)	(8,314)	-	6
<b>Gross profit</b>	<b>18,852</b>	<b>13,005</b>	<b>1,546</b>	<b>(19)</b>	<b>2,571</b>	<b>1,925</b>	-	
<b>Income</b>								
<b>(expenses)</b>	<b>(3,864)</b>	<b>(2,778)</b>	<b>(909)</b>	<b>(49)</b>	<b>(1,585)</b>	<b>(1,568)</b>	<b>(3,559)</b>	
Selling, administrative and general expenses	(335)	(2,351)	(533)	(31)	(1,585)	(808)	(1,840)	
Exploration costs	(1,575)	-	-	-	-	(486)	-	
Research and development expenses	(259)	(169)	(32)	-	(5)	(2)	(218)	
Other taxes	(48)	(47)	(19)	(1)	(13)	(78)	(121)	
Other operating income and expenses, net	(1,647)	(211)	(325)	(17)	18	(194)	(1,380)	
<b>Income (loss) before financial results, profit sharing and income taxes</b>	<b>14,988</b>	<b>10,227</b>	<b>637</b>	<b>(68)</b>	<b>986</b>	<b>357</b>	<b>(3,559)</b>	
	-	-	-	-	-	-	97	

Financial income (expenses), net							
Equity in results of non-consolidated companies	-	126	124	-	(14)	(116)	-
Profit sharing	(281)	(114)	(23)	(1)	(58)	(34)	(349)
<b>Income (loss) before income taxes</b>	<b>14,707</b>	<b>10,239</b>	<b>738</b>	<b>(69)</b>	<b>914</b>	<b>207</b>	<b>(3,811)</b>
Income tax	(4,938)	(3,411)	(193)	23	(331)	(258)	3,427
<b>Net income (loss)</b>	<b>9,769</b>	<b>6,828</b>	<b>545</b>	<b>(46)</b>	<b>583</b>	<b>(51)</b>	<b>(384)</b>
Net income (loss) attributable to:							
Shareholders of Petrobras	9,825	6,742	487	(46)	582	(123)	(1,774)
Non-controlling interests	(56)	86	58	-	-	72	1,391
	<b>9,769</b>	<b>6,828</b>	<b>545</b>	<b>(46)</b>	<b>583</b>	<b>(51)</b>	<b>(383)</b>

(1) As from 2011 Biofuel's results are presented separately. This information was previously included in the Corporate Segment. For comparative purposes, the 2010 and 2009 information was reclassified.

See the accompanying notes to the consolidated financial statements.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated Segment Information (Continued)

**Years ended December 31, 2011 and 2010***(In millions of Dollars)*

The following represents the Company's assets by segments:

Assets	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Biofuel (1)	Distribution	International	Corporate (1)	Elimination
<b>Current assets</b>	<b>5,617</b>	<b>21,966</b>	<b>2,509</b>	<b>128</b>	<b>4,241</b>	<b>4,410</b>	<b>32,990</b>	<b>(7,260)</b>
<b>Non-current assets</b>	<b>135,496</b>	<b>62,364</b>	<b>25,136</b>	<b>1,161</b>	<b>3,644</b>	<b>15,017</b>	<b>12,336</b>	<b>(33,000)</b>
Long-term receivables	4,140	4,217	1,626	17	663	2,913	8,717	(33,000)
Investments	12	3,362	1,152	859	45	999	101	
Property, plant and equipment, net	90,539	54,629	21,968	285	2,510	9,512	3,022	
Intangible assets	40,805	156	390	-	426	1,593	496	
<b>As of December 31, 2011</b>	<b>141,113</b>	<b>84,330</b>	<b>27,645</b>	<b>1,289</b>	<b>7,885</b>	<b>19,427</b>	<b>45,326</b>	<b>(7,600)</b>
<b>Current assets</b>	<b>3,681</b>	<b>17,238</b>	<b>3,053</b>	<b>126</b>	<b>3,950</b>	<b>3,309</b>	<b>38,176</b>	<b>(5,970)</b>
<b>Non-current assets</b>	<b>132,919</b>	<b>53,277</b>	<b>27,056</b>	<b>1,007</b>	<b>3,434</b>	<b>13,649</b>	<b>15,455</b>	<b>(16,000)</b>
Long-term receivables	3,762	3,605	1,608	8	576	2,352	10,888	(16,000)

Investments	-	3,890	1,207	670	44	1,042	104	
Property, plant and equipment, net	83,135	45,622	24,015	328	2,404	8,716	3,884	
Intangible assets	46,022	160	226	1	410	1,539	579	
<b>As of December 31, 2010</b>	<b>136,600</b>	<b>70,515</b>	<b>30,109</b>	<b>1,133</b>	<b>7,384</b>	<b>16,958</b>	<b>53,631</b>	<b>(6,130)</b>

(1) 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 consolidated financial statements.



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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

## Consolidated Segment Information

**Years ended December 31, 2011, 2010 and 2009***(In millions of Dollars)*

Consolidated information of International Segment is presented bellow:

	Year ended December 31, 2011						Total
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Distribution	Corporate	Eliminations	
<b>Income statement</b>							
Sales revenues	5,148	8,510	543	4,972	-	(2,217)	16,956
Intersegments	3,808	2,142	23	27	-	(2,223)	3,777
Third parties	1,340	6,368	520	4,945	-	6	13,179
<b>Income (loss) before financial results, profit sharing and income taxes</b>	2,379	(136)	115	80	(304)	(12)	<b>2,122</b>
<b>Net income (loss) attributable to shareholders of Petrobras</b>	1,331	(128)	158	67	(237)	(12)	<b>1,179</b>

	Year ended December 31, 2010						Total
	Exploration and Production	Refining, Transportation & Marketing	Gas & Power	Distribution	Corporate	Eliminations	
<b>Income statement</b>							
Sales revenues	3,738	7,498	548	4,125	-	(2,390)	13,519
Intersegments	2,990	2,142	44	33	-	(2,414)	2,795
Third parties	748	5,356	504	4,092	-	24	10,724

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<b>Income (loss) before financial results, profit sharing and income taxes</b>	1,217	43	70	5	(233)	(8)	<b>1,094</b>
<b>Net income (loss) attributable to shareholders of Petrobras</b>	863	52	85	5	(267)	(8)	<b>730</b>

Year ended December 31, 2009

	<b>Exploration and Production</b>	<b>Refining, Transportation &amp; Marketing</b>	<b>Gas &amp; Power</b>	<b>Distribution</b>	<b>Corporate</b>	<b>Eliminations</b>	<b>Total</b>
<b>Income statement</b>							
<b>Sales revenues</b>	<b>2,838</b>	<b>5,833</b>	<b>495</b>	<b>2,755</b>	<b>15</b>	<b>(1,697)</b>	<b>10,239</b>
Intersegments	1,952	1,403	58	45	5	(1,699)	1,764
Third parties	886	4,430	437	2,710	10	2	8,475
<b>Income (loss) before financial results, profit sharing and income taxes</b>	<b>577</b>	<b>(56)</b>	<b>79</b>	<b>19</b>	<b>(293)</b>	<b>31</b>	<b>357</b>
<b>Net income (loss) attributable to shareholders of Petrobras</b>	<b>388</b>	<b>(94)</b>	<b>99</b>	<b>18</b>	<b>(565)</b>	<b>31</b>	<b>(123)</b>
<b>Total Assets</b>							
<b>As of December 31, 2011</b>	<b>14,585</b>	<b>3,393</b>	<b>929</b>	<b>1,007</b>	<b>1,819</b>	<b>(2,306)</b>	<b>19,427</b>
<b>As of December 31, 2010</b>	<b>12,432</b>	<b>3,261</b>	<b>911</b>	<b>988</b>	<b>1,705</b>	<b>(2,339)</b>	<b>16,958</b>

See the accompanying notes to the consolidated financial statements.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements

**Years ended December 31, 2011, 2010 and 2009**

*(In millions of Dollars)*

**1. The Company and its operations**

Petróleo Brasileiro S.A. - Petrobras is a Brazilian petroleum company which, directly or through its subsidiaries (referred to jointly as “Petrobras” or “the Company”) is dedicated to prospecting, drilling, refining, processing, trading and transporting petroleum 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. Basis of preparation**

**2.1 Statement of compliance**

The consolidated financial statements are being presented in accordance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) in U.S. dollar.

The consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2012.

**2.2 Basis of measurement**

The financial statements are prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out below. These policies have been applied consistently to all periods presented in these consolidated financial statements.

**2.3 Functional and presentation currency**

Petrobras has selected the U.S. Dollar as its presentation currency. The functional currency of Petrobras and all Brazilian subsidiaries is the Brazilian Real. The functional currency of Petrobras International Finance Company – PifCo and some subsidiaries and certain of the special purpose companies that operate in the international economic environment is the U.S. dollar, and the functional currency of Petrobras Argentina is the Argentine Peso.

The U.S. dollar amounts for the years presented have been translated from the Brazilian Real amounts in accordance with IAS 21 “The effects of changes in foreign exchange rates”. Transactions occurring in foreign currencies are first remeasured to the Brazilian Real and then translated to the U.S. dollar, with remeasurement gains and losses being recognized in the income statement.

Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**2. Basis of preparation** (Continued)

**2.3 Functional and presentation currency** (Continued)

The Company has translated all assets and liabilities into U.S. dollars at the current exchange rate and all accounts in the statements of income and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the year. The net translation gain or loss resulting from this remeasurement process was excluded from income and presented as a cumulative translation adjustment (“CTA”) within “Accumulated other comprehensive income” in the consolidated statements of changes in shareholders’ equity.

The cumulative translations adjustment was set to nil at January 1, 2009 (the transition date of IFRS).

**2.4 Use of estimates and judgments**

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

**2.5 Business segment reporting**

The following segment information has been prepared in accordance with IFRS 8 - Business segments.

Transactions carried out with third parties and between business segments are measured in accordance with internal transfer prices based on market information.

The Company operates under 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 petroleum and oil products produced in their natural gas processing plants.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**2. Basis of preparation** (Continued)

**2.5 Business segment reporting** (Continued)

b) Refining, Transportation & Marketing: This segment covers 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.

c) Gas and Power: This segment covers activities of transportation and trading of natural gas produced in Brazil or imported, transportation 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: This segment covers activities of production of biodiesel and its co-products and ethanol activities, through equity investments, production and marketing of ethanol, sugar and the excess electric power generated from sugarcane bagasse.

e) Distribution: This segment covers the distribution of oil products, ethanol and compressed natural gas in Brazil, represented by the operations of Petrobras Distribuidora.

f) International: This segment covers activities for exploration and production of oil and gas, refining, transportation and 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 healthcare plans for retired employees and pensioners, are allocated in the corporate segment.

**3. Consolidation basis**

The consolidated financial statements of subsidiaries, jointly controlled entities and specific purpose entities are included in the consolidated financial statements pursuant to the accounting policies adopted by Petrobras.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

### **3. Consolidation basis (Continued)**

The consolidated financial statements comprise the consolidated financial statements of Petrobras and the following companies:

#### **a) Subsidiaries**

<b>Subsidiaries</b>	<b>Country</b>	<b>Ownership percentage - %</b>	
		<b>Subscribed, paid in and voting</b>	<b>2010</b>
Petrobras Química S.A. - Petroquisa and its subsidiaries	Brazil	100.00	100.00
Petrobras Distribuidora S.A. - BR and its subsidiaries	Brazil	100.00	100.00
Braspetro Oil Services Company - Brasoil and its subsidiaries (i)	Cayman Islands	100.00	100.00
Braspetro Oil Company - BOC (i)	Cayman Islands	99.99	99.99
Petrobras International Braspetro B.V. - PIBBV and its subsidiaries (i) (ii)	Holand	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)	Holand	100.00	100.00
5283 Participações Ltda.	Brazil	100.00	100.00
FAFEN Energia S.A. and its subsidiary (v)	Brazil		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
Termoceaná 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 Petroquímicos 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 Cabiunas Investment CO. (i)	Cayman 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 consolidated 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 into Petrobras - Petróleo Brasileiro S.A.

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



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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

### **3. Consolidation basis (Continued)**

#### **b) Specific purpose entities - SPE**

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

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

Consolidated financial statements comprise the sum of assets, liabilities, income and expenses, according to their nature. Intercompany balances and transactions, including unrealized profits arising from intragroup transactions, are eliminated.

## **4. Summary of significant accounting policies**

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

Sales revenues of crude oil and oil products, petrochemical products, natural gas and other related products are recognized when title passes to the customer, because at that time the amount can be reasonably measured,

collectibility is reasonably assured, persuasive evidence of an arrangement exists, the seller's price to the buyer is fixed or determinable and the significant risks and rewards of ownership have been transferred. Title is transferred to the customer when delivery occurs pursuant to the terms of the sales contracts. Revenues from the production of natural gas properties in which Petrobras has an interest with other producers are recognized based on the actual volumes sold during the period. Subsequent adjustments to revenues based on production sharing agreements or volumetric delivery differences are not significant.

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

Sales revenues from freight and other services are recognized when amounts and the stage of completion of the transaction can be measured reliably.

The financial income (expenses), net include mainly income from interest on financial investments and government bonds, expenses with interest on financing, fair value gains and losses from marketable securities measurement, as well as net exchange and monetary variations.

Costs and expenses are recognized on the accrual basis.

Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**4. Summary of significant accounting policies** (Continued)

**4.2 Financial assets and liabilities**

**4.2.1 Cash and cash equivalents**

Cash and cash equivalents consist of short-term highly liquid investments which are readily convertible to cash, and with a maturity of three months or less from the date of acquisition.

**4.2.2 Marketable securities**

Marketable securities have been classified by the Company based upon management's strategies in the following categories:

- Trading securities, which are marked-to-market through profit or loss;
- Available-for-sale securities, which are marked-to-market through other comprehensive income;
- Held-to-maturity securities, which are recorded at amortized cost.

Interest and monetary correction of the securities are recorded in the income statement.

**4.2.3 Accounts receivable**

Accounts receivable are initially measured at fair value of the amount of the consideration to be received and, subsequently, at amortized cost using the effective interest rate method, reduced by impairment losses through use of an allowance for recoverable amount.

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

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

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**4. Summary of significant accounting policies** (Continued)

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

Derivative financial instruments are recognized in the Company's financial position as either, both in assets or liabilities, and are measured at fair value, which is determined based on market prices, when available.

The Company uses derivative financial instruments, not designated as hedging instruments in a hedging relationship, to mitigate the risk of unfavorable price changes in oil purchases and foreign currencies. These instruments are marked-to-market with the associated gains or losses recognized as “Financial income” or “Financial expenses”.

In hedging relationships qualified for cash flow hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss. Gains or losses that were recognized in other comprehensive income are reclassified to profit or loss when the hedged transaction affects profit or loss.

**4.2.6** *Common and preferred shares*

Common and preferred shares are classified as equity instruments and presented in the shareholders' equity. Shares issuance costs are classified as additional paid in capital and presented net of tax effects as a reduction of the shareholders' equity.

Preferred shares have priority over common shares in the event of reimbursement of capital and receipt of dividends. Dividends distributed to this class of share are based on, at least, the higher amount among the following of: 3% over the net book value of shareholders equity ,regarding preferred shares interest, or 5% of the paid-in capital regarding preferred shares. Preferred shares of Petrobras also have the following characteristics: do not grant any voting rights; are non-convertible into common shares and participate under the same terms as common shares, in the capital increases resulting from the incorporation of reserves and profits.



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

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**4. Summary of significant accounting policies** (Continued)

**4.3 Inventories**

Inventories are stated as follows:

- Raw material comprises mainly the stocks of petroleum, which are stated at the average value of the importing and production costs, adjusted, when applicable, to their net realizable value;
- Oil products and fuel alcohol are stated at average refining or purchase cost, adjusted, when applicable, to their net realizable 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 in associates and jointly controlled entities**

These investments encompass interest in: entities over which the Company has significant influence in the financial and operating policy decisions, an associate; and entities under common control, jointly controlled entities. Both types of investments are accounted for based on the equity method of accounting.

**4.5 Business combinations and goodwill**

Business combinations are accounted for based on the acquisition method. According to the general principles of the acquisition method each identifiable asset acquired and liability assumed is measured at its acquisition-date fair value.

Goodwill is measured as the excess of the aggregate of the consideration transferred and the fair value of any non-controlling interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. A gain is recognized when the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceed the aggregate of the consideration transferred and the fair value of any non-controlling interest in the acquiree.

Goodwill arising from investments in associates and jointly controlled entities is accounted for as part of these investments. It is measured by the excess of the cost of the investment over the proportional share of the net asset's fair value.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**4. Summary of significant accounting policies** (Continued)

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

***Valuation***

Property, plant and equipment, net is stated at the cost of acquisition or construction, which represents the costs incurred for bringing the asset to the condition for operation, adjusted during hyperinflationary periods, less accumulated depreciation and impairment losses.

The costs incurred in connection with the exploration, development and production of oil and gas are accounted for in accordance with the successful efforts method. This method requires that capitalization of costs incurred in connection with the development of proved reserve areas and successful exploratory wells. In addition, costs related to geological and geophysical activities are expensed when incurred and exploratory wells drilled in areas of unproved reserves are expensed when determined to be dry or non-economical.

Expenditures on major maintenance of industrial units and ships are capitalized if certain recognition criteria of IAS 16 are met. Such maintenance occurs, on average, every four years.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized as part of the costs of these assets. Borrowing costs of funds borrowed generally are capitalized based on the Company's weighted average cost of borrowings, excluding borrowing costs directly attributable.

***Depreciation***

Depreciation, depletion and amortization of proved oil and gas producing properties, except for signature bonus, is accounted for according to the unit-of-production method, applied on a field by field basis, based on the ratio of

reserves produced.

Reserves are estimated by the Company's technical experts according to the criteria established by the U.S. Securities and Exchange Commission – SEC . Estimates are revised for depreciation, depletion and amortization purposes at least once a year or on interim basis, if material changes occur.

The straight-line method is used for assets with a useful life shorter than the life of the field.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**4. Summary of significant accounting policies** (Continued)

**4.6 Property, plant and equipment, net** (Continued)

Except for land, which is not depreciated, other property, plant and equipment are depreciated on a straight line basis, in accordance with the following estimated useful lives:

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

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

**4.7 Intangible assets**

Intangible assets are stated at the cost, less accumulated amortization and impairment losses. It comprise rights and concessions that include: the signature bonus paid for obtaining concessions for exploration of oil and natural gas, including assignment agreement in blocks of the pre-salt area (“Cessão Onerosa”); public service concessions; trademarks; patents; software and goodwill.

Amortization of signature bonus costs of producing properties is recorded using the unit-of-production method, applied on a field by field basis, based on the ratio of reserves produced. Other intangible assets with definite useful life are amortized on a straight line basis.

**4.8 Impairment**

Property, plant and equipment and intangible assets with definite useful lives are assessed for impairment when there is evidence that the carrying amount may not be recoverable.

Assets related to exploration and development of oil and gas and assets that have an indefinite useful life, such as goodwill, are tested for impairment annually.

Assets are grouped for impairment test at the smallest identifiable group that generates largely independent cash inflows (the cash generating unit). Exploration and development of oil and gas assets are grouped by field.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**4. Summary of significant accounting policies** (Continued)

**4.8 Impairment** (Continued)

Impairment test comprises a comparison of the carrying amount of a cash generating unit with its recoverable amount. Where the carrying amount of cash generating unit exceeds its recoverable amount, it is considered impaired and is written off to its recoverable amount. Reversal of previously recognized impairment losses is permitted, except for goodwill.

The recoverable amount of an asset or group of assets is the higher amount between its fair value less cost to sell and its value in use. Value in use is generally used by the Company for impairment testing purposes, except when specifically indicated.

Value in use is estimated based on future cash flows expected to derive from an asset or cash generating unit, discounted at a pre-tax discount rate. This rate derives from the Company's weighted average cost of capital (WACC) – Post tax.

The main assumptions used for future cash flows are: prices based on the Company's most recent strategic plan; production curves associated with existing projects in the Company's portfolio, operating costs reflecting market conditions and investments required for carrying out the projects.

**4.9 Leases**

A lease is classified as a finance lease if it transfers substantially all of the risks and rewards incidental to the ownership of an asset. If not, a lease is classified as an operating lease.



Finance lease arrangements are recognized as assets with the corresponding associated liabilities in the statements of financial position.

Operating lease arrangements are recognized as expenses, as these are incurred over the lease term.

#### **4.10 Decommissioning costs**

When a field is declared to be commercial, decommissioning costs are recognized as assets with the corresponding associated liabilities in the statements of financial position based on the present value of the expected future cash outflows, discounted at a pre-tax rate. Unwinding of the discount is recognized as financial expenses, when incurred.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**4. Summary of significant accounting policies** (Continued)

**4.11 Income taxes**

The Company measures current taxes based on tax rates that have been enacted or substantively enacted at the statement of financial position date. Taxable profit differs from accounting profit due to certain temporary or permanent differences.

Deferred tax assets and liabilities are recognized based on the statement of financial position liability method which focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. Deferred tax assets and liabilities are measured based on tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

**4.12 Employees' postretirement benefits**

Employees' postretirement benefits are recognized based on the projected credit unit method. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation.

The present value of a defined benefit obligation is recognized net of the fair value of plan assets, when applicable, out of which the obligations are to be directly settled. Such surplus or deficit is determined based on actuarial assumptions, among other factors. Valuations are made with actuarial calculations which are annually revised by an independent actuary.

Actuarial assumptions are the Company's best estimates of the variables that will determine the ultimate cost of providing post-retirement benefits. It includes demographical and financial assumptions.

Actuarial gain and losses are recognized over the expected average remaining working lives of the employees participating in that plan, in accordance with the corridor method.

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

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**4. Summary of significant accounting policies** (Continued)

**4.13 Government grants**

Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

- Grants related to reinvestments are recognized according to depreciation of the related assets.
- Grants related to certain exploration profit are recognized directly in profit.

After being recognized as income, government grants are reclassified from retained earnings to fiscal reserves.

**4.14 New standards and interpretations**

During 2011 the following standards issued by IASB became effective but did not have 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

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***4. Summary of significant accounting policies (Continued)****4.14 New standards and interpretations (Continued)**

The standards issued by IASB that have not become effective and that have not been early adopted by the Company as of December 31, 2011 are as follows:

<b>Standards</b>	<b>Description</b>	<b>Term (*)</b>
Amendments to IFRS 7	Disclosures : <i>Transfers of Financial Assets</i> .	July 1, 2011
Amendments to IAS 12	<i>Deferred Tax: Recovery of Underlying Assets</i> . Establishes criteria for calculating the tax base of an asset.	January 1, 2012
IFRS 10	" <i>Consolidated Financial Statements</i> ". Establishes principles for the preparation and presentation of consolidated financial statements when an entity controls one or more other entities.	January 1, 2013
IFRS 11	" <i>Joint Arrangements</i> ". Establishes principles for disclosure of financial statements of entities that are parties of joint agreements.	January 1, 2013
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		January 1, 2015

*“Mandatory Effective Date of IFRS 9 and Transition Disclosures”*. 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.

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

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.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***5. Cash and cash equivalents**

	As of December, 31	
	2011	2010
<b>Cash and banks</b>	1,989	1,978
<b>Financial investments</b>		
<i>- In Brazil</i>		
Deposit	5,492	6,759
Other investment funds	2,279	1,050
	<b>7,771</b>	<b>7,809</b>
<i>- Abroad</i>	9,297	7,868
Total financial investments	<b>17,068</b>	<b>15,677</b>
<b>Total cash and cash equivalents</b>	<b>19,057</b>	<b>17,655</b>

Financial investments in Brazil are represented by investment funds whose resources are generally invested in federal government bonds.

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

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***6. Marketable securities**

	<b>As of December, 31</b>	
	<b>2011</b>	<b>2010</b>
Trading securities	8,949	15,395
Available-for-sale	2,921	3,183
Held-to-maturity	155	154
	<b>12,025</b>	<b>18,732</b>
<b>Current</b>	8,961	15,612
<b>Non-current</b>	3,064	3,120

Available-for-sale securities are presented as “Non-current assets” and include Series B National Treasury Notes (“NTN - B”) in the amount of US\$ 2,879 as of December 31, 2011. In 2008, NTN - B, were given in guarantee to Petros as a result of the Term of Financial Commitment, as described in Note 21. The nominal value of the NTN-Bs is measured based on variations in the Amplified Consumer Price Index (IPCA). The maturities of these notes are 2024 and 2035 and they bear interest coupons of 6% p.a., which is paid semi-annually.

The trading securities refer mostly 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.

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***7. Accounts receivable****7.1 Accounts receivable, net**

	<b>As of December, 31</b>	
	<b>2011</b>	<b>2010</b>
Trade Accounts Receivable		
Third parties	10,688	9,860
Related parties (Note 18)		
Associates	826	670
Receivables from the electricity sector	1,574	1,888
Petroleum and alcohol accounts - Receivable from Federal Government	444	493
Others	2,964	2,803
	<b>16,496</b>	<b>15,714</b>
Allowance for uncollectible accounts	(1,487)	(1,609)
	<b>15,009</b>	<b>14,105</b>
<b>Current</b>	<b>11,756</b>	<b>10,845</b>
<b>Non-current</b>	<b>3,253</b>	<b>3,260</b>

**7.2 Changes in the allowance for uncollectible accounts**

	<b>As of December, 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Opening balance</b>	<b>1,609</b>	<b>1,454</b>	<b>1,204</b>
Additions (*)	283	201	130
Write-offs/ Reversals (*)	(220)	(118)	(266)
			<b>418</b>

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Accumulated Translation	(185)	72	386
<b>Closing balance</b>	<b>1,487</b>	<b>1,609</b>	<b>1,454</b>
<b>Current</b>	898	1,029	888
<b>Non-current</b>	589	580	566

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

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***7. Accounts receivable** (Continued)**7.3 Accounts receivable - overdue**

	<b>As of December 31,</b>	
	<b>2011</b>	<b>2010</b>
Up to 3 months	752	490
From 3 to 6 months	115	97
From 6 to 12 months	141	127
More than 12 months	1,590	1,811

**8. Inventories**

	<b>As of December 31,</b>	
	<b>2011</b>	<b>2010</b>
Products:		
Oil products (*)	4,886	3,753
Fuel alcohol (*)	417	286
	5,303	4,039
Raw materials, mainly crude oil (*)	7,915	5,704
Maintenance materials and supplies (*)	1,796	1,952
Other	196	157
	<b>15,210</b>	<b>11,852</b>
<b>Current</b>	15,165	11,808

<b>Non-current</b>	45	44
(*) Includes imports in transit.		

## 9. Restricted deposits for legal proceedings and guarantees

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

	<b>As of December 31,</b>	
	<b>2011</b>	<b>2010</b>
Labor	603	557
Tax (*)	674	715
Civil (*)	243	358
Other	55	44
<b>Total</b>	<b>1,575</b>	<b>1,674</b>

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

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**10. Acquisitions and sales of assets and interests**

**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 US\$ 11. As a result of the purchase, Petrobras became holder of 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) acquired 100% of the shares of Gas Brasileiro Distribuidora S.A. (GBD) for US\$ 271. The appraisal of the fair value of the assets acquired and liabilities assumed has not been concluded and, therefore, preliminarily, a goodwill of US\$ 12 was 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 northwest 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.

**10.2 Acquisition of interests in jointly-controlled entities and in associates**

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

On July 1, 2011, Petrobras Biocombustível S.A. purchased 50% of interest in BSBios Indústria e Comércio de Biodiesel Sul Brasil S.A by transferring consideration in the amount of US\$ 85 through: US\$ 49 in cash and US\$ 36 regarding interest in BSBios Marialva Indústria e Comércio de Biodiesel S.A.

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***10. Acquisitions and sales of assets and interests (Continued)****10.2 Acquisition of interests in jointly-controlled entities and in associates (Continued)****Valuation of net assets at fair value – Nova Fronteira, Bioóleo, Braskem, Guarani and Total Canavieira**

In 2010, the Company entered into agreements for investing in the capital of the following 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	230	10	1,495	468	83	<b>2,286</b>
Interest in the fair value of the net assets acquired	(227)	(9)	(1,194)	(426)	(47)	<b>(1,903)</b>
<i>Goodwill</i>	3	1	301	42	36	<b>383</b>
Interest acquired of total capital (%)	49.00%	50.00%	10.69%	31.44%	43.58%	

The interest in the fair value of the net assets acquired includes a surplus value of property, plant and equipment, net and intangible assets in the amount of US\$ 191 which is classified as investments, as well as goodwill in the amount of US\$ 383.

**10.3 Acquisition of non-controlling interests**



**Specific Purpose Entities - SPE**

During 2011, the Company exercised certain SPE's purchase options which resulted in an increase of US\$ 486 in the shareholders' equity, as additional paid in capital, as follows:

<b>Date of Option</b>	<b>Corporate name of SPE</b>	<b>% of shares</b>	<b>Additional paid-in capital</b>
01/12/2011	Companhia Mexilhão do Brasil - CMB	100%	60
11/11/2011	Transportadora Gasene S.A. - Gasene	100%	421
12/09/2011	Companhia de Recuperação Secundária - CRSec	100%	5
			486

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*(Expressed in millions of US Dollars, except when specifically indicated)*

**10. Acquisitions and sales of assets and interests (Continued)**

**10.3 Acquisition of non-controlling interests (Continued)**

**Specific Purpose Entities – SPE** (Continued)

As a result of the exercise, Gasene Participações Ltda, former parent company of Transportadora Gasene, ceased to be consolidated in Petrobras.

**Innova S.A.**

On March 31, 2011, Petrobras acquired non-controlling interest in Innova, a petrochemical company located in the industrial park of Triunfo (Rio Grande do Sul State), becoming holder of 100% of Innova' shares. This transaction resulted in a decrease of US\$ 55 in the Petrobras shareholders' equity.

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

The deposit has been classified as Investments, until resolution of the conflict by 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 US\$ 6 thousand. As from this purchase option, the SPE ceased to be consolidated in Petrobras, in compliance with the related contractual obligations.

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*(Expressed in millions of US Dollars, except when specifically indicated)*

**10. Acquisitions and sales of assets and interests (Continued)**

**10.4 Sale of assets and other information (Continued)**

**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, pursuant to an agreement signed in 2010. The transaction, which is subject to approval by the Argentine regulatory agency, comprised 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 transportation 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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*(Expressed in millions of US Dollars, except when specifically indicated)***11. Investments****11.1 Information of subsidiaries, jointly controlled entities and associates**

	Thousands of shares/ quotas				Net income (loss) for the year
	Subscribed capital as of December 31, 2011	Common shares/ quotas	Preferred shares	Shareholders' equity	
<b>Subsidiaries</b>					
Petrobras Netherlands B.V. - PNBV	3,851	26,057		7,664	2,189
Petrobras Gás S.A. - Gaspetro	3,526	3,103	775	5,637	491
Petrobras Distribuidora S.A. - BR	2,747	42,853,453		5,382	757
Petrobras Química S.A. - Petroquisa	2,019	13,508,637	12,978,886	2,407	(299)
Petrobras Transporte S.A. - Transpetro	1,314	2,464,466		1,728	376
Refinaria Abreu e Lima S.A.	1,540	2,889,240		1,598	(441)
Petrobras Biocombustível S.A.	1,014	190,239		787	(124)
Companhia Locadora de Equipamentos Petrolíferos S.A. - CLEP	441	180,000		785	(2)
Petrobras International Finance Company - PifCo	283	300,050		(727)	(378)
Downstream Participações Ltda.	654	1,226,500 (*)		611	(288)
Termomacaé Ltda.	338	634,015 (*)		396	106
Comperj Poliolefinas S.A.	347	65,108		347	
Petrobras International Braspetro - PIB BV	3	2,837		246	749
INNOVA S.A.	164	57,600	5,747	199	23
Termoceaná Ltda.	147	275,226 (*)		170	24
Petrobras Comercializadora de Energia Ltda. - PBEN	116	216,852 (*)		144	27
Baixada Santista Energia Ltda.	158	297,136 (*)		128	(13)
Braspetro Oil Services Company - Brasoil	187	106,210		115	(11)
Termomacaé Comercializadora de Energia Ltda	42	77,599 (*)		61	42
Sociedade Fluminense de Energia Ltda. - SFE	30	55,556 (*)		55	64
Comperj Estirênicos S.A.	46	8,739		46	
Comperj MEG S.A.	41	7,696		41	
5283 Participações Ltda.	759	1,422,603 (*)		29	85
Breitener Energética S.A.	85	160,000		25	(46)

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Cordoba Financial Services GmbH	3	1 (**)		22	
Termobahia S.A.	166	52		22	4
Petrobras Negócios Eletrônicos S.A. - E-Petro	11	21,000		15	1
Companhia de Desenvolvimento de Plantas Utilidades S.A. - CDPU	13	25,001		13	
Fundo de Investimento Imobiliário RB Logística - FII	1	117,127 (*)		6	5
Companhia de Recuperação Secundária S.A. - CRSEC		43,456		5	
Comperj Participações S.A.	10	1,771		4	(5)
Braspetro Oil Company - BOC		1 (**)			63
Cayman Cabiunas Investment Co.		100 (**)	25,500		

**Jointly controlled entities**

UTE Norte Fluminense S.A.	256	481,432		537	328
Termoaçu S.A.	373	699,737		387	9
Logum Logística S.A. former PMCC Soluções e Logísticas de Etanol S.A.	160	430,556		141	(16)
Brasil PCH S.A.	58	94,188	14,844	87	30
Cia Energética Manauara S.A.	24	45,000		76	16
Ibiritermo S.A.	4	7,652		51	21
Brasympe Energia S.A.	14	260,000		42	5
Participações em Complexos Bioenergéticos S.A. - PCBIOS	34	62,850		33	(2)
Refinaria de Petróleo Riograndense S.A.	8	5,158	10,138	28	10
Eólica Mangue Seco 4 - Geradora e Comercializadora de Energia Elétrica S.A.	21	39,918		22	2
Eólica Mangue Seco 3 - Geradora e Comercializadora de Energia Elétrica S.A.	21	38,911		22	2
Eólica Mangue Seco 2 - Geradora e Comercializadora de Energia Elétrica S.A.	19	35,353		20	2
Brentech Energia S.A.	21	25,901		19	
Eólica Mangue Seco 1 - Geradora e Comercializadora de Energia Elétrica S.A.	18	35,433		18	1
GNL do Nordeste Ltda.	1	7,507 (*)			

**Associates**

Braskem	4,288	451,669	349,997	5,293 (***)	(201) (***)
BRK - Investimentos Petroquímicos	1,297	269,193		2,730	(168)
UEG Araucária Ltda.	377	707,440 (*)		340	(4)
Fundo de Investimento em Participações de Sondas	138	261,573 (*)		136	(2)
Sete Brasil Participações S.A.	144	16,500		113	(35)
Termoelétrica Potiguar S.A. - TEP	20	6,159		49	2
Energética SUAPE II	75	139,977		30	(16)
Energética Camaçari Muriçy I Ltda.	36	67,260		12	(9)

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Companhia Energética Potiguar S.A.	4	1	11	7
Arembepe Energia S.A.	48	90,218	6	(20)
Bioenergética Britarumã S.A.		110		

(\*) Quotas

(\*\*) Number of shares in units

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

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*(Expressed in millions of US Dollars, except when specifically indicated)***11. Investments** (Continued)**11.2 Investments**

	2011	2010
<b>Associates and jointly controlled entities</b>		
BRK Investimentos Petroquimicos S.A.	1,652	1,963
Other petrochemical investments	1,668	1,935
Gas distributors	563	576
Guarani S.A.	452	408
Termoaçu S.A.	287	314
Petroritupano - Orielo	244	248
Nova Fronteira Bionergia S.A.	231	146
Petrowayu - La Concepción	176	196
Distrilec S.A.	115	137
Petrokariña - Mata	104	127
UEG Araucária	68	77
Transierra S.A.	65	61
Other associates and jointly controlled entities	783	659
	<b>6,408</b>	<b>6,847</b>
<b>Other investments</b>	122	110
	<b>6,530</b>	<b>6,957</b>

**11.3 Investments in listed companies**

Company	Shares		Type	Share price		Market value	
	2011	2010		2011	2010	2011	2010
<b>Subsidiaries</b>							



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Petrobras Argentina	678,396	678,396	ON	1.00	3.00	976	1,816
						<b>976</b>	<b>1,816</b>
<b>Associate companies</b>							
Braskem	212,427	212,427	ON	6.00	11.00	1,334	2,269
Braskem	75,793	75,793	PNA	7.00	12.00	517	927
Quattor Petroquímica (*)		46,049	PN		4.00		193
						<b>1,851</b>	<b>3,389</b>

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

The market value of these shares does not necessarily reflect the realizable value of a large block of shares.

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***11. Investments** (Continued)**11.4 Summarized information on jointly controlled entities and associates**

The Company invests in jointly controlled entities and associates 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 entities		Associates	
	In Brazil	Abroad	In Brazil	Abroad
Current assets	2,409	659	6,494	1,790
Non-current assets	798	204	2,115	401
Property, plant and equipment, net	4,080	1,250	12,271	1,196
Other non-current assets	69	443	2,340	-
	<b>7,356</b>	<b>2,556</b>	<b>23,220</b>	<b>3,387</b>
Current liabilities	1,656	1,105	5,466	1,699
Non-current liabilities	1,997	792	10,953	199
Shareholders' equity	3,693	559	6,685	1,489
Non-controlling interest	10	100	116	-
	<b>7,356</b>	<b>2,556</b>	<b>23,220</b>	<b>3,387</b>
Sales revenues	4,927	1,746	19,209	941
Net income	756	123	(211)	231
Ownership percentage - %	10% to 83%	33% to 51%	10% to 44%	22% to 36%



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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***12. Property, plant and equipment, net****12.1 By type of asset**

	Land, buildings and improvements	Equipment and other assets	Assets under construction (* )	Oil and gas producing properties	Total
<b>Balance at December 31, 2009</b>	<b>4,169</b>	<b>39,766</b>	<b>66,863</b>	<b>17,954</b>	<b>128,752</b>
Additions	126	2,950	32,727	1,784	37,587
Capitalized interest			3,141		3,141
Business combination	49	56	14		119
Write-offs	(81)	(51)	(863)	(635)	(1,630)
Transfers	1,068	19,829	(22,459)	4,478	2,916
Depreciation, amortization and depletion	(331)	(4,368)		(3,259)	(7,958)
Impairment - provision		(104)		(156)	(260)
Impairment - reversal		77		240	317
Accumulated translation adjustment	256	166	3,747	951	5,120
<b>Balance at December 31, 2010</b>	<b>5,256</b>	<b>58,321</b>	<b>83,170</b>	<b>21,357</b>	<b>168,104</b>
Cost	7,450	96,353	83,170	46,545	233,518
Accumulated depreciation, amortization and depletion	(2,194)	(38,032)		(25,188)	(65,414)
<b>Balance at December 31, 2010</b>	<b>5,256</b>	<b>58,321</b>	<b>83,170</b>	<b>21,357</b>	<b>168,104</b>
Additions	101	1,570	31,840	2,059	35,570
Capitalized interest			4,382		4,382
Business combination			12		12
Write-offs	(25)	(262)	(1,296)	(326)	(1,909)
Transfers	2,413	18,406	(23,598)	8,401	5,622
Depreciation, amortization and depletion	(473)	(5,800)		(3,904)	(10,177)
Impairment - provision		(50)	(150)	(213)	(413)
Impairment - reversal	1	15		36	52
Accumulated translation adjustment	(685)	(5,838)	(9,831)	(2,424)	(18,778)

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<b>Balance at December 31, 2011</b>	<b>6,588</b>	<b>66,362</b>	<b>84,529</b>	<b>24,986</b>	<b>182,465</b>
Cost	8,990	104,477	84,529	52,272	250,268
Accumulated depreciation, amortization and depletion	(2,402)	(38,115)		(27,286)	(67,803)
<b>Balance at December 31, 2011</b>	<b>6,588</b>	<b>66,362</b>	<b>84,529</b>	<b>24,986</b>	<b>182,465</b>

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

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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***12. Property, plant and equipment, net** (Continued)**12.2 Estimated useful life**

<b>Buildings and improvements, equipments and other assets</b>			<b>As of December</b>
<b>Estimated useful life</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>31, 2011</b>
Up to 5 years	4,312	(2,521)	1,791
6 - 10 years	17,595	(8,610)	8,985
11 - 15 years	1,784	(843)	941
16 - 20 years	21,146	(8,499)	12,647
21 - 25 years	23,897	(5,885)	18,012
25 - 30 years	21,896	(3,085)	18,811
More than 30 years	2,711	(1,779)	932
Unit-of Production Method	19,274	(9,296)	9,978
	<b>112,615</b>	<b>(40,518)</b>	<b>72,097</b>
Buildings and improvements	8,138	(2,403)	5,735
Equipments and other assets	104,477	(38,115)	66,362

**12.3 Depreciation**

The depreciation for the years ended December 31, 2011 and 2010 is presented as follows:

<b>Year ended December 31,</b>	
<b>2011</b>	<b>2010</b>

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Recognized in inventories regarding:

Property, plant and equipment	4,886	4,279
Exploration and production expenditures	3,266	3,207
Decommissioning	235	232
	<b>8,387</b>	<b>7,718</b>
Recognized in results of operations	748	683
	<b>9,135</b>	<b>8,401</b>

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**12. Property, plant and equipment, net** (Continued)

**12.4 Impairment of assets**

***Exploration and Production***

In 2011, the Company recognized US\$ 262 of impairment charges regarding primarily, mature fields of oil and gas in Brazil taking into consideration future production curves and costs.

As a result of certain reservoirs recoverability, impairment charges recognized in prior periods in the amount of US\$ 33 were reversed during 2011.

***Refining, Transportation & Marketing***

In 2011, as a result of lower margins and an increase in the investments projects costs, the Company recognized impairment charges in petrochemical assets of US\$ 61 in Suape and US\$ 94 in Citepe.



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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***13. Intangible assets****13.1 By type of asset**

		Software			
	Rights and Concessions	Acquired	Developed in-house	Goodwill	Total
<b>Balance at December 31, 2009</b>	<b>2,433</b>	<b>211</b>	<b>778</b>	<b>476</b>	<b>3,898</b>
Addition	178	51	183	-	412
Oil exploration rights – Assignment agreement	43,542	-	-	-	43,542
Acquisition through business combination	-	-	-	-	-
Capitalized interest	-	-	15	-	15
Write-off	(184)	(2)	(1)	-	(187)
Transfers	130	(7)	19	49	191
Amortization	(70)	(68)	(212)	-	(350)
Impairment - provision	(33)	-	-	-	(33)
Accumulated translation adjustment	1,390	6	34	19	1,449
<b>Balance at December 31, 2010</b>	<b>47,386</b>	<b>191</b>	<b>816</b>	<b>544</b>	<b>48,937</b>
Addition	496	64	198	11	769
Acquisition through business combination	-	-	-	2	2
Capitalized interest	-	-	21	-	21
Write-off	(167)	(3)	(7)	-	(177)
Transfers	5	12	(22)	(4)	(9)
Amortization	(87)	(67)	(204)	-	(358)
Impairment - provision	(1)	-	-	-	(1)
	(5,165)	(17)	(87)	(49)	(5,318)

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Accumulated translation  
adjustment

<b>Balance at December 31, 2011</b>	<b>42,467</b>	<b>180</b>	<b>715</b>	<b>504</b>	<b>43,866</b>
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<b>Estimated useful life - years</b>	25	5	5	Undefined	
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Petróleo Brasileiro S.A. - Petrobras and subsidiaries

Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

### **13. Intangible assets (Continued)**

#### **13.2 Oil exploration rights - Assignment Agreement (“Cessão Onerosa”)**

At December 31, 2011, the Company’s intangible assets include an agreement with the Brazilian federal government and National Agency of Petroleum, Natural Gas and Biofuels (ANP) - (Assignment Agreement), under which the government assigned to the Company the right to conduct research activities and the exploration and production of fluid hydrocarbons in specified pre-salt areas (Franco, Florim, Nordeste de Tupi, Entorno de Iara, Sul de Guará e Sul de Tupi), subject to a maximum production of five billion barrels of oil equivalent up to 40 years renewable for more five years upon certain conditions.

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 at 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.

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

When the effects of the revision become probable and measurable, the Company will make the respective adjustments to the acquisition cost.

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

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**13. Intangible assets (Continued)**

**13.3 Exploration rights returned to National Agency of Petroleum, Natural Gas and Biofuels (ANP)**

In 2011, the Company returned the following blocks, amounting US\$ 84, to ANP:

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

Rio do Peixe basin: RIOP- T-41.

Santos basin: S-M-613, S-M-1356 and S-M-1480.

Pelotas Sea basin: P-M-1267 and 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 and S-M-731.

Espírito Santo Terra basin: ES-T-401.

**13.4 Fields returned to the National Agency of Petroleum, Natural Gas and Biofuels (ANP)**

In 2011, the Company returned to ANP the Mutum field, located in 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 amounting US\$ 243, 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.

Based on appraisals, concession agreements determine indemnification to the Company regarding assets subject to return at the end of the concession.

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, 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:

	Year ended December 31,		
	2011	2010	2009
<b>Capitalized balances in assets</b>			
Intangible assets	41,671	47,053	1,308
Property, plant and equipment, net	10,461	9,440	6,107
<b>Total assets</b>	<b>52,132</b>	<b>56,493</b>	<b>7,415</b>

	Year ended December 31,		
	2011	2010	2009
<b>Exploration costs recognized in results</b>			
Expenses with geology and geophysics	919	853	1,061
Wells without economic viability (including dry wells and signature bonus)	1,335	1,249	1,237
Other exploration expenses	91	181	75
<b>Total expenses</b>	<b>2,345</b>	<b>2,283</b>	<b>2,373</b>

	Year ended December 31,		
	2011	2010	2009
<b>Cash used in activities</b>			
Operating activities	989	837	975
Investment activities	5,723	9,363	3,877
<b>Total cash used for the year</b>	<b>6,712</b>	<b>10,200</b>	<b>4,852</b>

**15. Trade accounts payable**

	As of December 31,	
	2011	2010
<b>Current Liabilities</b>		
Third parties		
In Brazil	6,535	6,122
Abroad	4,883	3,908
Related Parties (Note 18.1)	445	397
	<b>11,863</b>	<b>10,427</b>

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***16. Loans and financing**

	As of December 31,			
	Current		Non-current	
	2011	2010	2011	2010
<b>Abroad</b>				
Financial institutions	7,272	6,376	20,039	17,626
Bearer bonds - Notes, Global Notes and Bonds	428	627	21,026	11,554
Trust Certificates - Senior/Junior		70	3	191
Other	6	1	101	100
	<b>7,706</b>	<b>7,074</b>	<b>41,169</b>	<b>29,471</b>
<b>In Brazil</b>				
Export Credit Notes	72	66	6,921	6,295
National Bank for Economic and Social Development - BNDES	916	1,229	19,930	19,375
Debentures	988	189	529	1,427
FINAME	42	43	390	232
Bank Credit Certificate	27	32	1,922	2,164
Other	316	318	1,857	1,453
	<b>2,361</b>	<b>1,877</b>	<b>31,549</b>	<b>30,946</b>
	<b>10,067</b>	<b>8,951</b>	<b>72,718</b>	<b>60,417</b>
Interest on debt	879	869		
Current portion of long-term debt	3,690	2,870		
Current debt	5,498	5,212		
<b>Total financing</b>	<b>10,067</b>	<b>8,951</b>		

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

	<b>As of December 31, 2011</b>
2013	2,387
2014	4,438
2015	5,353
2016	13,267
2017 and thereafter	47,273
<b>Total</b>	<b>72,718</b>

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***16. Loans and financing** (Continued)**16.2 Interest rates for debt in non-current liabilities**

	As of December 31,	
	2011	2010
<b>Abroad</b>		
Up to 6% p.a.	31,561	22,029
From 6 to 8% p.a.	8,385	6,492
From 8 to 10% p.a.	1,179	820
From 10 to 12% p.a.	34	33
More than 12% p.a.	10	97
	<b>41,169</b>	<b>29,471</b>
<b>In Brazil</b>		
Up to 6% p.a.	2,870	2,345
From 6 to 8% p.a.	17,225	18,004
From 8 to 10% p.a.	1,930	592
From 10 to 12% p.a.	9,421	10,005
More than 12% p.a.	103	
	<b>31,549</b>	<b>30,946</b>
	<b>72,718</b>	<b>60,417</b>

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

	As of December 31,	
	2011	2010
U.S. Dollars	36,258	27,872

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Japanese Yen	1,544	1,641
Euro	2,495	128
Real (*)	31,359	30,718
Other	1,062	58
	<b>72,718</b>	<b>60,417</b>

(\*) At December 31, 2011, it includes US\$ 13,830 in debt in local currency parameterized to the variation of the US dollar; and also 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 the long-term loans are disclosed in notes 31 and 32, respectively.

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**16. Loans and financing** (Continued)**16.4 Weighted average rate for capitalization of interest**

The weighted average annual interest rate on outstanding 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 Issuance of long-term debt**

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.

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

**a) Abroad**

<b>Company</b>	<b>Date</b>	<b>Amount US\$ Million</b>	<b>Maturity</b>	<b>Description</b>
PifCo	Jan/11	6,000	2016,2021 and 2041	Global notes in the amounts of US\$ 2,500, US\$ 2,500 and US\$ 1,000 with coupons of 3.875% p.a., 5.375% p.a. and 6.75% p.a., respectively.
Charter	Jan/11	750	2018	Loan from Standard Shattered in the amount of US\$ 750 – Libor + 1.5% p.a.
PNBV	Mar/11	650	2015 and 2021	Loan from Bank of Tokyo-Mitsubish in the amount of US\$ 150 - Libor plus 1.25% p.a. and Banco Santander S.A., HSBC Bank PLC, HSBC

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				Bank USA, N.A. and SACE S.P.A.- in the amount of US\$ 500 - Libor plus 1.10% p.a.
PNBV	Jun/11	2,000	2018	Loan from Banco Santander S.A., Grand Cayman Branch in the amount of US\$ 1,500 - Libor plus 1.476% p.a. and Bank of Tokyo-Mitsubishi in the amount of US\$ 500- Libor plus 1.30% p.a.
PNBV	Aug/11	643	2016 and 2023	Loan from JP Morgan Chase Bank N.A., Export-Import Bank of the United States in the amount of US\$ 300 - Libor plus 0.45% p.a.; and Citibank International PLC in the amount of US\$ 343 - Libor plus 0.85% p.a.
PNBV	Dec/11	250	2018	Loan from Export Development Canada Bank, in the amount of US\$ 250 - LIBOR + 1.40% p.a.
PifCo	Dec/11	2,391	2018 and 2022	Global notes in the amount of € 1.250 million and € 600 million with coupon of 4.875% p.a., and 5.875% p.a., respectively.
PifCo	Dec/11	1,061	2026	Global notes in the amount of £ 700 million with 6,25% p.a. coupon.
		<b>13,745</b>		

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***16. Loans and financing** (Continued)**16.5 Issuance of long-term debt** (Continued)**b) In Brazil**

<b>Company</b>	<b>Date</b>	<b>Amount US\$ Million</b>	<b>Maturity</b>	<b>Description</b>
Petrochemicals Citepe and Suape	May/11 to Dec/11	563	2022 and 2023	Financing from BNDES for implementation of plant - TJLP plus 1.36%p.a and 2.96%p.a.
Petrobras	Jul/11	545	2022	Financing from BNDES for the construction of the Mexilhão platform - TJLP plus 2.76% p.a.
Fundo de Invest. Imobiliário FCM	Oct/11	237	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%
Petrobras	Nov/11	1,333	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/11 to Dec/11	260	2018 and 2022	Financing from BNDES in the amount of US\$ 152 - TJLP plus 1.36% p.a. and 2.26% p.a. and subscription of debentures in the amount of US\$ 108 - TJLP plus 1.96% p.a. above the BNDES' basket of currencies.
		<b>2,938</b>		

**16.6 Financing with official credit agencies – lines of credit****a) Abroad**

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

**b) In Brazil**

Company	Agency	Amount in US\$ million			Description
		Contracted	Used	Balance	
Transpetro (*)	BNDES	4,801	303	4,498	Program for Modernization and Expansion of the Fleet (PROMEF) - TJLP + 2.5% p.a. for Brazilian equipments and 3% p.a. for imported equipments.
Refap	BNDES	591	152	439	TJLP plus 1.36% p.a. and 2.26% p.a.
Petrobras	Caixa Econômica Federal	160		160	Bank Credit Certificate – 110% of average CDI
Petromichals Citepe and Suape	BNDES	622	563	59	Implementation of plant - TJLP plus 1.36% p.a. and 2.96% p.a.

(\*)Agreements were entered in force for purchase and sale of 41 ships and 20 convoy vessels with 6 Brazilian shipyards in the amount of US\$ 5,334, where 90% is financed by BNDES, Banco do Brasil and Caixa Econômica.



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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**16. Loans and financing** (Continued)

**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 lien of credit rights and shares of the SPEs.

**17. Leases**

**17.1 Minimum payments and receipts of finance leases**

	<b>As of December 31, 2011</b>	
	Minimum receipts	Minimum payments
2012	137	44
2013 - 2016	666	84
2017 and thereafter	2,168	172
<b>Estimated receipts/payments of commitments</b>	<b>2,971</b>	<b>300</b>
Less amount of annual interest	(1,333)	(158)
<b>Present value of the minimum receipts/payments</b>	<b>1,638</b>	<b>142</b>
Current	120	44
Non-current	1,518	98

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<b>At December 31, 2011</b>	<b>1,638</b>	<b>142</b>
Current	70	105
Non-current	1,632	115
<b>At December 31, 2010</b>	<b>1,702</b>	<b>220</b>

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)*

**17. Leases (Continued)****17.2 Future minimum payments of operating lease**

	<b>As of December 31, 2011</b>
2012	12,818
2013-2016	29,404
2017 and thereafter	13,291
<b>As of December 31, 2011</b>	<b>55,513</b>
<b>As of December 31, 2010</b>	<b>48,078</b>

In 2011 the Company paid the amount of US\$ 6,744 recognized as an expense in the year.

**18. Related parties**

Petrobras carries out commercial transactions with its subsidiaries, special purpose entities and associates under normal market conditions. Intercompany loans are made in accordance with market conditions and applicable legislation.

At December 31, 2011 and 2010, losses were not expected on the realization of these accounts receivable.

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Consolidated notes to the financial statements (Continued)

*(Expressed in millions of US Dollars, except when specifically indicated)***18. Related parties (Continued)****18.1 Transactions with jointly controlled entities, associates, government entities and pension funds**

Significant transactions resulted in the following balances:

	As of December 31,			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
<b>Jointly controlled entities and associates</b>	<b>701</b>	<b>417</b>	<b>769</b>	<b>428</b>
Gas distributors	467	189	490	244
Braskem and its subsidiaries	87	71	97	62
Other jointly controlled entities and associates	147	157	182	122
<b>Government entities and pension funds</b>	<b>22,355</b>	<b>36,141</b>	<b>25,702</b>	<b>33,614</b>
Government bonds	14,120	-	18,664	-
Banco do Brasil S.A. (BB)	4,300	6,302	3,041	5,651
Restricted deposits for legal proceedings and guarantees (CEF and BB)	1,693	-	1,480	-
Receivables from the Electricity sector (Note 18.2)	1,574	-	1,888	-
Petroleum and alcohol account - Receivable from Federal Government (Note 18.3)	444	-	493	-
BNDES	4	21,799	2	21,798
Caixa Econômica Federal (CEF)	1	4,363	1	3,398
National Agency for Petroleum, Natural Gas and Biofuels	-	2,063	-	1,541
Federal government - Proposed dividend and interest on shareholders' equity	-	597	-	671
Petros (Pension fund)	-	188	-	301
Other	219	829	133	254
	<b>23,056</b>	<b>36,558</b>	<b>26,471</b>	<b>34,042</b>



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*(Expressed in millions of US Dollars, except when specifically indicated)***18. Related parties** (Continued)**18.1 Transactions with jointly controlled entities, associates, government entities and pension funds**  
(Continued)

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

	As of December 31,			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
<b>Current assets</b>	<b>17,733</b>		<b>21,272</b>	
Cash and cash equivalents	6,439	-	3,255	-
Marketable securities	8,948	-	15,319	-
Accounts receivable, net	2,275	-	2,614	-
Other current assets	71	-	84	-
<b>Non-current</b>	<b>5,323</b>		<b>5,199</b>	
Petroleum and alcohol account - receivable from Federal government (Note 18.3)	444	-	493	-
Marketable securities	3,006	-	3,107	-
Restricted deposits for legal proceedings and guarantees	1,693	-	1,481	-
Other non-current assets	180	-	118	-
<b>Current liabilities</b>		<b>6,224</b>		<b>5,380</b>
Current debt	-	2,519	-	2,201
Proposed dividends	-	985	-	958
Other current liabilities	-	2,720	-	2,221
<b>Non-current liabilities</b>		<b>30,334</b>		<b>28,662</b>
Non-current debt	-	30,273	-	28,588
Other non-current liabilities	-	61	-	74

23,056

36,558

26,471

34,042

**18.2 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. A portion of the costs of supplying fuel to these thermoelectric power stations is supported 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 Eletrobrás, whose payments for supplying fuel depend directly on the transfer of funds from ADESA to these Independent Power Producers.

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**18. Related parties** (Continued)

**18.2 Receivables from the electricity sector** (Continued)

The balance of these receivables at December 31, 2011 was US\$ 1,574 (US\$ 1,888 at December 31, 2010), of which US\$ 1,293 was overdue (US\$ 1,424 at December 31, 2010).

The Company has made claims to the debtors and to Eletrobras and partial collections have been made.

**18.3 Petroleum and Alcohol accounts - Receivable from Federal Government**

At December 31, 2011, accounts receivable regarding Petroleum and alcohol accounts amounted US\$ 444 (US\$ 493 at December 31, 2010). It may be paid, as established by Provisional Measure 2,181, as follows: (1) National Treasury Bonds issued at the same amount as the final balance of the Petroleum and Alcohol account; (2) offset of the balance of the Petroleum and Alcohol account, with any other amount owed by Petrobras to the Federal Government, including taxes; or (3) by a combination of the above options.

In order to conclude the settlement with the Federal Government, Petrobras has provided all the information required by the National Treasury Office to mitigate divergences between the parties.

After exhausting negotiation process under the administrative level, the Company filed a lawsuit in July 2011.

**18.4 Remuneration of employees and officers**

The Company's salaries, careers and benefits policies and current legislation establish the criteria for all remunerations attributable to its officers and employees.



The total remuneration for short-term benefits for the Company's officers during 2011 was US\$ 6.7 (US\$ 5.2 in 2010), referring to seven officers and nine board members.

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**18. Related parties** (Continued)

**18.4 Remuneration of employees and officers** (Continued)

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

	<b>Expressed in US Dollar As of December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Remuneration per employee</b>		
Lowest remuneration	1,079.27	1,081.11
Average remuneration	5,678.80	5,714.93
Highest remuneration	35,981.70	36,589.32
<b>Remuneration per officer of Petrobras (highest)</b>	<b>42,739.77</b>	<b>43,385.36</b>

The fees of the executive board and the board of directors in 2011 totaled US\$ 24.0 (US\$ 21.5 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.

**19. Provision for decommissioning costs**

	<b>2011</b>	<b>2010</b>
<b>Non-current liabilities</b>		
<b>Opening Balance</b>	<b>3,904</b>	<b>2,752</b>
Revision of provision	1,365	1,056
Use by payment	(284)	(276)
Updating of interest	125	130
Other	63	113

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Accumulated translation adjustment	(461)	129
<b>Closing Balance</b>	<b>4,712</b>	<b>3,904</b>

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*(Expressed in millions of US Dollars, except when specifically indicated)***20. Taxes****20.1 Recoverable taxes**

	As of December 31,	
	2011	2010
<b>Current assets</b>		
In Brazil:		
ICMS	1,698	1,581
PIS/COFINS	2,743	2,045
CIDE	77	40
Income taxes	1,528	1,065
Other taxes	225	238
	<b>6,271</b>	<b>4,969</b>
Abroad:	577	293
	<b>6,848</b>	<b>5,262</b>

**20.2 Taxes payable**

	As of December 31,	
	2011	2010
<b>Current liabilities</b>		
ICMS	1,161	1,173
PIS/COFINS	309	672
CIDE	254	450
Special participation/ Royalties	2,767	2,171
Withholding income taxes	443	394
Income taxes	263	515
Other taxes	650	663
		<b>468</b>

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*(Expressed in millions of US Dollars, except when specifically indicated)***20. Taxes** (Continued)**20.3 Deferred taxes - non-current**

	As of December 31,	
	2011	2010
<b>Non-current assets</b>		
Deferred income taxes	4,287	3,820
Deferred ICMS	1,172	1,437
PIS/COFINS	3,488	4,830
Other	252	139
	<b>9,199</b>	<b>10,226</b>
<b>Non-current liabilities</b>		
Deferred income taxes	17,715	15,522
Other	21	21
	<b>17,736</b>	<b>15,543</b>

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*(Expressed in millions of US Dollars, except when specifically indicated)***20. Taxes (Continued)****20.4 Deferred income tax - non-current***a) Changes in the deferred income taxes*

	<b>Fixed Assets</b>							
	<b>Exploration costs for the extraction of crude oil and gas</b>	<b>Other</b>	<b>Accounts receivable/ payable, loans and financing</b>	<b>Financial leases</b>	<b>Provision for legal proceedings</b>	<b>Tax losses</b>	<b>Inventories</b>	<b>Interest on shareholders' equity</b>
<b>Balance at December 31, 2009</b>	<b>(8,159)</b>	<b>(51)</b>	<b>(258)</b>	<b>(810)</b>	<b>116</b>	<b>304</b>	<b>571</b>	<b>206</b>
Recognized in the results for the year	(1,861)	(1,080)	(839)	150	88	131	(87)	225
Recognized in shareholders' equity (Comprehensive Income)	-	-	-	-	-	-	-	-
Cumulative translation adjustments	-	(503)	(56)	(27)	44	(12)	21	22
Other	-	23	41	14	50	3	-	-
<b>Balance at December 31, 2010</b>	<b>(10,020)</b>	<b>(1,611)</b>	<b>(1,112)</b>	<b>(673)</b>	<b>298</b>	<b>426</b>	<b>505</b>	<b>453</b>

Recognized in the results for the year	(1,971)	(1,187)	433	(114)	79	(43)	165	68
Recognized in shareholders' equity	-	-	-	-	-	-	-	-
(Comprehensive Income)				24				
Cumulative translation adjustments	-	1,128	122	87	(25)	(21)	(36)	(47)
Other	-	261	131	(168)	(17)	(20)	-	-
<b>Balance at December 31, 2011</b>	<b>(11,991)</b>	<b>(1,409)</b>	<b>(426)</b>	<b>(844)</b>	<b>335</b>	<b>342</b>	<b>634</b>	<b>474</b>

Deferred tax assets  
Deferred tax liabilities  
**Balance at December 31, 2010**

Deferred tax assets  
Deferred tax liabilities  
**Balance at December 31, 2011**



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**20. Taxes** (Continued)**20.4 Deferred income tax - non-current** (Continued)**b) Realization of deferred income taxes**

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 them are based on projections that have been made.

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

	<b>Deferred income taxes</b>	
	<b>Assets</b>	<b>Liabilities</b>
2012	1,715	2,204
2013	315	1,330
2014	297	1,429
2015	324	1,237
2016	566	1,336
2017	168	1,289
2018	336	1,563
2019 and thereafter	566	7,327
Recognized deferred tax credits	4,287	17,715
Unrecognized deferred tax credits	833	
Total	5,120	17,715

At December 31, 2011, the Company had unrecognized tax credits in the amount of US\$ 833 (US\$ 1,083 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 US\$ 639, whose statute of limitations is 20 years.

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*(Expressed in millions of US Dollars, except when specifically indicated)***20. Taxes (Continued)****20.5 Reconciliation of income taxes**

The reconciliation of the taxes calculated in accordance with statutory rates and the recorded amounts in 2011, 2010 and 2009 are presented as follows:

	<b>Year ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Income before income taxes	26,724	27,274	22,280
Income taxes at statutory rates (34%)	(9,089)	(9,272)	(7,575)
Adjustments for calculation of the effective rate:			
•Tax benefit from interest on shareholders' equity	2,064	1,985	1,300
•Foreign income of companies abroad subject to different tax rate	422	339	659
•Tax incentives	220	89	85
•Tax losses carryforwards	(339)	(47)	(97)
•Permanent exclusions/ (additions), net (*)	(276)	(119)	(98)
•Tax credits of companies abroad in the exploration stage	-	(18)	(80)
•Other	266	218	385
Income tax expenses	<b>(6,732)</b>	<b>(6,825)</b>	<b>(5,421)</b>
Deferred income taxes	(3,261)	(3,286)	(1,051)
Current income taxes	(3,471)	(3,539)	(4,370)
	<b>(6,732)</b>	<b>(6,825)</b>	<b>(5,421)</b>
Effective rate for income tax and social contribution	25.2%	25.0%	24.0%

\* It includes equity accounting.



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**21. Employee's post-retirement benefits obligations – Pension and Health care**

The carrying amount related to benefits granted to employees is presented as follows:

	As of December 31,	
	2011	2010
<b>Liabilities</b>		
Pension plans	2,697	2,878
Healthcare plan	6,942	7,073
	<b>9,639</b>	<b>9,951</b>
<b>Current</b>	761	782
<b>Non-current</b>	8,878	9,169

**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 contributory defined-benefit pension plan introduced by Petrobras in July of 1970, to supplement the social security pension benefits of employees of Petrobras and its Brazilian subsidiaries and associates. The Petros Plan is closed to the Company' employees hired after 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, beneficiaries 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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**21. Employee's post-retirement benefits obligations – Pension and Health care** (Continued)

**21.1 Pension plans in Brazil - Defined benefit and variable contribution** (Continued)

***a) Petros Plan - Fundação Petrobras de Seguridade Social*** (Continued)

At December 31, 2011, the balances of the Terms of Financial Commitment, signed by the Company and Petros in 2008, totaled US\$ 2,706, of which US\$ 26 in interest due in 2012. The Financial Commitment Agreement has a maturity of 20 years with payment semi annually interest of 6% p.a. over the carrying amount. The long term National Treasury Notes held in the portfolio, as collateral for the Financial Commitment Agreement, totaled US\$ 2,847.

The contributions expected from the sponsors for 2012 are US\$ 332.

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

As from July 01, 2007, the Company implemented the new supplementary pension plan, a Variable Contribution (CV) assuming the contributions corresponding to the period in which the participants had no plan. This past service shall consider the period as from August 2002, or the date of later admission, until August 29, 2007. The plan will continue to admit new subscribers after this date but will no longer be payment relating to 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 benefits characteristics refers to the 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, earmarked for forming a reserve for programmed retirement, was recognized in the results for the year as the contributions are made. In 2011, the contribution to the defined contribution portion of this plan was US\$ 253.

The expected contributions from the sponsors for 2012 are US\$ 272, where US\$ 57 refers to the defined benefit portion and US\$ 215 refers to the defined contribution portion.

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**21. Employee's post-retirement benefits obligations – Pension and Health care (Continued)**

**21.2 Pension plans abroad - Defined benefit**

The Company also sponsors pension plans abroad, with defined benefits characteristics, through subsidiaries in Argentina, Japan and other countries. Most plans are funded, where 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 US\$ 4.

**21.3 Pension Plans' assets**

Plan assets investments reflect a long term strategy that considers risk assessment by type of assets and diversifications, as a mechanism to mitigate portfolio risk. The asset portfolio must comply with National Monetary Council rules. The fixed income funds concentrate the majority of the investments, composed of public and private securities. Portfolio target 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 to 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:

Asset Category	Prices quoted on an active market (Level 1)	Valuation supported by observable prices (Level 2)	As of December 31,				
			2011	Total fair value (Levels 1, 2 and 3)	%	2010	
Fixed income	8,614	3,860	-	12,474	47%	14,810	54%

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Corporate bonds	-	3,772	-	3,772		5,254	
Government bonds	8,614	-	-	8,614		9,483	
Other	-	88	-	88		73	
<b>Variable income</b>	<b>6,943</b>	<b>1,648</b>	<b>3,511</b>	<b>12,102</b>	<b>46%</b>	<b>10,967</b>	<b>40%</b>
Shares on demand	6,943	-	-	6,943		6,275	
Private Equity funds	-	1,571	3,510	5,081		4,669	
Other investments	-	77	1	78		23	
<b>Real estate</b>	-	-	<b>959</b>	<b>959</b>	<b>4%</b>	<b>877</b>	<b>4%</b>
				<b>25,535</b>	<b>97%</b>	<b>26,655</b>	<b>98%</b>
<b>Loans granted</b>				<b>768</b>	<b>3%</b>	<b>679</b>	<b>2%</b>
				<b>26,303</b>	<b>100%</b>	<b>27,334</b>	<b>100%</b>

At December 31, 2011, the investments include common and preferred shares of Petrobras in the amount of US\$ 451 and US\$ 371, respectively, and real estate properties rented by the Company in the amount of US\$ 185.

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

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**21. Employee's post-retirement benefits obligations – Pension and Health care (Continued)**

**21.3 Pension Plans' assets (Continued)**

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

	<b>Changes in Level 3</b>			
	<b>Private Equity funds</b>	<b>Real estate</b>	<b>Other investments</b>	<b>Total</b>
<b>At December 31, 2010</b>	<b>3,374</b>	<b>877</b>	<b>1</b>	<b>4,252</b>
Profitability of plan's assets	513	8		521
Purchases and sales, net	62	193		255
Cumulative translation adjustments	(439)	(119)		(558)
<b>At December 31, 2011</b>	<b>3,510</b>	<b>959</b>	<b>1</b>	<b>4,470</b>

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

**21.4 Health Care - *Assistência Multidisciplinar de Saúde* (“AMS”)**

Petrobras and its Brazilian subsidiaries maintain a health care benefit plan (AMS), which offers defined benefits and covers all employees (active and inactive) together with their dependents. The plan is managed by the Company, with the employees contributing fixed amounts to cover principal risks and a portion of the costs relating to other types of coverage in accordance with participation tables defined by certain parameters including salary levels, besides the medicine benefit, which provides special terms on the acquisition of certain medicines from participating drugstores, located throughout Brazil.

The health care plan is not collateralized by assets. Instead, the Company makes benefit payments based on costs incurred by plan participants.

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Information regarding defined benefit plans, in Brazil and abroad, was consolidated for presentation purpose taking into consideration that similar assumptions were assumed and the total assets and liabilities of pension plans abroad is not material.

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

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

	2011				2010			
	Pension plan			Total	Pension plan			Total
Defined benefit	Variable contribution	Healthcare benefits	Defined benefit		Variable contribution	Healthcare benefits		
<b>Changes in the present value of the actuarial liabilities</b>								
Actuarial liability at the beginning of the year	33,154	440	8,269	41,863	27,277	302	6,869	34,448
Cost of interest:								
• With financial commitment agreement	362			362	289			289
• Actuarial	3,338	50	926	4,314	2,691	34	754	3,479
Current service cost	199	200	146	545	230	59	112	401

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Benefits paid	(1,228)	(2)	(365)	(1,595)	(1,013)	(2)	(297)	(1,312)
Actuarial (gain) / loss on the actuarial liability	1,405	189	307	1,901	2,207	27	462	2,696
Other	5	1		6	(3)			(3)
Cumulative translation adjustments	(4,143)	(97)	(1,033)	(5,273)	1,476	20	369	1,865
Actuarial liability at the end of the year	33,092	781	8,250	42,123	33,154	440	8,269	41,863

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

Plan's assets at the beginning of the year	27,197	137		27,334	22,675	115		22,790
Expected income from the plan's assets	3,303	21		3,324	2,539	16		2,555
Contributions received by the fund	489	38	365	892	509		297	806
Receipts entailed to the financial commitment agreement	173			173	147			147
Benefits paid	(1,228)	(2)	(365)	(1,595)	(1,013)	(2)	(297)	(1,312)
Actuarial gain / (loss) on the plan's assets	(530)			(530)	1,132	2	-	1,134
Other	3			3				-
Cumulative translation adjustments	(3,276)	(22)		(3,298)	1,208	6		1,214
Plan's assets at the end of the year	26,131	172		26,303	27,197	137		27,334

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

Present value of the liabilities	33,092	781		33,873	33,154	440		33,594
(-) Fair value of the plan's assets	(26,131)	(172)		(26,303)	(27,197)	(137)		(27,334)
Present value of the liabilities in excess of the fair value of the plan's assets	6,961	609		7,570	5,958	302		6,260
Present value of the liabilities			8,250	8,250			8,269	8,269
Unrecognized actuarial gains/(losses)	(5,094)	(256)	(1,449)	(6,799)	(3,012)	(66)	(1,113)	(4,191)
Unrecognized past service cost	(50)	(56)	(17)	(123)	(66)	(59)	(18)	(143)
	551	33	157	741	(172)	(6)	(66)	(244)

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Cumulative translation adjustments								
<b>Net actuarial liabilities at December 31</b>	<b>2,368</b>	<b>330</b>	<b>6,941</b>	<b>9,639</b>	<b>2,708</b>	<b>171</b>	<b>7,072</b>	<b>9,951</b>
<b>Changes in net actuarial liabilities</b>								
Balance at January 1	2,707	171	7,074	9,952	2,559	82	6,188	8,829
(+) Costs incurred in the year	409	216	1,104	1,729	476	81	871	1,428
(-) Payment of contributions	(285)	(21)	(365)	(670)	(299)		(298)	(597)
(-) Payment of the financial commitment agreement	(171)			(171)	(146)			(146)
Other	12	1		13	(2)		1	(1)
Cumulative translation adjustments	(304)	(38)	(873)	(1,215)	120	8	310	438
<b>Balance at December 31</b>	<b>2,368</b>	<b>330</b>	<b>6,941</b>	<b>9,639</b>	<b>2,708</b>	<b>171</b>	<b>7,072</b>	<b>9,951</b>

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	As of December, 31							
	2011				2010			
	Pension plan		Healthcare benefits	Total	Pension plan		Healthcare benefits	Total
Defined benefit	Variable contribution	Defined benefit			Variable contribution			
Current service cost	199	200	146	545	230	59&nb		