

PETROBRAS - PETROLEO BRASILEIRO SA  
Form 6-K  
May 26, 2011

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 6-K

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

**For the month of May, 2011**

**Commission File Number 1-15106**

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### PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

### Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

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

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

Form 20-F  Form 40-F

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

Yes  No

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

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**Petróleo Brasileiro S.A. – Petrobras and Subsidiaries**

Consolidated Financial Statements

March 31, 2011 and 2010

with Review Report of Independent

Registered Public Accounting Firm

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

**AND SUBSIDIARIES**

Consolidated FINANCIAL STATEMENTS

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Review report of independent registered public accounting firm

To the Board of Directors and Shareholders of

Petróleo Brasileiro S.A. - Petrobras

Rio de Janeiro - Brazil

We have reviewed the accompanying condensed consolidated balance sheet of Petróleo Brasileiro S.A. - Petrobras and subsidiaries as of March 31, 2011, and the related condensed consolidated statements of operations, cash flows and changes in shareholders' equity for the three-month periods ended March 31, 2011 and 2010. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil

May 24, 2011

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

## CONSOLIDATED BALANCE SHEETS

March 31, 2011 and December 31, 2010

Expressed in Millions of United States Dollars

	<b>March 31, 2011 (unaudited)</b>	<b>December 31, 2010</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	25,998	17,633
Marketable securities (Note 5)	12,288	15,612
Accounts receivable, net	11,026	10,572
Inventories (Note 6)	14,595	11,834
Deferred income taxes (Note 3)	521	534
Recoverable taxes (Note 7)	6,164	5,260
Advances to suppliers	768	786
Other current assets	2,240	1,632
	<b>73,600</b>	<b>63,863</b>
<b>Property, plant and equipment, net</b> (Note 8)	<b>230,370</b>	<b>218,567</b>
<b>Investments in non-consolidated companies and other investments</b>	<b>6,250</b>	<b>6,312</b>
<b>Non-current assets</b>		
Accounts receivable, net	3,136	2,905
Advances to suppliers	2,943	3,077
Petroleum and alcohol account – receivable from Federal Government	506	493
Marketable securities (Note 5)	3,128	3,099
Restricted deposits for legal proceedings and guarantees (Note 14 (a))	1,767	1,674
Recoverable taxes (Note 7)	6,211	6,407
Goodwill	194	192
Prepaid expenses	698	516
Other assets	1,748	1,578
	<b>20,331</b>	<b>19,941</b>
<b>Total assets</b>	<b>330,551</b>	<b>308,683</b>



See the accompanying notes to the consolidated financial statements.

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

## CONSOLIDATED BALANCE SHEETS (Continued)

March 31, 2011 and December 31, 2010

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
	<b>(unaudited)</b>	
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Trade accounts payable	11,581	10,468
Current debt (Note 9)	9,726	8,960
Current portion of capital lease obligations (Note 11)	98	105
Income taxes payable	818	898
Taxes payable, other than income taxes	5,730	5,135
Payroll and related charges	2,230	2,617
Dividends and interest on capital payable (Note 13)	2,652	2,158
Employees' postretirement benefits obligation – Pension and Health Care (Note 12 (a))	824	782
Other payables and accruals	2,991	2,429
	<b>36,650</b>	<b>33,552</b>
<b>Long-term liabilities</b>		
Long-term debt (Note 9)	68,084	60,471
Capital lease obligations (Note 11)	123	117
Employees' postretirement benefits obligation – Pension and Health Care (Note 12 (a))	14,335	13,740
Deferred income taxes (Note 3)	14,494	12,704
Provision for abandonment	3,237	3,194
Contingencies (Note 14 (a))	772	760
Other liabilities	404	748
	<b>101,449</b>	<b>91,734</b>
<b>Shareholders' equity</b>		
Shares authorized and issued (Note 13)		
Preferred share – 2011 and 2010 – 5,602,042,788 shares	45,840	45,840
Common share – 2011 and 2010 – 7,442,454,142 shares	63,906	63,906
Additional paid in capital	(81)	(86)

Retained earnings		
Appropriated	<b>61,723</b>	47,147
Unappropriated	<b>4,104</b>	13,758
Accumulated other comprehensive income		
Cumulative translation adjustments	<b>17,855</b>	13,539

Postretirement benefit reserves adjustments net of tax ((US\$1,433) and (US\$1,401) for March 31, 2011 and December 31, 2010, respectively) - Pension cost and Health Care (Note 12 (a))	<b>(2,779)</b>	(2,719)
Unrealized gains on available-for-sale securities, net of tax	<b>60</b>	124
Unrecognized loss on cash flow hedge, net of tax	<b>(14)</b>	(15)
 Petrobras' Shareholders' Equity	 <b>190,614</b>	 181,494
 Noncontrolling interest	 <b>1,838</b>	 1,903
 <b>Total shareholders' equity</b>	 <b>192,452</b>	 183,397
 <b>Total liabilities and shareholders' equity</b>	 <b>330,551</b>	 308,683
See the accompanying notes to the consolidated financial statements.		

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

## CONSOLIDATED STATEMENTS OF INCOME

March 31, 2011 and 2010

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

*(Unaudited)*

	<b>Three-month periods ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Sales of products and services</b>	<b>41,122</b>	34,620
Less:		
Value-added and other taxes on sales and services	<b>(8,509)</b>	(7,061)
<b>Net operating revenues</b>	<b>32,613</b>	27,559
Cost of sales	<b>(19,033)</b>	(15,257)
Depreciation, depletion and amortization	<b>(2,275)</b>	(2,042)
Exploration, including exploratory dry holes	<b>(524)</b>	(539)
Impairment	-	(94)
Selling, general and administrative expenses	<b>(2,322)</b>	(2,052)
Research and development expenses	<b>(296)</b>	(217)
Other operating expenses	<b>(769)</b>	(1,057)
<b>Total costs and expenses</b>	<b>(25,219)</b>	(21,258)
<b>Operating income</b>	<b>7,394</b>	6,301
Equity in results of non-consolidated companies	<b>215</b>	(12)
Financial income (Note 10)	<b>1,045</b>	413
Financial expenses (Note 10)	<b>(388)</b>	(356)
Monetary and exchange variations (Note 10)	<b>575</b>	(335)
Other taxes	<b>(147)</b>	(85)
	<b>1,300</b>	(375)
<b>Income before income taxes</b>	<b>8,694</b>	5,926

See the accompanying notes to the consolidated financial statements.

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

## CONSOLIDATED STATEMENTS OF INCOME (Continued)

March 31, 2011 and 2010

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

*(Unaudited)*

	<b>Three-month periods ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Income taxes expenses (Note 3)</b>		
Current	(730)	(1,776)
Deferred	(1,319)	216
	<b>(2,049)</b>	<b>(1,560)</b>
<b>Net income for the period</b>	<b>6,645</b>	4,366
Less: Net income attributable to the noncontrolling interests	(121)	(49)
<b>Net income attributable to Petrobras</b>	<b>6,524</b>	4,317
<b>Net income applicable to each Petrobras class of shares</b>		
Common	3,722	2,496
Preferred	2,802	1,821
	<b>6,524</b>	4,317
<b>Basic and diluted earnings per: (Note 13)</b>		
Common and Preferred share	0.50	0.49
Common and Preferred ADS	1.00	0.98
<b>Weighted average number of shares outstanding</b>		
Common	7,442,454,142	5,073,347,344
Preferred	5,602,042,788	3,700,729,396

See the accompanying notes to the consolidated financial statements.



**PETRÓLEO BRASILEIRO S.A. - PETROBRAS****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

March 31, 2011 and 2010

Expressed in Millions of United States Dollars

*(Unaudited)*

	<b>Three-month periods ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Net income for the period	<b>6,645</b>	4,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	<b>2,275</b>	2,042
Dry hole costs	<b>325</b>	348
Equity in the results of non-consolidated companies	<b>(215)</b>	12
Exchange variation, monetary and financial charges	<b>196</b>	941
Deferred income taxes	<b>1,319</b>	(217)
Other	<b>557</b>	634
Working capital adjustments Decrease (increase) in assets		
Increase in accounts receivable, net	<b>(484)</b>	(1,112)
Increase in inventories	<b>(2,475)</b>	(432)
Increase (decrease) in advances to suppliers	<b>(11)</b>	63
Increase(decrease) in liabilities		
Increase (decrease) in suppliers	<b>1,300</b>	(699)
Increase in contingencies	<b>4</b>	558
Decrease in taxes payable, net of recoverable taxes	<b>(118)</b>	(526)
Other	<b>(297)</b>	(505)
<b>Net cash provided by operating activities</b>	<b>9,021</b>	5,473
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	<b>(9,924)</b>	(9,783)
Marketable securities and other investments activities	<b>2,886</b>	(56)
<b>Net cash used in investing activities</b>	<b>(7,038)</b>	(9,839)

**Cash flows from financing activities**

Proceeds from issuance and draw-down of short-term and debt	<b>9,148</b>	5,570
Principal payments of short-term and long-term debt	<b>(2,249)</b>	(2,429)
Dividends and interest on shareholders' equity paid to shareholders and minority interest	<b>(1,035)</b>	(13)

**Net cash provided by (used in) financing activities**

	<b>5,864</b>	3,128
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Increase (decrease) in cash and cash equivalents	<b>7,847</b>	(1,238)
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	<b>518</b>	(317)
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Effect of exchange rate changes on cash and cash equivalents	<b>17,633</b>	16,169
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	<b>25,998</b>	14,614
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Cash and cash equivalents at the beginning of the period	<b>25,998</b>	14,614
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**Cash and cash equivalents at the end of the period**

	<b>25,998</b>	14,614
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**Supplemental cash flow information:****Cash paid during the period for:**

Interest, net of amount capitalized	<b>1,027</b>	75
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	<b>352</b>	763
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Income taxes	<b>573</b>	414
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	<b>1,952</b>	1,252
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Withholding income tax on financial investments	<b>1,952</b>	1,252
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	<b>1,952</b>	1,252
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**Non-cash investing and financing transactions during the year**

Recognition of asset retirement obligation – ASC Topic 410-20	<b>-</b>	36
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	<b>47</b>	27
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Acquisition of property, plant and equipment on credit	<b>47</b>	63
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	<b>47</b>	63
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See the accompanying notes to the consolidated financial statements.

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS****AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

March 31, 2011 and 2010

Expressed in Millions of United States Dollars

*(Unaudited)*

	<b>Three-month periods ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Preferred shares</b>		
Balance at January 1,	45,840	15,106
<b>Balance at March 31,</b>	<b>45,840</b>	<b>15,106</b>
<b>Common shares</b>		
Balance at January 1,	63,906	21,088
<b>Balance at March 31,</b>	<b>63,906</b>	<b>21,088</b>
<b>Additional paid in capital</b>		
Balance at January 1,	(86)	707
Change in the period	5	-
<b>Balance at March 31,</b>	<b>(81)</b>	<b>707</b>
<b>Accumulated other comprehensive income</b>		
<b>Cumulative translation adjustments</b>		
Balance at January 1,	13,539	6,743
Change in the period	4,316	(2,112)
<b>Balance at March 31,</b>	<b>17,855</b>	<b>4,631</b>
<b>Postretirement benefit reserves adjustments, net of tax - Pension</b>		
<b>Cost and Health Care</b>		
Balance at January 1,	(2,719)	(1,646)
Change in the period	(91)	71
Tax effect on above	31	(24)

<b>Balance at March 31,</b>	<b>(2,779)</b>	<b>(1,599)</b>
<b>Unrecognized gains on available-for-sale securities, net of tax</b>		
Balance at January 1,	<b>124</b>	24
Unrealized gains /(losses)	<b>(97)</b>	18
Tax effect on above	<b>33</b>	(6)
<b>Balance at March 31,</b>	<b>60</b>	<b>36</b>

See the accompanying notes to the consolidated financial statements.

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

**AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

March 31, 2011 and 2010

Expressed in Millions of United States Dollars

*(Unaudited)*

	<b>Three-month periods ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Unrecognized loss on cash flow hedge, net of tax</b>		
Balance at January 1,	(14)	(13)
Change in the period	-	(4)
<b>Balance at March 31,</b>	<b>(14)</b>	<b>(17)</b>
<b>Appropriated retained earnings</b>		
<b>Capital reserve - fiscal incentive</b>		
Balance at January 1,	-	296
Transfer to unappropriated retained earnings	-	(7)
<b>Balance at March 31,</b>	<b>-</b>	<b>289</b>
<b>Legal reserve</b>		
Balance at January 1,	6,543	5,419
Transfer from unappropriated retained earnings	1,226	702
<b>Balance at March 31,</b>	<b>7,769</b>	<b>6,121</b>
<b>Undistributed earnings reserve</b>		
Balance at January 1,	40,367	30,755
Transfer from unappropriated retained earnings	12,714	9,740
<b>Balance at March 31,</b>	<b>53,081</b>	<b>40,495</b>
<b>Statutory reserve</b>		
Balance at January 1,	237	517
Transfer from unappropriated retained earnings	636	210
<b>Balance at March 31,</b>	<b>873</b>	<b>727</b>
<b>Total appropriated retained earnings</b>	<b>61,723</b>	<b>47,632</b>

See the accompanying notes to the consolidated financial statements.

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

**AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

March 31, 2011 and 2010

Expressed in Millions of United States Dollars

*(Unaudited)*

	<b>Three-month periods ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Unappropriated retained earnings</b>		
Balance at January 1,	13,758	15,062
Net income attributable to Petrobras	6,524	4,317
Dividends and interest on shareholders' equity	(1,602)	(984)
Appropriation from tax incentive reserves	-	7
Appropriation to reserves	(14,576)	(10,652)
<b>Balance at March 31,</b>	<b>4,104</b>	<b>7,750</b>
<b>Petrobras' shareholders' equity</b>	<b>190,614</b>	<b>95,334</b>
<b>Noncontrolling interests</b>		
Balance at January 1,	1,903	1,362
Net income for the period	121	49
Dividends and interest on shareholders' equity paid	(67)	-
Transfer to the controlling shareholder	(65)	-
Other changes in the period	(54)	61
<b>Balance at March 31,</b>	<b>1,838</b>	<b>1,472</b>
<b>Total shareholders' equity</b>	<b>192,452</b>	<b>96,806</b>
<b>Comprehensive income is comprised as follows:</b>		
Net income for the period	6,645	4,366
Cumulative translation adjustments	4,316	(2,112)
Postretirement benefit reserves adjustments, net of tax - pension and health care cost	(60)	47
Unrealized (loss) gain on available-for-sale securities	(64)	12
Unrecognized loss on cash flow hedge	-	(4)
<b>Comprehensive income</b>	<b>10,837</b>	<b>2,309</b>
<b>Less: Net comprehensive income attributable to noncontrolling interests</b>	<b>(67)</b>	<b>(110)</b>
<b>Comprehensive income attributable to Petrobras</b>	<b>10,770</b>	<b>2,199</b>

See the accompanying notes to the consolidated financial statements.



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

**AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

## **1. Basis of Financial Statements Preparation**

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

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

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

The preparation of these financial statements requires the use of estimates and assumptions that reflect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto. Management reviews its estimates periodically, including those related to oil and gas reserves, pension and health care liabilities, depreciation, depletion and amortization, abandonment costs, fair value of financial instruments,

contingencies and income taxes. While the Company uses its best estimates and judgements, actual results could differ from those estimates as further confirming events occur.

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

Events subsequent to March 31, 2011, were evaluated until the time of the Form 6-K filing with the Securities and Exchange Commission.

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

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

**2. Derivative Instruments, Hedging and Risk Management Activities**

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

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

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

The Company may use derivative and non-derivative instruments to implement its corporate risk management strategy. However, by using derivative instruments, the Company exposes itself to credit and market risk. Credit risk is the failure of a counterparty to perform under the terms of the derivative contract. Market risk is the possible adverse effect on the value of an asset or liability, including financial instruments that results from changes in interest rates, currency exchange rates, or commodity prices. The Company addresses credit risk by restricting the

counterparties to such derivative financial instruments to major financial institutions. Market risk is managed by the Company's executive officers. The Company does not hold or issue derivative financial instruments for trading purposes.

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

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

**a) Commodity price risk management**

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

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

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

Outstanding derivative contracts aimed entered into in order to mitigate price risk exposures from specific transactions, in which positive or negative results in the derivative transactions are totally or partially offset by the

opposite result in the physical positions. The transactions covered by commodity derivatives are certain cargoes traded from import and export operations and transactions between different geographical markets.

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

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**a) Commodity price risk management (Continued)**

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

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

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

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

As of March 31, 2011, the Company had the following outstanding commodity derivative contracts:

<b>Commodity Contracts</b>	<b>Notional amount in thousands of bbl*</b>
<b>Maturity in 2011</b>	<b>As of March 31, 2011</b>
Futures and Forward contracts	(11,857)
Option contracts	(7,900)

\* A negative notional value represents a sale position.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**b) Foreign currency risk management**

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

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

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

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

of products exported.

The volume of hedge executed for the exports occurring between January and March 2011 represented 48.2% of the total exported by BR Distribuidora. The settlements of the operations that matured between January 1 and March 31, 2011 generated a positive result for the Company of US\$2.

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

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

**b) Foreign currency risk management (Continued)**

As of March 31, 2011, the Company had the following foreign currency derivative contracts, not qualified as hedging accounting:

<b>Foreign Currency</b>	<b>Notional Amount US\$ million</b>
Sell USD / Pay BRL	86

**Cash flow hedge**

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

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

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

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

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

**b) Foreign currency risk management (Continued)**

**Cash flow hedge (Continued)**

As of March 31, 2011, the Company had the following cross currency swaps:

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

**c) Embedded derivatives**

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

contract and recognized at fair value with changes in fair value recognized in earnings.

### **Sale of ethanol**

Petrobras through its subsidiary, Petrobras International Finance (PifCo), entered into a sales contract of 143,000 m<sup>3</sup> per year of ethanol, with Toyota Tsusho Corporation, for ten years subject to renegotiation of prices and termination after the first five years. The sales price formula is based on both quotations: ethanol and naphtha.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**c) Embedded derivatives (Continued)**

**Sale of ethanol (Continued)**

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

	<b>Notional amount in thousand of bbl</b>	<b>Fair Value</b>	<b>Maturity</b>
<b>Forward Contract</b>			
Long position	715	US\$28	2016

**d) Interest rate risk management**

The Company's interest rate risk is a function of the Company's long-term debt and to a lesser extent, its short-term debt. The Company's foreign currency floating rate debt is principally subject to fluctuations in LIBOR and the Company's floating rate debt denominated in Reais is principally subject to fluctuations in the Brazilian long-term

interest rate (TJLP) as fixed by the National Monetary Counsel. The Company currently does not use derivative financial instruments to manage its exposure to fluctuations in interest rates.



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**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**e) Tabular presentation of the location and amounts of derivative fair values**

The effect of derivative instruments on the balance sheets for the three-month period ended March 31, 2011, is presented as follows:

In millions of dollars As of March 31,	Derivatives		Liability	
	Balance Sheet Location	Asset 2011 Fair Value	Balance Sheet Location	Liability 2011 Fair Value
<b>Derivatives qualified as hedging instruments under Codification Topic 815</b>				
	Other current			
Foreign exchange contracts	assets	109		-
<b>Total</b>		<b>109</b>		<b>-</b>
<b>Derivatives not qualified as hedging instruments under Codification Topic 815</b>				

Foreign exchange contracts	Other current assets	5	Other payables and accruals	-
Commodity contracts	Other current assets	144	Other payables and accruals	(183)
<b>Total</b>		<b>149</b>		<b>(183)</b>
<b>Total Derivatives</b>		<b>258</b>		<b>(183)</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

In millions of dollars As of December 31,	Asset Derivatives 2010		Liability Derivatives 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives qualified as hedging instruments under Codification Topic 815</b>				
Other current		115		-
Foreign exchange contracts	assets			
<b>Total</b>		<b>115</b>		<b>-</b>
<b>Derivatives not qualified as hedging instruments under Codification Topic 815</b>				
Foreign exchange contracts		2		-

	Other current assets		Other payable and accruals	
Commodity contracts	Other current assets	48	Other payables and accruals	(42)
<b>Total</b>		<b>50</b>		<b>(42)</b>
<b>Total Derivatives</b>		<b>165</b>		<b>(42)</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The effect of derivative instruments on the statement of financial position for the three-month period ended March 31, 2011, is reflected as follows:

Derivatives in Codification Topic 815 Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) March 31, 2011	Location of Gain or (Loss) reclassified from Accumulated OCI into Income (Effective portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) March 31, 2011	Amount of Gain or (Loss) Recognized in income on derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) March 31, 2011
Foreign exchange contracts	(10)	Financial Expenses	11	-
	<b>(10)</b>		<b>11</b>	<b>-</b>

The effect of derivative instruments on the statement of financial position for the three-month period ended March 31, 2010, is reflected as follows:.

Derivatives in Codification Topic	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) March 31, 2010	Location of Gain or (Loss) reclassified from Accumulated OCI into Income (Effective portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) March 31, 2010	Amount of Gain or (Loss) Recognized in income on derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) March 31, 2010
815 Cash Flow Hedging Relationship				
Foreign exchange contracts	(10)	Financial Expenses	5	-
	(10)		5	-

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivatives Not Qualified as Hedging Instruments under Codification Topic 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative March 31, 2011
Foreign exchange contracts	Financial income/(expenses) net	<b>6</b>
Commodity contracts	Financial income/(expenses) net	<b>(146)</b>
<b>Total</b>		<b>(140)</b>

Derivatives Not Qualified as Hedging Instruments under Codification Topic 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative March 31, 2010
Foreign exchange contracts	Financial income/(expenses) net	<b>(1)</b>
Commodity contracts	Financial income/(expenses) net	<b>(39)</b>

**Total**

**(40)**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. Income Taxes**

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal income tax. The statutory enacted tax rates for income tax and social contribution have been 25% and 9%, respectively, for the three-month periods ended March 31, 2011 and 2010.

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

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

	<b>2011</b>	<b>Three-month periods ended March 31, 2010</b>
Income before income taxes and noncontrolling interests		
Brazil	<b>8,741</b>	6,425
International	<b>(47)</b>	(499)
	<b>8,694</b>	5,926
Tax expense at statutory rates - (34%)	<b>(2,956)</b>	(2,015)

Adjustments to derive effective tax rate:		
Non-deductible post-retirement and health-benefits	(57)	(50)
Tax benefits on interests on shareholders' equity	545	334
Foreign income subject to different tax rates	398	124
Tax incentive (1)	17	39
Other	4	8
Income taxes expenses per consolidated statement of income	(2,049)	(1,560)

(1) On May 10, 2007, the Brazilian Federal Revenue Office recognized Petrobras' right to deduct certain tax incentives from income tax payable, covering the tax years of 2006 until 2015. During the three-month period ended March 31, 2011, Petrobras recognized a tax benefit in the amount of US\$17 (US\$39 on March 31, 2010) primarily related to these incentives in the Northeast, within the region covered by the Northeast Development Agency (ADENE), granting a 75% reduction in income tax payable, calculated on the profits of the exploration of the incentive activities, which have been accounted for under the flow through method.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. Income Taxes (Continued)**

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

	<b>Three-month periods ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Income taxes expenses per consolidated statement of income:		
Brazil		
Current	<b>(824)</b>	(1,746)
Deferred	<b>(1,304)</b>	251
	<b>(2,128)</b>	(1,495)
International		
Current	<b>94</b>	(30)
Deferred	<b>(15)</b>	(35)
	<b>79</b>	(65)
Income taxes expenses	<b>(2,049)</b>	(1,560)

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. Income Taxes (Continued)**

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
<b>Current assets</b>	<b>(521)</b>	540
Valuation allowance	-	(5)
<b>Current liabilities</b>	<b>(9)</b>	(1)
<b>Net current deferred tax assets</b>	<b>(530)</b>	534
<b>Non-current assets</b>		
Employees' postretirement benefits, net of Accumulated postretirement benefit reserves adjustments	<b>1,421</b>	1,458
Tax loss carryforwards	<b>2,488</b>	2,364
Other temporary differences, not significant individually	<b>2,373</b>	801
Valuation allowance	<b>(1,812)</b>	(1,803)
	<b>4,470</b>	2,820
<b>Non-current liabilities</b>		
Capitalized exploration and development costs	<b>(12,882)</b>	(11,292)
Property, plant and equipment	<b>(1,361)</b>	(1,597)
Exchange variation	<b>(2,603)</b>	(1,390)
Other temporary differences, not significant individually	<b>(1,774)</b>	(928)

	<b>(18,620)</b>	(15,207)
Net non-current deferred tax liabilities	<b>(14,150)</b>	(12,387)
Non-current deferred tax assets	<b>344</b>	317
Non-current deferred tax liabilities	<b>(14,494)</b>	(12,704)
Net deferred tax liabilities	<b>(14,680)</b>	(11,853)

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**3. Income Taxes (Continued)**

The Company and its subsidiaries file income tax returns in Brazil and in many foreign jurisdictions. These tax returns are open to examination by the respective tax authorities in accordance with each local legislation.

As of and for the three-month period ended March 31, 2011, the Company did not have any material unrecognized tax benefits. Additionally, the Company does not expect that the amount of the unrecognized tax benefits will change significantly within the next twelve months.

**4. Cash and Cash Equivalents**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Cash	<b>1,993</b>	1,974
Investments – Brazilian Reais (1)	<b>17,145</b>	7,819
Investments - U.S. dollars (2)	<b>6,860</b>	7,840
	<b>25,998</b>	17,633

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**5. Marketable Securities**

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Marketable securities classification:		
Available-for-sale	<b>3,189</b>	3,162
Trading	<b>12,068</b>	15,395
Held-to-maturity	<b>159</b>	154
	<b>15,416</b>	18,711
Less: Current portion of marketable securities	<b>(12,288)</b>	(15,612)
Long-term portion of marketable securities	<b>3,128</b>	3,099

Available-for-sale securities are presented as “Non-current assets”, as they are not expected to be sold or liquidated within the next twelve months. As of March 31, 2011, Petrobras had a balance of US\$2,963 linked to B Series National Treasury Notes, which are accounted for as available-for-sale securities in accordance with Codification Topic 320.

On October 23, 2008, the B Series National Treasury Notes were used as a guarantee after the confirmation of the



agreements into with Petros, Petrobras' pension plan (see Note 12 (b)). The nominal value of the NTN-Bs is based on variations in the Amplified Consumer Price Index (IPCA). The maturities of these notes are 2024 and 2035 and they bear interest coupons of 6% p.a., which is paid semi-annually. At March 31, 2011, the balances of the National Treasury Notes - Series B (NTN-B) are measured in accordance to their market value, based on the average prices disclosed by the National Association of Open Market Institutions (ANDIMA).

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**6. Inventories**

	<b>March 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
Products		
Oil products	<b>4,524</b>	3,799
Fuel alcohol	<b>324</b>	286
	<b>4,848</b>	4,085
Raw materials, mainly crude oil	<b>7,607</b>	5,690
Materials and supplies	<b>1,971</b>	2,044
Other	<b>213</b>	69
	<b>14,639</b>	11,888
Current inventories	<b>14,595</b>	11,834
Long-term inventories	<b>44</b>	54

Inventories are stated at the lower of cost or net realizable value. As a result of the decline in the market prices of oil products, the Company recognized a loss of US\$42 for the three-month period ended March 31, 2011 (US\$68 for the three-month period ended March 31, 2010), which was classified as other operating expenses in the consolidated income statement.



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**7. Recoverable Taxes**

Recoverable taxes consisted of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
Local:		
Domestic value-added tax (ICMS) (1)	<b>3,255</b>	3,022
PASEP/COFINS (2)	<b>7,366</b>	6,885
Income tax and social contribution	<b>1,168</b>	1,265
Foreign value-added tax (IVA)	<b>35</b>	42
Other recoverable taxes	<b>551</b>	453
	<b>12,375</b>	11,667
Less: Long-term recoverable taxes	<b>(6,211)</b>	(6,407)
Current recoverable taxes	<b>6,164</b>	5,260

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

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

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

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

## **PETRÓLEO BRASILEIRO S.A. - PETROBRAS**

### **AND SUBSIDIARIES**

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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### **8. Property, Plant and Equipment, Net**

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

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

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

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

## **9. Financing**

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

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

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

The weighted average annual interest rates on outstanding short-term borrowings were 1.93% and 2.31% at March 31, 2011 and December 31, 2010, respectively.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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**9. Financing (Continued)**

	Current		Non- current	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
<b>Foreign</b>				
Financial institutions	7,235	6,381	17,883	17,460
Bearer bonds - Notes	467	587	18,326	11,573
Trust Certificates – Senior/Junior	69	71	177	194
Other	1	2	100	307
	7,772	7,041	36,486	29,534
<b>In Brazil</b>				
BNDES	987	1,269	19,512	19,384
Debentures	196	189	1,508	1,427
FINAME – Earmarked for construction of Bolívia –Brazil gas pipeline	43	42	339	233
Export credit notes	238	66	6,431	6,295
Bank credit certificate	30	32	2,214	2,164
Other	460	321	1,594	1,434
		1,954	1,919	31,598
		9,726	8,960	68,084



Interest on debt	<b>894</b>	869
Current portion of long-term debt	<b>2,653</b>	2,883
Current debt	<b>6,179</b>	5,208
Total debt	<b>9,726</b>	8,960

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

**9. Financing** (Continued)

**a) Long-term debt**

- Composition of foreign currency denominated debt by currency

	<b>March 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
Currency		
United States dollars	<b>34,727</b>	27,583
Japanese Yen	<b>1,615</b>	1,651
Euro	<b>144</b>	131
Other	-	169
	<b>36,486</b>	29,534

- Maturities of the principal of long-term debt

The long-term portion at March 31, 2011, becomes due in the following years:

2012	<b>3,556</b>
2013	<b>2,927</b>
2014	<b>3,684</b>
2015	<b>5,692</b>
2016 and thereafter	<b>52,225</b>
	<b>68,084</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

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

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
Foreign currency		
6% or less	<b>27,788</b>	21,900
Over 6% to 8%	<b>7,670</b>	6,285
Over 8% to 10%	<b>635</b>	1,219
Over 10% to 12%	<b>33</b>	33
Over 12%	<b>360</b>	97
	<b>36,486</b>	29,534
Local currency		
6% or less	<b>4,352</b>	2,426
Over 6% to 8%	<b>15,544</b>	17,932
Over 8% to 10%	<b>1,417</b>	592
Over 10% to 12%	<b>1,527</b>	9,759
Over 12%	<b>8,758</b>	228
	<b>31,598</b>	30,937

34

**68,084**

60,471

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

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**9. Financing** (Continued)

**a) Long-term debt** (Continued)

**Issuance of long-term debt**

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

**a.1) Foreign**

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

plus 1.10% p.a.

Charter

Jan/2011

750

2018

Financing obtained from the Standard  
Shatered, Libor plus 1.5% p.a.

**7,400**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

**9. Financing** (Continued)**b) Outstanding lines of credit with official credit agencies****b.1) Foreign**

<b>Company</b>	<b>Agency</b>	<b>Contracted</b>	<b>US\$ Used</b>	<b>Balance</b>	<b>Description</b>
	China				
Petrobras	Development	10,000	7,000	3,000	Libor +2.8% p.a.
	Bank				

**b.2) In Brazil**

<b>Company</b>	<b>Agency</b>	<b>Contracted</b>	<b>US\$ Used</b>	<b>Balance</b>	<b>Description</b>
Transpetro (*)	BNDES	5,529	349	5,180	Program for Modernization and Expansion of the FLEET (PROMEF) -



					TJLP+2.5% p.a.
Petrobras	Banco do Brasil	307	234	73	Commercial Credit Certificate  (FINAME) - 4.5% p.a.
Petrobras	Caixa Econômica Federal	184	-	184	Bank Credit Certificate - Revolving Credit – 110% p.a. of average CDI

(\*) Agreements for conditioned purchase and sale of 41 ships and 20 convoys were entered into with 6 Brazilian shipyards in the amount of US\$6,144, where 90% is financed by BNDES.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

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

Financial expenses, financial income, monetary and exchange variations, allocated to income for the three-month periods ended March 31, 2011 and 2010 are as follows:

	<b>Three-month periods</b>	
	<b>2011</b>	<b>ended March 31, 2010</b>
Financial expenses		
Loans and financing	<b>(1,136)</b>	(774)
Leasing	-	(4)
Losses on derivative instruments (Note 2)	<b>(141)</b>	(45)
Repurchased securities losses	<b>(6)</b>	(7)
Other	<b>(217)</b>	(229)
	<b>(1,500)</b>	(1,059)
Capitalized interest	<b>1,112</b>	703
	<b>(388)</b>	(356)
Financial income		
Investments	<b>522</b>	214
Marketable securities	<b>396</b>	108
Gains on derivative instruments (Note 2)	<b>1</b>	4
Clients	<b>74</b>	29
Other	<b>52</b>	58
	<b>1,045</b>	413

**9. Financing**

74

Monetary and exchange variations	<b>575</b>	(335)
	<b>1,232</b>	(278)

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

**AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

## **11. Capital Lease Obligations**

The Company leases certain offshore platforms and vessels, which are accounted for as capital leases. As of March 31, 2011, assets under capital leases had a net book value of US\$2,066.

The following is a schedule by year of the future minimum lease payments as of March 31, 2011:

2011	<b>102</b>
2012	<b>44</b>
2013	<b>19</b>
2014	<b>19</b>
2015	<b>19</b>
2016 and thereafter	<b>66</b>