PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
November 22, 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 November, 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).

PETROBRAS ANNOUNCES THIRD QUARTER OF 2011 RESULTS

(Rio de Janeiro – November 22, 2011) – Petróleo Brasileiro S.A. - Petrobras today announced its consolidated results stated in U.S. dollars, prepared in accordance with U.S. GAAP.

Consolidated net income attributable to Petrobras reached U.S.$3,859 million in the third quarter of 2011 and increased 28.2% in the nine-month period ended September 30, 2011 compared to the same period last year. Adjusted EBITDA for the nine-month period ended September 30, 2011 increased by 19.3% compared to the same period last year.

HIGHLIGHTS

2Q-2011	3Q-2011	3Q-2010		For the nine-month periods ended September 30,	
6,648	**3,859**	**4,725**	**Consolidated net income attributable to Petrobras**	**17,031**	**13,288**
2,598	**2,572**	**2,570**	**Total domestic and international oil and natural gas production (mbbl/d)**	**2,599**	**2,568**
9,437	**9,923**	**7,638**	**Adjusted EBITDA**	**28,882**	**24,218**

• Operational start-up of P-56 platform on August 15, 2011, which is already producing 38,500 barrels per day from two production wells. The platform is expected to reach 80% of its operational capacity by the end of 2011.

• Pre-salt production reached 135,000 barrels of oil equivalent per day in September. The first producing well of the Lula Pilot recorded an output of more than 27.5 thousand bbl/day for the fifth consecutive month.

• We currently have 23 drilling rigs with a capacity of operating at a water depth of more than two thousand meters (approximately 6,600 feet). We expect to receive 17 new drilling rigs by the end of 2012.

• Operational start-up of Lula-Mexilhão gas pipeline in September, with outflow capacity of up to 10 million cubic meters of natural gas per day.

• Our capital expenditures reached U.S.$11,579 million in the third quarter of 2011, an increase of 12.6% compared to the second quarter of 2011 and 49.3% of which was invested in exploration and production projects in Brazil.

• A total payment of U.S.$5,504 million of interest on shareholders' equity and dividends to shareholders was attained in the nine-month period ended September 30, 2011. On September 30, 2011, the third portion of interest on shareholders' equity was provisioned in the amount of U.S.$1,407 million.

• For the sixth consecutive year we were listed on the Dow Jones Sustainability World Index, the world's leading sustainability index.

• We are currently working on discontinuing U.S. GAAP and adopting IFRS, as issued by the IASB, as the basis for preparing and disclosing our financial statements for SEC filings purposes for the year ended December 31, 2011, as previously mentioned in our 2010 Form 20-F filed on May 25, 2011.

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This document may contain forward-looking statements about future events that are not based on historical facts and are not assurances of future results. Such forward-looking statements merely reflect the Company’s current views and estimates of future economic circumstances, industry conditions, company performance and financial results. Such terms as “anticipate”, “believe”, “expect”, “forecast”, “intend”, “plan”, “projec “seek”, “should”, along with similar or analogous expressions, are used to identify such forward-looking statements. Readers are cautioned that these statements are only projections and may differ materially from actual future results or events. Readers are referred to the documents filed by the Company with the SEC, specifically the Company’s most recent Annual Report on Form 20-F, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements, including, among other things, risks relating to general economic and business conditions, including crude oil and other commodity prices, refining margins and prevailing exchange rates, uncertainties inherent in making estimates of our oil and gas reserves including recently discovered oil and gas reserves, international and Brazilian political, economic and social developments, natural disasters and accidents, receipt of governmental approvals and licenses and our ability to obtain financing. All forward-looking statements are qualified in their entirety by this cautionary statement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.

Dear shareholders and investors,

We are pleased to announce our results for the third quarter of 2011, amidst a global economic environment that is characterized by volatility and uncertainties. Despite the unfavorable economic climate, we maintained a robust cash flow backed by sound operating performance in an expanding domestic market.

Cash generation measured by Adjusted EBITDA reached U.S.$9,923 million in the third quarter of 2011, an increase of 5.1% compared to the second quarter of 2011, although net income decreased by 42.0% in the third quarter of 2011 compared to the second quarter of 2011 primarily as a result of the impact of exchange variation on dollar-denominated debt. The 18.8% decrease in the value of the Real against the U.S. dollar in the third quarter of 2011 compared to the second quarter of 2011 resulted in a monetary and exchange rate variation expense of U.S.$3,782 million in the third quarter of 2011.

The third quarter of 2011 was highlighted by the operational start-up of the P-56 platform in the Marlim Sul field in the Campos Basin, the output of which has already reached 38,500 barrels per day. Moreover, the Lula-Mexilhão gas pipeline came on-stream in the Santos Basin, which will enable the transportation of natural gas in the first phase of the pre-salt development as well as promote flexibility in supplying gas to the domestic market.

We also concluded the Guará extended well test (EWT) in the Santos Basin with a view to install the Pilot System project by the end of 2012 in light of promising results. In October, we began the EWT in the Carioca field, which is already producing an average of 18,000 barrels per day.

Furthermore, we announced significant discoveries in the Espírito Santo and Sergipe-Alagoas basins, where we setup our first ultra-deep-water exploration project. The data we have obtained so far have confirmed the existence of a new oil province in this basin that holds high quality light crude oil.

The Brazilian oil products market continued to outpace the global market and the Brazilian economy as a whole, led by diesel and jet fuel sales that increased by 8.6% and 6.1%, respectively, in the third quarter of 2011 compared to the second quarter of 2011. We continue to invest in the expansion of our refineries, strengthening our position as an integrated company.

We recently announced an increase in the price of diesel of 2.0% and gasoline of 10.0%, effective November 1, based on the Company's policy of aligning oil product prices with international prices in the medium to long term.

In the financial realm, the *Progredir* program that was launched in June has already concluded over 160 financial operations and has more than U.S.$415 million in financings. *Progredir* is part of Petrobras' strategy of strengthening and expanding its production chain, guaranteeing more robust financial situation to our suppliers. It creates a healthy credit environment, by having loans that are backed by Petrobras' receivables, thus reducing funding costs for the borrowers without compromising Petrobras' cash position.

We were included in the Dow Jones Sustainability Index, the world's leading sustainability index, for the sixth consecutive year. We improved our performance with respect to economic and social criteria and were granted the highest score in the Transparency criterion for the fifth time. Our investments in improving fuel quality are also showing positive results: our refining and clean fuels indicator has improved substantially, resulting in an evaluation that is significantly above the sector average.

Finally, we celebrated 58 years of existence on October 3, 2011 with exceptionally promising prospects, including doubling oil production over the next ten years. Thanks to product and service quality, a strong commitment to sustainable development, state-of-the-art technology and exemplary management, Petrobras continues to strengthen its position as a major player in the global oil and gas market and is fully prepared for new conquests.

Net Income and Consolidated Financial and Economic Indicators

2Q-2011	3Q-2011	3Q-2010	**Income statement data** (in millions of U.S. dollars, except for per share and per ADS data) [1]	For the nine-month periods ended September 30,	
47,934	48,966	38,859	**Sales of products and services**	138,022	110,407
38,209	38,973	30,881	**Net operating revenues**	109,795	88,064
7,046	7,434	5,683	**Operating income**	21,874	18,250
1,957	(2,918)	1,206	**Financial income (expense), net**	271	527
6,648	3,859	4,725	**Net income attributable to Petrobras**	17,031	13,288
0.51	0.30	0.53	**Basic and diluted earnings per common and preferred share**	1.31	1.51
1.02	0.60	1.06	**Basic and diluted earnings per ADS**	2.62	3.02
			Net income by business segment (in millions of U.S. dollars)		
6,497	6,291	4,104	**• Exploration and Production**	18,227	11,943
(1,570)	(1,983)	324	**• Refining, Transportation and Marketing**	(3,574)	1,040
484	821	174	**• Gas and Power**	1,660	560
(27)	(40)	(19)	**• Biofuels**	(76)	(36)
345	24	131	**• International**	887	695
133	203	193	**• Distribution**	556	534
876	(1,433)	(107)	**• Corporate**	(33)	(1,336)
10,282	11,579	14,007	**Total capital expenditures (in millions of U.S. dollars)** [1] [9]	31,785	33,394
			Other data (non-GAAP measures)		
37.2	37.1	40.2	**Gross margin (%)** [2]	38.5	41.9
18.4	19.1	18.4	**Operating margin (%)** [3]	19.9	20.7
17.4	9.9	15.3	**Net margin (%)** [4]	15.5	15.1
9,437	9,923	7,638	**Adjusted EBITDA** [5]	28,882	24,218
41	43	41	**Debt to equity ratio (%)** [6]	43	41
			Financial and economic indicators		

117.36	113.46	76.86	**Brent crude (U.S.$/bbl)**	111.93	77.13
			Average commercial selling rate for U.S. dollar		
1.5962	1.6357	1.7496	**(R$/U.S.$)**	1.6331	1.7815
			Period-end commercial selling rate for U.S.		
1.5611	1.8544	1.6942	**Dollar (R$/U.S.$)**	1.8544	1.6942
			Price indicators		
			Crude oil and NGL average sales price (U.S. dollars/bbl)		
108.97	102.86	72.10	**Brazil** (7)	101.95	72.92
91.09	88.71	63.35	**International**	88.96	63.94
			Natural gas average sales price (U.S. dollars/mcf)		
9.01	9.10	6.54	**Brazil** (8)	8.79	6.87
2.55	2.65	2.02	**International**	2.65	2.32

(1) Impacted by the increase in the value of Real against U.S. dollar in the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010.

(2) Gross margin equals net operating revenues less cost of sales divided by net operating revenues.

(3) Operating margin equals operating income divided by net operating revenues.

(4) Net margin equals net income divided by net operating revenues.

(5) Our adjusted EBITDA and our adjusted EBITDA margin are not U.S. GAAP measures and it is possible that they may not be comparable with indicators with the same name reported by other companies. Adjusted EBITDA should not be considered as a substitute for operational profit or as a better measure of liquidity than operational cash flow, both of which are calculated in accordance with U.S. GAAP. We provide our adjusted EBITDA and adjusted EBITDA margin to give additional information about our capacity to pay debt, carry out investments and cover working capital needs. See the following page for a reconciliation between Adjusted EBITDA and net income.

(6) Debt to equity ratio equals total liabilities divided by the sum of total liabilities and total shareholders' equity.

(7) Crude oil and NGL average sales price in Brazil includes intra-company transfers and sales to third parties.

(8) As of September 2011, we have factored in natural gas realization prices.

(9) Capital expenditures differ from our total consolidated investments, disclosed in Brazil under IFRS, primarily due to geological and geophysics and scheduled stoppages expenditures.

Reconciliation between Adjusted EBITDA and Net Income

2Q-2011	3Q-2011	3Q-2010		For the nine-month periods ended September 30,	
6,648	3,859	4,725	Net income attributable to Petrobras	17,031	13,288
2,457	2,590	2,078	Depreciation, depletion and amortization	7,322	6,208
2	-	-	Impairment	2	94
(1,102)	(1,103)	(555)	Financial income	(3,250)	(1,479)
30	239	441	Financial expense	657	1,263
(885)	3,782	(1,092)	Monetary and exchange variation	2,322	(311)
2,132	926	1,983	Total income tax expense	5,107	5,030
(128)	232	(248)	Equity in results of non-consolidated companies	(111)	(220)
283	(602)	306	Non-controlling interest in results of consolidated subsidiaries	(198)	345
9,437	**9,923**	**7,638**	**Adjusted EBITDA**	**28,882**	**24,218**
24.7	**25.5**	**24.7**	**Adjusted EBITDA margin (%)**[1]	**26.3**	**27.5**

(1) Adjusted EBITDA margin equals adjusted EBITDA divided by net operating revenues.

Our adjusted EBITDA and our adjusted EBITDA margin are not U.S. GAAP measures and it is possible that they may not be comparable with indicators with the same name reported by other companies. Adjusted EBITDA should not be considered as a substitute for operational profit or as a better measure of liquidity than operational cash flow, both of which are calculated in accordance with U.S. GAAP. We provide our adjusted EBITDA and adjusted EBITDA margin to give additional information about our capacity to pay debt, carry out investments and cover working capital needs.

The comparison between our results of operations for the nine-month period ended September 30, 2011 and for the nine-month period ended September 30, 2010 has been affected by the 9.1% increase in the value of the Real against the U.S. dollar during that period.

Net Income Overview

Net operating revenues increased by 24.7% to U.S.$109,795 million for the nine-month period ended September 30, 2011 compared to U.S.$88,064 million for the nine-month period ended September 30, 2010, primarily due to an increase of 45.1% in international Brent crude oil and oil products prices, which increased the prices of exports, international sales, trading operations and domestic oil products (indexed to international prices); and higher domestic demand for oil products, mainly of diesel, gasoline and jet fuel. Those effects were partially offset by lower crude oil exports attributable to higher volumes of domestic crude oil processed by the refineries and also to the 9.1% increase in the value of the Real against the U.S. dollar during the period.

Cost of sales increased by 32.0% to U.S.$67,564 million for the nine-month period ended September 30, 2011 compared to U.S.$51,185 million for the nine-month period ended September 30, 2010, primarily due to higher domestic demand of oil products, higher crude oil and oil products import volumes and prices and also to increased production taxes.

The increase in net income was also due to:

- Higher net income attributable to the non-controlling interest (U.S.$543 million), mainly due to the impact of the exchange rate variation on special purpose entity (SPE) debt expressed in U.S. dollars; and

- A higher tax benefit related to the provisioning of interest on shareholders' equity (U.S.$568 million).

These effects were partially offset by:

- Lower financial income (expense), net, which decreased to U.S.$271 million in the nine-month period ended September 30, 2011 compared to U.S.$527 million in the same period last year, due mainly to the 11.3% decrease in the value of the Real against the U.S. dollar over the net debt in the nine-month period ended September 30, 2011, compared to the 2.7% increase in the value of the Real against the U.S. dollar in the same period last year, which generated exchange variation expense of U.S.$2,322 million in the nine-month period ended September 30, 2011 compared to an exchange variation gain of U.S.$311 million in the same period last year. This effect was partially offset by higher financial income (U.S.$1,771 million), generated by higher interest rates in Brazil.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We earn income from:

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

Our expenses include:

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

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

- the volume of crude oil, oil products and natural gas we produce and sell;
- changes in international prices of crude oil and oil products, which are denominated in U.S. dollars;
- related changes in the domestic prices of crude oil and oil products, which are denominated in Reais;
- fluctuations in the Real/U.S. dollar; and
- the amount of production taxes that we are required to pay with respect to our operations.

Virtually all of our revenues and expenses for our Brazilian activities are denominated and payable in Reais. When the Real appreciates against the U.S. dollar, as it did in the nine-month period ended September 30, 2011, with an appreciation of 9.1%, the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. However, the appreciation of the Real against the U.S. dollar affects the line items discussed below in different ways. As a consequence, the following comparison between our results of operations in the nine-month period ended September 30, 2011 and in the nine-month period ended September 30, 2010 was impacted by the increase in the value of the Real against the U.S. dollar during that period.

RESULTS OF OPERATIONS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011 COMPARED TO THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2010

The comparison between our results of operations has been affected by the 9.1% increase in the value of the Real against the U.S. dollar in the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010.

Revenues

Consolidated sales of products and services increased by 25.0% to U.S.$138,022 million in the nine-month period ended September 30, 2011 compared to U.S.$110,407 million in the nine-month period ended September 30, 2010. This increase was primarily a result of a 45.1% increase in international Brent crude oil and oil products prices, which increased the prices of exports, international sales, trading operations and domestic oil products (indexed to international prices); and a 7.3% increase in sales volumes in the domestic market, primarily attributable to a 8.8% increase in oil products demand and a 2.7% increase in natural gas demand. For more information on the domestic increase of sales volumes, see the discussion of sales volumes on page 18.

Included in sales of products and services is the following amount that we collected on behalf of federal or state governments:

- Domestic Value-added tax (ICMS), Programa de Formação do Patrimônio do Servidor Público (Civil Servant Savings Programs, or PASEP), Contribuição para o Financiamento da Seguridade Social (Contribution for the Financing of Social Security, or COFINS), Contribuição de Intervenção no Domínio Econômico (Contribution for Intervention in the Economic Sector, or CIDE, the per-transaction fee due to the Brazilian government), and other taxes on sales of products and services and social security contributions. These taxes increased by 26.3% to U.S.$28,227 million in the nine-month period ended September 30, 2011 compared to U.S.$22,343 million in the nine-month period ended September 30, 2010, primarily due to higher prices and higher domestic sales volumes.

Net operating revenues increased by 24.7% to U.S.$109,795 million in the nine-month period ended September 30, 2011 compared to U.S.$88,064 million in the nine-month period ended September 30, 2010 due to the increases mentioned above.

Cost of Sales (Excluding Depreciation, Depletion and Amortization)

Cost of sales in the nine-month period ended September 30, 2011 increased by 32.0% to U.S.$67,564 million compared to U.S.$51,185 million in the nine-month period ended September 30, 2010. This increase was primarily a result of:

- 37.4% (U.S.$5,941 million) increase in the cost of imports, primarily due to the growing demand for oil products in Brazil, mainly gasoline, diesel and jet fuel. The growth in Brazilian demand was met by higher volumes of imports, purchased at prevailing international prices, which increased by 10.9% in the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010;

- 23.8% (U.S.$5,908 million) increase in the cost of sales of the Distribution segment, due to the 6.0% increase on sales volumes, which also generated a 23.1% (U.S.$6,282 million) increase in net operating revenues; and

- 36.5% (U.S.$2,987 million) increase in production taxes and charges in the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010. These include royalties, which increased by 29.2% (U.S.$1,163 million), and special participation charges (a charge payable in the event of high production or profitability from our fields), which increased by 43.8% (U.S.$1,817 million). The increase in production taxes and charges in the nine-month period ended September 30, 2011 was due to a 43.4% increase in the reference price for domestic oil, which averaged U.S.$98.27/bbl in the nine-month period ended September 30, 2011 compared to U.S.$68.55/bbl in the nine-month period ended September 30, 2010, reflecting higher international oil benchmark prices upon which such taxes and charges are based.

Depreciation, Depletion and Amortization

We calculate depreciation, depletion and amortization of most of our exploration and production assets using the units of production method. Depreciation, depletion and amortization expenses increased by 17.9% to U.S.$7,322 million in the nine-month period ended September 30, 2011 compared to U.S.$6,208 million in the nine-month period ended September 30, 2010, due to the impact of the appreciation of the Real and increased oil and gas production.

Exploration, Including Exploratory Dry Holes

Exploration costs, including costs for exploratory dry holes, increased by 38.0% to U.S.$1,852 million in the nine-month period ended September 30, 2011 compared to U.S.$1,342 million in the nine-month period ended September 30, 2010, due to the impact of the appreciation of the Real and to higher write-off amounts of dry and economically unviable wells in the period, generated by the increased exploratory activity.

Impairment

In the nine-month period ended September 30, 2011, we recorded an impairment charge of U.S.$2 million compared to U.S.$94 million in the nine-month period ended September 30, 2010. In the nine-month period ended September 30, 2010, the impairment charge amounted to U.S.$94 million and was related to losses on the recoverable amount of our 65% interest in the Breitener thermoelectric power plant in Manaus, Amazonas - Brazil and on the recoverable amount of assets held for sale in the International segment (related to Refining, Transportation and Marketing and Distribution activities) which were written down to their fair value for the period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 15.5% to U.S.$7,513 million in the nine-month period ended September 30, 2011 compared to U.S.$6,502 million in the nine-month period ended September 30, 2010.

Selling expenses increased by 11.2% to U.S.$3,674 million in the nine-month period ended September 30, 2011 compared to U.S.$3,303 million in the nine-month period ended September 30, 2010. Excluding the impact of the appreciation of the Real, selling expenses remained relatively constant in the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010.

General and administrative expenses increased by 20.0% to U.S.$3,839 million in the nine-month period ended September 30, 2011 compared to U.S.$3,199 million in the nine-month period ended September 30, 2010. The increase in general and administrative expenses was primarily attributable to the impact of the appreciation of the Real and also to higher personnel expenses due mainly to increased workforce, to higher personnel training costs and also to the salary increases.

Research and Development Expenses

Research and development expenses increased by 40.2% to U.S.$1,032 million in the nine-month period ended September 30, 2011 compared to U.S.$736 million in the nine-month period ended September 30, 2010. This higher expense was primarily due to expenses related to the development of the Sistema de Separação Submarina de Água e Óleo – SSAO (System of Submarine Separation of Water from Oil) technological project and also due to an increase of 45.1% in international Brent crude oil and oil products prices, which are the basis for a fixed 0.5% provision for expenses on research and development investment required by Brazilian Law.

Other Operating Expenses

Other operating expenses decreased by 29.7% to U.S.$2,636 million in the nine-month period ended September 30, 2011 compared to U.S.$3,747 million in the nine-month period ended September 30, 2010. A breakdown of other operating expenses by segment is included on page 28.

The most significant changes between the nine-month period ended September 30, 2011 and the nine-month period ended September 30, 2010 are described below:

- 73.9% (U.S.$668 million) decrease in expenses for losses and contingencies related to legal and administrative proceedings, to U.S.$236 million in the nine-month period ended September 30, 2011 compared to U.S.$904 million in the same period last year. In the nine-month period ended September 30, 2010, expenses for losses and contingencies related to legal and administrative proceedings were mainly affected by provisions for contingencies related to the IPI (Federal VAT tax) tax credit-premium assignment, to the ICMS tax (domestic value-added tax) related to the sinking of the P-36 Platform, to the Consortium IVI – Verolme Ishibras S.A. and to ICMS of Rio de Janeiro state tax debts;

- U.S.$423 million increase in gains related to legal and arbitral proceedings, occurred only in the nine-month period ended September 30, 2011;

- 100.0% (U.S.$412 million) decrease in losses related to the corporate reorganization of the petrochemical sector in 2010 resulting from the integration of petrochemical investments in Braskem, to zero in the nine-month period ended September 30, 2011 compared to U.S.$412 million in the nine-month period ended September 30, 2010;

- 31.8% (U.S.$57 million) increase in gains related to government subsidies, incentives and donations, to U.S.$236 million in the nine-month period ended September 30, 2011 compared to U.S.$179 million in the nine-month period ended September 30, 2010; and

- 28.8% (U.S.$45 million) decrease in operating expenses at thermoelectric power plants, to U.S.$111 million in the nine-month period ended September 30, 2011 compared to U.S.$156 million in the nine-month period ended September 30, 2010.

These decreases in expenses and the occurrence of gains were partially offset by:

- 267.3% (U.S.$433 million) increase in expenses for unscheduled stoppages of plant and equipment, to U.S.$595 million in the nine-month period ended September 30, 2011 compared to U.S.$162 million in the nine-month period ended September 30, 2010;

- U.S.$163 million increase in results from sales and write-off of assets, to an expense of U.S.$161 million in the nine-month period ended September 30, 2011 compared to an income of U.S.$2 million in the nine-month period ended September 30, 2010; and

- 20.3% (U.S.$130 million) increase in employee benefit expenses for non-active participants, to U.S.$770 million in the nine-month period ended September 30, 2011 compared to U.S.$640 million in the nine-month period ended September 30, 2010.

Equity in Results of Non-Consolidated Companies

Equity in results of non-consolidated companies decreased to a gain of U.S.$111 million in the nine-month period ended September 30, 2011 compared to a gain of U.S.$220 million in the nine-month period ended September 30, 2010, primarily due to losses from investments in the petrochemical sector generated by the 11.3% decrease in the value of the Real against the U.S. dollar over the net debt of the petrochemical affiliated companies.

Financial Income

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

Financial income increased by 119.7% to U.S.$3,250 million in the nine-month period ended September 30, 2011 compared to U.S.$1,479 million in the nine-month period ended September 30, 2010. This increase was primarily attributable to higher income in financial investments (U.S.$747 million) and in marketable securities (U.S.$1,015 million) generated by higher interest rates in Brazil. A breakdown of financial income is set forth in Note 11 of our unaudited consolidated financial statements for the nine-month period ended September 30, 2011.

Financial Expenses

Financial expenses decreased by 48.0% to U.S.$657 million in the nine-month period ended September 30, 2011 compared to U.S.$1,263 million in the nine-month period ended September 30, 2010. This decrease was primarily attributable to higher capitalized interest income (which resulted in a U.S.$1,366 million decrease in financial expenses), partially offset by increased financial expenses related to our debt (U.S.$812 million). A breakdown of financial expenses is set forth in Note 11 of our unaudited consolidated financial statements for the nine-month period ended September 30, 2011.

Monetary and Exchange Variation

Monetary and exchange variation decreased to a loss of U.S.$2,322 million in the nine-month period ended September 30, 2011 compared to a gain of U.S.$311 million in the nine-month period ended September 30, 2010. The loss in the nine-month period ended September 30, 2011 compared to the gain in the nine-month period ended September 30, 2010 was primarily due to the 11.3% decrease in the value of the Real against the U.S. dollar over the net debt in the nine-month period ended September 30, 2011, compared to the 2.7% increase in the value of the Real against the U.S. dollar in the same period last year.

Other Taxes

Other taxes, consisting of various taxes on financial transactions, decreased by 5,4% to U.S.$316 million in the nine-month period ended September 30, 2011 compared to U.S.$334 million in the nine-month period ended September 30, 2010. Excluding the impact of the appreciation of the Real, the decrease in other taxes, consisting of various taxes on financial transactions, was primarily due to losses on the recoverable amounts of tax credits for the nine-month period ended September 30, 2010.

Income Tax (Expense) Benefit

Income before income taxes and the non-controlling interest increased by 17.6% to U.S.$21,940 million in the nine-month period ended September 30, 2011 compared to U.S.$18,663 million in the nine-month period ended September 30, 2010. Income tax expense increased by 1.5% to U.S.$5,107 million in the nine-month period ended September 30, 2011, compared to U.S.$5,030 million in the nine-month period ended September 30, 2010, remaining relatively constant during the period. The reconciliation between the tax that was calculated based upon statutory tax rates to the income tax expense and effective rates is set forth in Note 3 of our unaudited consolidated financial statements for the nine-month period ended September 30, 2011.

NET INCOME BY BUSINESS SEGMENT

Petrobras is an integrated energy company, with the greater part of its oil and gas production in the Exploration and Production segment being sold or transferred to other business segments of the Company. We provide below the financial information from our different business segments and related operating information.

EXPLORATION AND PRODUCTION

(U.S.$ million)
For the nine-month periods ended September 30,

18,227	11,943

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

The 52.6% increase in net income from Exploration and Production for the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010 was primarily due to a 39.8% increase in average domestic oil and NGL prices and to the increase in oil and NGL production.

These effects were partially offset by increased expenses from government participation charges.

The spread between the average domestic oil sale/transfer price and the average Brent price rose from U.S.$ 4.21/bbl in the nine-month period ended September 30, 2010 to U.S.$9.98/bbl in the nine-month period ended September 30, 2011.

Other information relevant for this segment:

2Q-2011	3Q-2011	3Q-2010	EXPLORATION AND PRODUCTION – BRAZIL	For the nine-month periods ended September 30,	
			Average daily crude oil and gas production		
2,018	1,978	1,991	Crude oil and NGLs – Brazil (mbbl/d)[1]	2,013	1,995
2,124	2,136	1,998	Natural gas - Brazil (mmcf/d) [2]	2,100	1,962

(1) Includes production from shale oil reserves.

(2) Does not include LNG. Includes reinjected gas.

(Jan-Set/2011 x Jan-Set/2010): Increased production in the Jubarte, Cachalote, Baleia Franca (Parque das Baleias), Marlim Leste, Barracuda and Lula fields (increase of 187,000 barrels per day), partially offset by decreased production in the Marlim and Albacora Leste fields, due to higher number of maintenance activities, to the natural decline from mature fields and to the higher number of well interventions in Roncador, Golfinho, Espadarte and Albacora fields (165,000 barrels per day).

				For the nine-month periods ended September 30,
			LIFTING COSTS – BRAZIL	
2Q-2011	**3Q-2011**	**3Q-2010**	**(U.S. dollars/boe)**	

Crude oil and natural gas – Brazil

13.12	13.37	10.60	Excluding production taxes [(1)]	12.63	9.94

35.00	31.25	24.67	Including production taxes [1]	32.25	24.31

(1) Production taxes include royalties, special government participation and rental of areas.

Lifting Costs - Excluding production taxes

(Jan-Set/2011 x Jan-Set/2010): Our unit lifting costs in Brazil, excluding production taxes (consisting of royalties, special government participation charges and rental of areas) increased by 27.1% to U.S.$12.63/bbl in the nine-month period ended September 30, 2011 compared to U.S.$9.94/bbl in the nine-month period ended September 30, 2010. Excluding the impact of the appreciation of the Real and the increased production volumes, our unit lifting costs in Brazil increased by 24.0% in the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010 due to higher initial unit costs of the new production systems of Lula, Uruguá, Mexilhão and Parque das Baleias fields (43.0% increase). Other factors that contributed to the increase in unit lifting costs are the higher number of interventions, maintenances and scheduled stoppages in platforms and wells of Marlim, Albacora, Albacora Leste, Roncador, Golfinho and Espadarte fields (38.0% increase), besides the salary increases arising out of the Collective Bargaining Agreement for 2010 and the provision for salary increases pursuant to negotiations of the Collective Bargaining Agreement for 2011 (19.0% increase).

Lifting Costs - Including production taxes

(Jan-Set/2011 x Jan-Set/2010): Our unit lifting costs in Brazil, including production taxes, increased by 32.7% to U.S.$32.25/bbl in the nine-month period ended September 30, 2011 compared to U.S.$24.31/bbl in the nine-month period ended September 30, 2010. Excluding the impact of the appreciation of the Real, our unit lifting costs in Brazil, including production taxes, increased by 29.0% in the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010, primarily attributable to a 43.4% increase in the reference price for domestic oil, which averaged U.S.$98.27/bbl in the nine-month period ended September 30, 2011 compared to U.S.$68.55/bbl in the nine-month period ended September 30, 2010, reflecting higher international oil benchmark prices upon which such taxes and charges are based.

REFINING, TRANSPORTATION AND MARKETING

(U.S.$ million)
For the nine-month periods ended September 30,

(3,574)	1,040

Our Refining, Transportation and Marketing (RTM) segment includes refining, logistics, transportation, exportation and the purchase of crude oil, as well as the purchase and sale of oil products and ethanol. Additionally, this segment includes the petrochemical division, which comprises investments in domestic petrochemical companies. Our RTM segment purchases crude oil from our E&P segment and imports oil to blend with our domestic oil. Additionally, our RTM segment purchases oil products in the international markets to meet demand for such products from the domestic market that exceed its refining output. RTM acquires crude oil and oil products at the international price, either from our E&P segment or from the international markets. It sells products in Brazil at a price that we expect will equal international prices in the long run but that can lag the international markets with respect to prices for gasoline, diesel and residential LPG. Depending on the impact of this lag effect, RTM earnings may differ from international refining margins.

The decrease in net income for our RTM segment in the nine-month period ended September 30, 2011 compared to the same period of 2010 was due to the higher oil acquisition/transfer costs and higher oil product imports.

These effects were partially offset by higher average price realization of exports and higher domestic prices, where oil products are indexed to international prices.

Other information relevant for this segment:

2Q-2011	3Q-2011	3Q-2010	IMPORTS AND EXPORTS	For the nine-month periods ended September 30,	
			Imports (mbbl/d)		
347	316	317	Crude oil imports	356	331
374	499	445	Oil product imports	384	336
			Exports (mbbl/d)		
486	400	432	Crude oil exports (1) (2)	441	516
213	222	179	Oil product exports (2)	215	196
(22)	(193)	(151)	**Net exports (imports) of crude oil and oil products**	(84)	45

(1) Includes crude oil export volumes of Refining, Transportation and Marketing and Exploration and Production segments.

(2) Includes exports in progress.

(Jan-Set/2011 x Jan-Set/2010): We imported higher volumes of oil products, mainly diesel and gasoline, to meet higher domestic demand, and we increased crude oil imports to support the increased feedstock that was processed.

We decreased crude oil exports as a result of the increased feedstock processed. Crude oil exports were higher in the nine-month period ended September 30, 2010 due to the decline in the volumes of crude oil processed caused by the scheduled stoppage at the Replan Refinery.

2Q-2011	3Q-2011	3Q-2010	OUTPUT OF OIL PRODUCTS – BRAZIL	For the nine-month periods ended September 30,	
			Refining and marketing operations (mbbl/d)		
			Brazil		
1,869	1,886	1,843	Output of oil products	1,878	1,805
2,007	2,007	2,007	Installed capacity (1)	2,007	2,007
92	93	91	Utilization (%)	92	89
81	82	83	**Domestic crude oil as % of total feedstock processed**	82	82

(1) As registered by the National Petroleum, Natural Gas and Biofuels Agency (ANP).

(Jan-Set/2011 x Jan-Set/2010): Refinery output in Brazil increased by 4.0% in the nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010, due to scheduled stoppages that arose at Replan Refinery last year.

				For the nine-month periods ended September 30,
			REFINING COSTS – BRAZIL	
			(U.S. dollars/boe)	
2Q-2011	**3Q-2011**	**3Q-2010**		