PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
August 25, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of August, 2011

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

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

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

Form 20-F ___X___ 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___X____

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

Petróleo Brasileiro S.A. - Petrobras and Subsidiaries

Consolidated Financial Statements

June 30, 2011 and 2010

with Review Report of Independent

Registered Public Accounting Firm

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

Consolidated FINANCIAL STATEMENTS

Contents

Review report of independent registered public accounting firm

To the Board of Directors and Shareholders of

Petróleo Brasileiro S.A. - Petrobras

Rio de Janeiro - Brazil

We have reviewed the accompanying condensed consolidated balance sheet of Petróleo Brasileiro S.A. - Petrobras and subsidiaries as of June 30, 2011, the related condensed consolidated statements of operations, cash flows and changes in shareholders' equity for the six-month periods ended June 30, 2011 and 2010. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil

August 24, 2011

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2011 and December 31, 2010

Expressed in Millions of United States Dollars

Assets	**June 30, 2011 (unaudited)**	**December 31, 2010**
Current assets		
Cash and cash equivalents (Note 4)	**21,689**	17,633
Marketable securities (Note 5)	**15,995**	15,612
Accounts receivable, net	**12,197**	10,572
Inventories (Note 6)	**16,394**	11,834
Deferred income taxes (Note 3)	**657**	534
Recoverable taxes (Note 7)	**7,168**	5,260
Advances to suppliers	**689**	786
Other current assets	**1,936**	1,632
	76,725	63,863
Property, plant and equipment, net (Note 8)	**247,276**	218,567
Investments in non-consolidated companies and other investments	**6,259**	6,312
Non-current assets		
Accounts receivable, net	**2,907**	2,905
Advances to suppliers	**3,027**	3,077
Petroleum and alcohol account – receivable from Federal Government (Note 9)	**529**	493
Marketable securities (Note 5)	**3,307**	3,099
Restricted deposits for legal proceedings and guarantees (Note 15 (a))	**1,787**	1,674
Recoverable taxes (Note 7)	**6,235**	6,407
Goodwill	**198**	192
Prepaid expenses	**827**	516
Other assets	**1,584**	1,578
	20,401	19,941
Total assets	**350,661**	308,683

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

June 30, 2011 and December 31, 2010

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

Liabilities and shareholders' equity	**June 30, 2011 (unaudited)**	**December 31, 2010**
Current liabilities		
Trade accounts payable	**11,779**	10,468
Current debt (Note 10)	**10,232**	8,960
Current portion of capital lease obligations (Note 12)	**73**	105
Income taxes payable	**1,321**	898
Taxes payable, other than income taxes	**6,052**	5,135
Payroll and related charges	**2,561**	2,617
Dividends and interest on capital payable (Note 14)	**1,670**	2,158
Employees' postretirement benefits obligation – Pension and Health Care (Note 13)	**817**	782
Other payables and accruals	**3,577**	2,429
	38,082	33,552
Long-term liabilities		
Long-term debt (Note 10)	**70,529**	60,471
Capital lease obligations (Note 12)	**116**	117
Employees' postretirement benefits obligation – Pension and Health Care (Note 13)	**15,223**	13,740
Deferred income taxes (Note 3)	**15,981**	12,704
Provision for abandonment	**3,369**	3,194
Contingencies (Note 15 (a))	**735**	760
Other liabilities	**709**	748
	106,662	91,734
Shareholders' equity		
Shares authorized and issued (Note 14 (a))		
Preferred share – 2011 and 2010 – 5,602,042,788 shares	**45,846**	45,840
Common share – 2011 and 2010 – 7,442,454,142 shares	**63,914**	63,906
Additional paid in capital	**(53)**	(86)
Retained earnings		
Appropriated	**64,396**	47,147
Unappropriated	**6,393**	13,758
Accumulated other comprehensive income		

Cumulative translation adjustments	**26,159**	13,539

Postretirement benefit reserves adjustments net of tax ((US$1,495) and (US$1,401) for June 30, 2011 and December 31, 2010, respectively) - Pension cost and Health Care (Note 13)	**(2,901)**	(2,719)
Unrealized gains on available-for-sale securities, net of tax	**41**	124
Unrecognized loss on cash flow hedge, net of tax	**(12)**	(15)
Petrobras' Shareholders' Equity	**203,783**	181,494
Noncontrolling interest	**2,134**	1,903
Total shareholders' equity	**205,917**	183,397
Total liabilities and shareholders' equity	**350,661**	308,683

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

	Six-month periods ended June 30,	
	2011	**2010**
Sales of products and services	**89,056**	71,548
Less:		
Value-added and other taxes on sales and services	**(18,234)**	(14,365)
Net operating revenues	**70,822**	57,183
Cost of sales	**(43,038)**	(32,713)
Depreciation, depletion and amortization	**(4,732)**	(4,130)
Exploration, including exploratory dry holes	**(1,369)**	(892)
Impairment	**(2)**	(94)
Selling, general and administrative expenses	**(4,923)**	(4,200)
Research and development expenses	**(629)**	(448)
Other operating expenses	**(1,689)**	(2,139)
Total costs and expenses	**(56,382)**	(44,616)
Operating income	**14,440**	12,567
Equity in results of non-consolidated companies	**343**	(28)
Financial income (Note 11)	**2,147**	924
Financial expenses (Note 11)	**(418)**	(822)
Monetary and exchange variations (Note 11)	**1,460**	(781)
Other taxes	**(215)**	(211)
	3,317	(918)
Income before income taxes	**17,757**	11,649

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED STATEMENTS OF INCOME (Continued)

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

	Six-month periods ended June 30,	
	2011	**2010**
Income taxes expenses (Note 3)		
Current	**(1,921)**	(2,621)
Deferred	**(2,260)**	(426)
	(4,181)	(3,047)
Net income for the period	**13,576**	8,602
Less: Net income attributable to the noncontrolling interests	**(404)**	(39)
Net income attributable to Petrobras	**13,172**	8,563
Net income applicable to each Petrobras class of shares		
Common	**7,515**	4,951
Preferred	**5,657**	3,612
	13,172	8,563
Basic and diluted earnings per: (Note 14)		
Common and Preferred share	**1.01**	0.98
Common and Preferred ADS	**2.02**	1.96
Weighted average number of shares outstanding		
Common	**7,442,454,142**	5,073,347,344
Preferred	**5,602,042,788**	3,700,729,396

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED STATEMENTS OF CASH FLOWS

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(Unaudited)

	Six-month periods ended June 30,	
	2011	**2010**
Cash flows from operating activities		
Net income for the period	**13,576**	8,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	**4,732**	4,130
Dry hole costs	**772**	547
Equity in the results of non-consolidated companies	**(343)**	28
Exchange variation, monetary and financial charges	**445**	993
Deferred income taxes	**2,260**	426
Other	**430**	725
Working capital adjustments: Decrease (increase) in assets		
Increase in accounts receivable, net	**(1,381)**	(1,334)
Increase in inventories	**(3,708)**	(346)
Decrease in advances to suppliers	**173**	99
Increase (decrease) in liabilities		
Increase (decrease) in suppliers	**1,222**	(759)
Increase (decrease) in contingencies	**(64)**	446
Decrease in taxes payable, net of recoverable taxes	**(261)**	(1,512)
Other	**538**	1,196
Net cash provided by operating activities	**18,391**	13,241
Cash flows from investing activities		
Additions to property, plant and equipment	**(19,715)**	(19,387)
Marketable securities and other investments activities	**797**	(2,048)
Net cash used in investing activities	**(18,918)**	(21,435)

Cash flows from financing activities		
Proceeds from issuance and draw-down of short and long-term debt	**13,390**	12,485
Payments of short-term and long-term debt	**(5,894)**	(4,635)
Dividends and interest on shareholders' equity paid to shareholders and minority interest	**(3,603)**	(2,397)
Net cash provided by (used in) financing activities	**3,893**	5,453
Increase (decrease) in cash and cash equivalents	**3,366**	(2,741)
Effect of exchange rate changes on cash and cash equivalents	**690**	(456)
Cash and cash equivalents at the beginning of the period	**17,633**	16,169
Cash and cash equivalents at the end of the period	**21,689**	12,972
Supplemental cash flow information:		
Cash paid during the period for:		
Interest, net of amount capitalized	**2,043**	470
Income taxes	**654**	1,806
Withholding income tax on financial investments	**1,192**	729
	3,889	3,005
Non-cash investing and financing transactions during the year		
Recognition of asset retirement obligation – ASC Topic 410-20	**3**	43
Acquisition of property, plant and equipment on credit	**7**	4
	10	47

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(Unaudited)

	Six-month periods ended June 30,	
	2011	**2010**
Preferred shares		
Balance at January 1,	**45,840**	15,106
Capital increase from capital reserve	**-**	171
Capital increase from statutory reserve	**-**	300
Capital increase from undistributed earnings reserve	**6**	1,580
Balance at June 30,	**45,846**	17,157
Common shares		
Balance at January 1,	**63,906**	21,088
Capital increase from capital reserve	**-**	125
Capital increase from statutory reserve	**-**	219
Capital increase from undistributed earnings reserve	**8**	1,152
Balance at June 30,	**63,914**	22,584
Additional paid in capital		
Balance at January 1,	**(86)**	707
Change in the period	**33**	10
Balance at June 30,	**(53)**	717
Accumulated other comprehensive income		
Cumulative translation adjustments		
Balance at January 1,	**13,539**	6,743
Change in the period	**12,620**	(3,201)
Balance at June 30,	**26,159**	3,542
Postretirement benefit reserves adjustments, net of tax - Pension Cost and Health Care		
Balance at January 1,	**(2,719)**	(1,646)

Change in the period	**(276)**	99
Tax effect on above	**94**	(34)
Balance at June 30,	**(2,901)**	(1,581)
Unrecognized gains on available-for-sale securities, net of tax		
Balance at January 1,	**124**	24
Unrealized losses	**(125)**	(23)
Tax effect on above	**42**	8
Balance at June 30,	**41**	9

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Continued)

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(Unaudited)

	Six-month periods ended June 30, 2011	2010
Unrecognized loss on cash flow hedge, net of tax		
Balance at January 1,	**(15)**	(13)
Change in the period	**3**	(9)
Balance at June 30,	**(12)**	(22)
Appropriated retained earnings		
Capital reserve – fiscal incentive		
Balance at January 1,	-	296
Transfer to unappropriated retained earnings	-	(296)
Balance at June 30,	-	-
Legal reserve		
Balance at January 1,	**6,543**	5,419
Transfer from unappropriated retained earnings	**1,563**	632
Balance at June 30,	**8,106**	6,051
Undistributed earnings reserve		
Balance at January 1,	**40,367**	30,755
Capital increase	**(14)**	(2,732)
Other change in the period	**15,027**	9,396
Balance at June 30,	**55,380**	37,419
Statutory reserve		
Balance at January 1,	**237**	517
Capital increase	**-**	(520)
Transfer from unappropriated retained earnings	**673**	221
Balance at June 30,	**910**	218
Total appropriated retained earnings	**64,396**	43,688

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Continued)

June 30, 2011 and 2010

Expressed in Millions of United States Dollars

(Unaudited)

	Six-month periods ended June 30, 2011	2010
Unappropriated retained earnings		
Balance at January 1,	**13,758**	15,062
Net income attributable to Petrobras	**13,172**	8,563
Dividends and interest on shareholders' equity	**(3,273)**	(1,948)
Appropriation to reserves	**(17,264)**	(10,250)
Balance at June 30,	**6,393**	11,427
Petrobras' shareholders' equity	**203,783**	97,521
Noncontrolling interests		
Balance at January 1,	**1,903**	1,362
Net income for the period	**404**	39
Other changes in the period	**(173)**	22
Balance at June 30,	**2,134**	1,423
Total shareholders' equity	**205,917**	98,944
Comprehensive income is comprised as follows:		
Net income for the period	**13,576**	8,602
Cumulative translation adjustments	**12,620**	(3,201)
Postretirement benefit reserves adjustments, net of tax - pension and health care cost	**(182)**	65
Unrealized loss on available-for-sale securities	**(83)**	(15)
Unrecognized loss on cash flow hedge	**3**	(9)
Comprehensive income	**25,934**	5,442
Less: Net comprehensive income atributable to noncontrolling interests	**(404)**	(39)
Comprehensive income attributable to Petrobras	**25,530**	5,403

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

1. Basis of Financial Statements Preparation

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

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

The consolidated financial statements as of June 30, 2011 and for the six-month periods ended June 30, 2011 and 2010, included in this report, are unaudited. However, in management's opinion, such consolidated financial statements reflect all normal recurring adjustments that are necessary for a fair presentation. The results for the interim periods are not necessarily indicative of trends or of results expected for the full year ending December 31, 2011.

The preparation of these financial statements requires the use of estimates and assumptions that reflect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto. Management reviews its estimates periodically, including those related to oil and gas reserves, pension and health care liabilities, depreciation, depletion and amortization, abandonment costs, fair value of financial instruments, contingencies and income taxes. While the Company uses its best estimates and judgements, actual results could differ from those estimates as further confirming events occur.

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

The Company is currently working on discontinuing U.S. GAAP and adopting IFRS, as issued by the IASB, as the basis to prepare and disclose its financial statements for SEC filings purposes for the year ending December 31, 2011, as previously mentioned in its Form 20-F of 2010, filed on May 25, 2011.

Events subsequent to June 30, 2011, were evaluated until the time of the Form 6-K filing with the Securities and Exchange Commission.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

1. Basis of Financial Statements Preparation (Continued)

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

2. Derivative Instruments, Hedging and Risk Management Activities

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

Petrobras' risk management is performed by means of its Board of Directors pursuant to a corporate policy risk management. In March 2010, regarding the new corporate governance model developed by the Company, the Financial Commitee, 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 Commitee responsibilities, it shall evaluate risk exposures and establish guidelines to measure, supervise and manage the risk concerning the Company's operation. The Board of Directors shall be responsible to decide about those risk management issues.

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

The Company may use derivative and non-derivative instruments to implement its corporate risk management strategy. However, by using derivative instruments, the Company exposes itself to credit and market risk. Credit risk is the failure of a counterparty to perform under the terms of the derivative contract. Market risk is the possible adverse effect on the value of an asset or liability, including financial instruments that results from changes in interest rates, currency exchange rates, or commodity prices. The Company addresses credit risk by restricting the counterparties to such derivative financial instruments to major financial institutions. Market risk is managed by the Company's executive officers. The Company does not hold or issue derivative financial instruments for trading purposes.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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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 undertaking through the uses of future contracts traded on stock exchanges; and options and swaps entered into with major financial institutions. The Company does not use derivative contracts for speculative purposes.

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

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

Outstanding derivative contracts entered into in order to mitigate price risk exposures from specific transactions, in which positive or negative results in the derivative transactions are totally or partially offset by the opposite result in the physical positions. The transactions covered by commodity derivatives are certain cargoes traded from import and export operations and transactions between different geographical markets.

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

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

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

a) Commodity price risk management (Continued)

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

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

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

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

As of June 30, 2011, the Company had the following outstanding commodity derivative contracts:

Commodity Contracts **Maturity in 2011**	**Notional amount in thousands of bbl*** **As of June 30, 2011**
Futures and Forward contracts	(9,674)
Option contracts	400

* A negative notional value represents a sale position.

Embedded derivatives

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

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

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

a) Commodity price risk management (Continued)

Sale of ethanol

Petrobras through its subsidiary, Petrobras International Finance (PifCo), entered into a sales contract of 143,000 m³ per year of ethanol, with Toyota Tsusho Corporation, for ten years subject to renegotiation of prices and termination after the first five years. The sales price formula is based on both quotations: ethanol and naphtha.

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

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

	Notional amount in thousand of m^3	Fair Value	Maturity
Forward Contract			
Long position	715	US$31	2016

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
(except as otherwise indicated)

(Unaudited)

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

b) Foreign currency risk management

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

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

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

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

The volume of hedge executed for the exports occurring between January and June 2011 represented 55.84% of the total exported by BR Distribuidora. The settlements of the operations that matured between January 1 and June 30, 2011 generated a positive result for the Company of US$10.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Unaudited)

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

b) Foreign currency risk management (Continued)

As of June 30, 2011, the Company had the following foreign currency derivative contracts, not qualified as hedging accounting:

Foreign Currency	Notional Amount US$ million
Sell USD / Pay BRL	(90)

Cash flow hedge

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

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

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

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

b) Foreign currency risk management (Continued)

Cash flow hedge (Continued)

As of June 30, 2011, the Company had the following cross currency swaps:

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

c) Interest rate risk management

The Company's interest rate risk is a function of the Company's long-term debt and to a lesser extent, its short-term debt. The Company's foreign currency floating rate debt is principally subject to fluctuations in LIBOR and the Company's floating rate debt denominated in Reais is principally subject to fluctuations in the Brazilian long-term interest rate (TJLP) as fixed by the Central Bank of Brazil. The Company currently does not use derivative financial instruments to manage its exposure to fluctuations in interest rates.

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1. Basis of Financial Statements Preparation (Continued)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

d) Tabular presentation of the location and amounts of derivative fair values

The effect of derivative instruments on the balance sheets for the six-month period ended June 30, 2011, is presented as follows:

		Derivatives		
In millions of dollars As of June 30,	**Asset 2011**		**Liability 2011**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives qualified as hedging instruments under Codification Topic 815				
Foreign exchange contracts	Other current assets	122		-
Total		**122**		**-**
Derivatives not qualified as hedging instruments under Codification Topic 815				
Foreign exchange contracts	Other current assets	4	Other payables and accruals	-
Commodity contracts	Other current assets	96	Other payables and accruals	(54)
Total		**100**		**(54)**

Total Derivatives	**222**	**(54)**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

d) Tabular presentation of the location and amounts of derivative fair values (Continued)

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

In millions of dollars As of December 31,	**Asset Derivatives 2010**		**L**
	Balance Sheet Location	Fair Value	Balanc
Derivatives qualified as hedging instruments under Codification Topic 815			
Foreign exchange contracts	Other current assets	115	
Total		**115**	
Derivatives not qualified as hedging instruments under Codification Topic 815			
Foreign exchange contracts	Other current assets	2	Other pay
Commodity contracts	Other current assets	48	Other pay
Total		**50**	

Total Derivatives	**165**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

d) Tabular presentation of the location and amounts of derivative fair values (Continued)

The effect of derivative instruments on the statement of financial position for the six-month period ended June 30, 2011, is reflected as follows:

Derivatives in Codification Topic 815 Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) June 30, 2011	Location of Gain or (Loss) reclassified from Accumulated OCI into Income (Effective portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) June 30, 2011	Amount of Gain or (Loss) Recognized in income on derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) June 30, 2011
Foreign exchange contracts	3	Financial Expenses	-	1
	3		**-**	**1**

The effect of derivative instruments on the statement of financial position for the six-month period ended June 30, 2010, is reflected as follows:

Derivatives in Codification Topic 815 Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) reclassified from Accumulated OCI into Income (Effective portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Recognized in income on derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
	June 30, 2010		June 30, 2010	June 30, 2010
Foreign exchange contracts	3	Financial Expenses	(14)	-
	3		**(14)**	**-**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

d) Tabular presentation of the location and amounts of derivative fair values (Continued)

Derivatives Not Qualified as Hedging Instruments under Codification Topic 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative June 30, 2011
Foreign exchange contracts	Financial income/(expenses) net	**13**
Commodity contracts	Financial income/(expenses) net	**(122)**
Total		**(109)**

Derivatives Not Qualified as Hedging Instruments under Codification Topic 815	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative June 30, 2010
Foreign exchange contracts	Financial income/(expenses) net	**1**
Commodity contracts	Financial income/(expenses) net	**37**
Total		**38**

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1. Basis of Financial Statements Preparation (Continued)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars
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3. Income Taxes

Income taxes in Brazil comprise federal income tax and social contribution tax. The statutory enacted tax rates for income tax and social contribution have been 25% and 9%, respectively, for the six-month periods ended June 30, 2011 and 2010.

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

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

		Six-month periods ended June 30,
	2011	**2010**
Income before income taxes and noncontrolling interests		
Brazil	**17,919**	10,599
International	**(162)**	1,050
	17,757	11,649
Tax expense at statutory rates - (34%)	**(6,037)**	(3,961)
Adjustments to derive effective tax rate:		
Non-deductible post-retirement and health-benefits	**(116)**	(101)
Tax benefits on interests on shareholders' equity	**1,113**	674

Foreign income subject to different tax rates	**693**	244
Tax incentive **(1)**	**51**	82
Other	**115**	15
Income taxes expenses per consolidated statement of income	**(4,181)**	(3,047)

(1) On May 10, 2007, the Brazilian Federal Revenue Office recognized Petrobras' right to deduct certain tax incentives from income tax payable, covering the tax years of 2006 until 2015. During the six-month period ended June 30, 2011, Petrobras recognized a tax benefit in the amount of US$51 (US$82 on June 30, 2010) primarily related to these incentives in the Northeast, within the region covered by the Northeast Development Agency (ADENE), granting a 75% reduction in income tax payable, calculated on the profits of the exploration of the incentive activities, which have been accounted for under the flow through method.

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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:

	Six-month periods ended June 30,	
	2011	**2010**
Income taxes expenses per consolidated statement of income:		
Brazil		
Current	**(2,067)**	(2,487)
Deferred	**(2,186)**	(432)
	(4,253)	(2,919)
International		
Current	**146**	(134)
Deferred	**(74)**	6
	72	(128)
Income taxes expenses	**(4,181)**	(3,047)

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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3. Income Taxes (Continued)

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

	June 30, 2011	Dece
Current assets	**657**	
Valuation allowance	**-**	
Current liabilities	**-**	
Net current deferred tax assets	**657**	
Non-current assets		
Employees' postretirement benefits, net of Accumulated postretirement benefit reserves adjustments	**1,487**	
Tax loss carryforwards	**2,703**	
Other temporary differences, not significant individually	**2,399**	
Valuation allowance	**(1,911)**	
	4,678	
Non-current liabilities		
Capitalized exploration and development costs	**(14,196)**	
Property, plant and equipment	**(1,273)**	
Exchange variation	**(3,081)**	
Other temporary differences, not significant individually	**(1,744)**	
	(20,294)	
Net non-current deferred tax liabilities	**(15,616)**	
Non-current deferred tax assets	**365**	

Non-current deferred tax liabilities	**(15,981)**
Net deferred tax liabilities	**(14,959)**

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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. In Brazil, the main jurisdiction, this period is set for five subsequent fiscal years.

As of and for the six-month period ended June 30, 2011, the Company did not have any material unrecognized tax benefits. Additionally, the Company does not expect that the amount of the unrecognized tax benefits will change significantly within the next twelve months.

4. Cash and Cash Equivalents

	June 30, 2011	December 31, 2010
Cash	**1,925**	1,974
Investments – Brazilian Reais **(1)**	**12,226**	7,819
Investments - U.S. dollars **(2)**	**7,538**	7,840
	21,689	17,633

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

(2) Comprised primarily by Time Deposit and securities with fixed income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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5. Marketable Securities

	June 30, 2011	December 31, 2010
Marketable securities classification:		
Available-for-sale	**3,239**	3,162
Trading	**15,885**	15,395
Held-to-maturity	**178**	154
	19,302	18,711
Less: Current portion of marketable securities	**(15,995)**	(15,612)