PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
August 25, 2010

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, 2010

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 of F-3 of Petróleo Brasileiro S.A. - Petrobras (No.333-163665).

Exhibits

Exhibit 15.1 - Awareness Letter of KPMG Auditores Independentes

Petróleo Brasileiro S.A. Petrobras and Subsidiaries

Consolidated Financial Statements

June 30, 2010 and 2009

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, 2010, and the related condensed consolidated statements of operations, cash flows and changes in shareholders equity for the six-month periods ended June 30, 2010 and 2009. 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, 2010

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2010 and December 31, 2009

Expressed in Millions of United States Dollars

Assets	June 30, 2010 (unaudited)	December 31, 2009
Current assets		
Cash and cash equivalents (Note 5)	**12,972**	16,169
Marketable securities (Note 6)	**412**	72
Accounts receivable, net	**9,228**	8,115
Inventories (Note 7)	**10,857**	11,227
Deferred income taxes (Note 4)	**603**	660
Recoverable taxes (Note 8)	**3,758**	3,940
Advances to suppliers	**930**	1,026
Other current assets	**1,522**	1,435
	40,282	42,644
Property, plant and equipment, net	**147,083**	136,167
Investments in non-consolidated companies and other investments	**5,466**	4,350
Non-current assets		
Accounts receivable, net	**1,931**	1,946
Advances to suppliers	**3,097**	3,267
Petroleum and alcohol account - receivable from Federal Government (Note 9)	**454**	469
Marketable securities (Note 6)	**2,559**	2,659
Restricted deposits for legal proceedings and guarantees (Note 15 (a))	**1,316**	1,158
Recoverable taxes (Note 8)	**5,971**	5,462
Goodwill	**136**	139
Prepaid expenses	**745**	618
Other assets	**1,524**	1,391
	17,733	17,109
Total assets	**210,564**	200,270

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

June 30, 2010 and December 31, 2009

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

Liabilities and shareholders equity	**June 30, 2010 (unaudited)**	**December 31, 200**
Current liabilities		
Trade accounts payable	**9,123**	9,88
Current debt (Note 10)	**13,911**	8,55
Current portion of capital lease obligations (Note 12)	**201**	22
Income taxes payable	**655**	82
Taxes payable, other than income taxes	**4,252**	5,14
Payroll and related charges	**2,289**	2,11
Dividends and interest on capital payable (Note 14)	**974**	1,34
Employees postretirement benefits obligation Pension and Health Care (Note 13 (a))	**665**	69
Contingencies (Note 15 (a))	**30**	3
Other payables and accruals	**2,560**	2,14
	34,660	30,96
Long-term liabilities		
Long-term debt (Note 10)	**50,477**	48,14
Capital lease obligations (Note 12)	**155**	20
Employees postretirement benefits obligation Pension and Health Care (Note 13 (a))	**10,962**	10,96
Deferred income taxes (Note 4)	**9,962**	9,84
Provision for abandonment	**2,704**	2,81
Contingencies (Note 15 (a))	**904**	46
Other liabilities	**1,796**	1,44
	76,960	73,88
Shareholders equity		
Shares authorized and issued (Note 14)		
Preferred share - 2010 and 2009 - 3,700,729,396 shares	**17,157**	15,10
Common share - 2010 and 2009 - 5,073,347,344 shares	**22,584**	21,08
Additional paid in capital	**717**	70
Capital reserve - fiscal incentive	**-**	29
Retained earnings		

Appropriated	**43,688**	36,69
Unappropriated	**11,427**	15,06
Accumulated other comprehensive income		
Cumulative translation adjustments	**3,542**	6,74

Postretirement benefit reserves adjustments net of tax ((US$814) and (US$848) for June 30, 2010 and December 31, 2009, respectively) - Pension cost and Health Care (Note 13 (a))	**(1,581)**	(1,646
Unrealized gains on available-for-sale securities, net of tax	**9**	2
Unrecognized loss on cash flow hedge, net of tax	**(22)**	(13
Petrobras Shareholders Equity	**97,521**	94,05
Noncontrolling interest	**1,423**	1,36
Total shareholders equity	**98,944**	95,42
Total liabilities and shareholders equity	**210,564**	200,27

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

June 30, 2010 and 2009

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

	Six-month periods ended June 30,	
	2010	**2009**
Sales of products and services	**71,548**	49,900
Less:		
Value-added and other taxes on sales and services	**(12,416)**	(9,043)
Contribution of intervention in the economic domain charge - CIDE	**(1,949)**	(1,063)
Net operating revenues	**57,183**	39,794
Cost of sales	**(32,713)**	(20,882)
Depreciation, depletion and amortization	**(4,130)**	(2,891)
Exploration, including exploratory dry holes	**(892)**	(798)
Impairment	**(94)**	-
Selling, general and administrative expenses	**(4,200)**	(3,125)
Research and development expenses	**(448)**	(322)
Employee benefit expense for non-active participants	**(403)**	(324)
Other operating expenses	**(1,878)**	(636)
Total costs and expenses	**(44,758)**	(28,978)
Operating income	**12,425**	10,816
Equity in results of non-consolidated companies	**(28)**	215
Financial income (Note 11)	**924**	822
Financial expenses (Note 11)	**(822)**	(482)
Monetary and exchange variation (Note 11)	**(781)**	(900)
Other taxes	**(166)**	(148)
Other expenses, net (Note 18 (a))	**97**	(77)

	(776)	(570)
Income before income taxes	**11,649**	10,246

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

June 30, 2010 and 2009

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

	Six-month periods ended June 30,	
	2010	**2009**
Income taxes expense (Note 4)		
Current	**(2,621)**	(2,789)
Deferred	**(426)**	291
	(3,047)	(2,498)
Net income for the period	**8,602**	7,748
Less: Net income attributable to the noncontrolling interest	**(39)**	(1,121)
Net income attributable to Petrobras	**8,563**	6,627
Net income applicable to each Petrobras class of shares		
Common	**4,951**	3,832
Preferred	**3,612**	2,795
	8,563	6,627
Basic and diluted earnings per: (Note 14)		
Common and Preferred share	**0.98**	0.76
Common and Preferred ADS	**1.96**	1.52
Weighted average number of shares outstanding		
Common	5,073,347,344	5,073,347,344

Preferred	3,700,729,396	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

June 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

	Six-month periods ended June 30,	
	2010	**2009**
Cash flows from operating activities		
Net income for the period	**8,602**	7,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	**4,130**	2,891
Dry hole costs	**547**	329
Impairment	**94**	-
Equity in the results of non-consolidated companies	**28**	(215)
Foreign exchange (gain)/loss	**993**	155
Deferred income taxes	**426**	(291)
Other	**629**	233
Working capital adjustments		
Increase in accounts receivable, net	**(1,334)**	(757)
Increase in inventories	**(346)**	(207)
Decrease (increase)in advances to suppliers	**99**	(589)
Increase in recoverable taxes	**(634)**	(462)
Decrease in trade accounts payable	**(759)**	(53)
(Decrease) increase in taxes payable	**(878)**	824
Increase in employees post-retirement benefits - Pension and health care	**458**	250
Increase (decrease) in Contingencies	**446**	(12)
Increase (decrease) in payroll and related charges	**240**	(272)
Increase in other working capital adjustments	**698**	199
Net cash provided by operating activities	**13,439**	9,771
Cash flows from investing activities		
Additions to property, plant and equipment	**(19,387)**	(14,271)

Investments in affiliated companies	**(1,861)**	(453)
Marketable securities and other investments activities	**(383)**	(139)
Net cash used in investing activities	**(21,631)**	(14,863)
Cash flows from financing activities		
Short-term debt, net of issuances and repayments	**967**	(231)
Proceeds from issuance and draw-down of long-term debt	**8,361**	7,037
Principal payments of long-term debt	**(1,154)**	(1,122)
Proceeds from project financing	**449**	763
Payments of project financing	**(669)**	(892)
Payments of capital lease obligations	**(104)**	(108)
Dividends and interest on shareholders equity paid to shareholders	**(2,399)**	(2,787)
Net cash provided by financing activities	**5,451**	2,660
Decrease in cash and cash equivalents	**(2,741)**	(2,432)
Effect of exchange rate changes on cash and cash equivalents	**(456)**	803
Cash and cash equivalents at beginning of period	**16,169**	6,499
Cash and cash equivalents at end of period	**12,972**	4,870
Supplemental cash flow information:		
Cash paid during the period for		
Interest, net of amount capitalized	**470**	641
Income taxes	**1,806**	3,884
	2,276	4,525

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

June 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

	Six-month periods ended June 30,	
	2010	**2009**
Preferred shares		
Balance at January 1,	**15,106**	15,106
Capital increase from capital reserve - tax incentive	**171**	-
Capital increase from statutory reserve	**300**	-
Capital increase from undistributed earnings reserve	**1,580**	-
Balance at June 30,	**17,157**	15,106
Common shares		
Balance at January 1,	**21,088**	21,088
Capital increase from capital reserve - tax incentive	**125**	**-**
Capital increase from statutory reserve	**219**	**-**
Capital increase from undistributed earnings reserve	**1,152**	**-**
Balance at June 30,	**22,584**	21,088
Additional paid in capital		
Balance at January 1,	**707**	-
Change in the period	**10**	(289)
Balance at June 30,	**717**	(289)
Capital reserve - fiscal incentive		
Balance at January 1,	**296**	221
Capital increase	**(296)**	-
Transfer from (to) unappropriated retained earnings	**-**	43

Balance at June 30,	**-**	264
Cumulative translation adjustments		
Balance at January 1,	**6,743**	(15,846)
Change in the period	**(3,201)**	12,519
Balance at June 30,	**3,542**	(3,327)
Postretirement benefit reserves adjustments, net of tax - Pension Cost and Health Care		
Balance at January 1,	**(1,646)**	37
Change in the period	**99**	11
Tax effect on above	**(34)**	(4)
Balance at June 30,	**(1,581)**	44

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Continued)

June 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

	Six-month periods ended June 30,	
	2010	**2009**
Unrecognized gains on available-for-sale securities, net of tax		
Balance at January 1,	**24**	(144)
Unrealized gains	**(23)**	224
Tax effect on above	**8**	(76)
Balance at June 30,	**9**	4
Unrecognized loss on cash flow hedge, net of tax		
Balance at January 1,	**(13)**	(39)
Change in the period	**(9)**	22
Balance at June 30,	**(22)**	(17)
Appropriated retained earnings		
Legal reserve		
Balance at January 1,	**5,419**	3,257
Transfer from unappropriated retained earnings	**632**	1,578
Balance at June 30,	**6,051**	4,835
Undistributed earnings reserve		
Balance at January 1,	**30,755**	12,123
Capital increase	**(2,732)**	-
Other change in the period	**9,396**	15,315
Balance at June 30,	**37,419**	27,438
Statutory reserve		
Balance at January 1,	**517**	217
Capital increase	**(520)**	-
Transfer from unappropriated retained earnings	**221**	245
Balance at June 30,	**218**	462
Total appropriated retained earnings	**43,688**	32,735

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Continued)

June 30, 2010 and 2009

Expressed in Millions of United States Dollars

(Unaudited)

	Six-month periods ended June 30,	
	2010	**2009**
Unappropriated retained earnings		
Balance at January 1,	**15,062**	25,889
Net income attributable to Petrobras	**8,563**	6,627
Dividends and interest on shareholders equity	**(1,948)**	(1,797)
Appropriation from (to) tax incentive reserves	**-**	(43)
Appropriation to reserves	**(10,250)**	(17,138)
Balance at June 30,	**11,427**	13,538
Petrobras shareholders' equity	**97,521**	79,146
Noncontrolling interest		
Balance at January 1,	**1,362**	659
Net income for the period	**39**	1,121
Dividends and interest on shareholders equity paid	**-**	(51)
Other changes in the period	**22**	85
Balance at June 30,	**1,423**	1,814
Total shareholders' equity	**98,944**	80,960
Comprehensive income is comprised as follows:		
Net income for the period	**8,602**	7,748
Cumulative translation adjustments	**(3,201)**	12,519
Postretirement benefit reserves adjustments, net of tax - pension and health care cost	**65**	7
Unrealized gain on available-for-sale securities	**(15)**	148
Unrecognized gain (loss) on cash flow hedge	**(9)**	22
Comprehensive income	**5,442**	20,444
Less: Net comprehensive income atributable to noncontrolling interest	**(61)**	(1,206)
Comprehensive income attributable to Petrobras	**5,381**	19,238

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 (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, 2009 and the notes thereto.

The balance sheet at December 31, 2009 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, 2010 and for the six-month periods ended June 30, 2010 and 2009, 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, 2010.

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, 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.

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)

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 June 30, 2010, 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. Accounting Policies

2.1 Recently Adopted Accounting Standards

a) Transfers and Servicing (ASC 860), Accounting for Transfers of Financial Assets (ASU 2009-16)

The FASB issued ASU 2009-16 in December 2009. This standard removes the concept of a Qualifying Special Purpose Entity (QSPE) and the exception for QSPE consolidation and clarifies the requirements for financial asset transfers eligible for sale accounting. ASU 2009-16 was adopted on January 1, 2010, and did not impact the Company s results of operations, financial position or liquidity.

b) Consolidation (ASC 810), Improvements to Financial Reporting by Enterprises Involved With Variable Interest Entities (ASU 2009-17)

The FASB issued ASU 2009-17 in December 2009. This standard became effective for the Company on January 1, 2010. ASU 2009-17 requires the enterprise to qualitatively assess if it is the primary beneficiary of a variable-interest entity (VIE), and, if so, the VIE must be consolidated. Additionally, this Statement requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE. ASU 2009-17 was adopted on January 1, 2010, and did not impact the Company s results of operations, financial position or liquidity.

2.2 Change in accounting estimates

The Company changed at the beginning of 2010, as a consequence of the periodic assessment of the expected useful lives of its assets, depreciation rates from thermoeletric power plants and facilities from Refining, Transporting and Marketing segment, based on reports prepared by independent appraisers. The changes were accounted for prospectively in accordance with ASC 250 (Accounting Changes and Error Corrections) and the Company s results of operations were increased in US$158, net of taxes, in the first half of 2010.

The table below provides the previous and the current depreciation rates as a result of the assessment:

	Estimated average useful life	
	Previous	Current
Refinery and other industrial facilities	10 years	20 years
Pipelines	10 years	31 years
Tanks	10 years	26 years
Thermoelectric power plants	20 years	23 years

14

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. Accounting Policies (Continued)

2.3 IFRS adoption for local purposes

The Brazilian Corporation Law was amended in 2007 to permit Brazilian GAAP to converge with International Financial Reporting Standards, or IFRS , as issued by the International Accounting Standards Board, or IASB . The adoption of IFRS in Brazil is mandatory for the year ended December 31, 2010 and it is tax neutral in accordance with the current income tax legislation.

The Company elected to present its financial statements for local purposes for the first time in accordance with IFRS in the first quarter of 2010. The Company s financial statements prepared in accordance with U.S. GAAP were not affected by the adoption of IFRS other than dividends and profit sharing payable to our employees, which are based on net income as calculated under IFRS.

3. 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.

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)

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 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.

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)

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

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 financial instruments for trading purposes.

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 derivatives contracts for speculative purposes.

The Company does not usually 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 achieving strategic objectives.

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)

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 derivatives contracts were 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 currently price risk management, the derivatives are contracted as 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)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

3. 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 currently 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 hedges settled during the period from January to June 2010 corresponded to approximately 62% of the traded volume of imports and exports to and from Brazil plus the total volume of the products traded abroad.

The main counterparties of operations for derivatives for oil and oil products are the New York Stock Exchange (NYMEX), the Intercontinental Exchange and JP Morgan.

The commodity derivatives 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, 2010, the Company had the following outstanding commodity derivative contracts that were entered into:

Commodity Contracts	**Notional amount in thousands of bbl***
Maturity in 2010	**As of June 30, 2010**
Futures and Forwards contracts	(3,523)
Options contracts	(7,000)

* A negative notional value represents a sale position.

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)

3. 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 and it originates from changes in the levels or volatility of the 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 variation 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 management of risks is done for the 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 Company s obligations.

BR Distribuidora (wholly owned subsidiary) entered into an over the counter contract, not designated 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 2010 represented 61.9% of the total exported by BR Distribuidora. The settlements of the operations that matured between January 1 and June 30, 2010 generated a positive result for the Company of US$1.

The over the counter contract is reflected 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.

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)

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

b) Foreign currency risk management (Continued)

As of June 30, 2010, the Company had the following foreign currency derivative contracts, not designated as hedging accounting, that were entered into:

Foreign Currency	**Notional Amount US$ million**
Sell USD / Pay BRL	99

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 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 elected to designate its cross currency swap as cash flow hedges. Both at the inception of a hedge and on an ongoing basis, a cash flow hedge must be expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the hedge. Derivative instruments designated 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 reported 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 in offsetting the variation in the cash flows of the bonds issued in Yens.

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)

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

b) Foreign currency risk management (Continued)

Cash flow hedge (Continued)

As of June 30, 2010, the Company had the following cross currency swap, which was entered into:

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 National Monetary Counsel. The Company currently does not utilize derivative financial instruments to manage its exposure to fluctuations in interest rates.

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)

3. 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 statement of financial position for the six-month period ended June 30, 2010.

In millions of dollars As of June 30,	**Asset Derivatives 2010**		**Liability Derivatives 2010**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Codification Topic 815				
Foreign exchange contracts	Other current assets	72		-
Total		**72**		**-**
Derivatives not designated as hedging instruments under Codification Topic 815				
Foreign exchange contracts	Other current assets	1	Other payables and accruals	-
Commodity contracts	Other current assets	47	Other payables and accruals	(35)
Total		**48**		**(35)**

Total Derivatives	**120**	**(35)**

23

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)

3. 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 year ended December 31, 2009.

In millions of dollars As of December 31,	**Asset Derivatives 2009**		**Li**
	Balance Sheet Location	Fair Value	Balanc
Derivatives designated as hedging instruments under Codification Topic 815			
Foreign exchange contracts	Other current assets	65	
Total		**65**	
Derivatives not designated as hedging instruments under Codification Topic 815			
Foreign exchange contracts	Other current assets	1	Other pay
Commodity contracts	Other current assets	35	Other pay

Total	**36**
Total Derivatives	**101**

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)

3. 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, 2010.

Derivatives in Codification Topic 815 Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) June 30, 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) June 30, 2010	A R in d (I Po I Eff Jun
Foreign exchange contracts	3	Financial Expenses	(14)	
	3		**(14)**	

The effect of derivative instruments on the statement of financial position for the six-month period ended June 30, 2009.

Derivatives in Codification Topic 815 Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) June 30, 2009	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, 2009	A R in d (I P I Ef Jun
Foreign exchange contracts	(6)	Financial Expenses	28	
	(6)		**28**	

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)

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

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

Derivatives Not Designated 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**

Derivatives Not Designated 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, 2009
Foreign exchange contracts	Financial income/expenses net Financial income/expenses net	**(39)**

Commodity contracts	**(161)**
Total	**(200)**

26

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)

4. 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 six-month periods ended June 30, 2010 and 2009.

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 tax expense recorded in these consolidated statements of income.

		Six-month periods ended June 30,
	2010	**2009**
Income before income taxes and noncontrolling interest		
Brazil	**10,599**	9,626
International	**1,050**	620
	11,649	10,246

Tax expense at statutory rates - (34%)	**(3,961)**	(3,484)
Adjustments to derive effective tax rate:		
Non-deductible post-retirement and health-benefits	**(101)**	(80)
Tax benefits on interests on shareholders equity	**674**	459
Foreign income subject to different tax rates	**244**	327
Tax incentive **(1)**	**82**	71
Other	**15**	209
Income tax expense per consolidated statement of income	**(3,047)**	(2,498)

(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, 2010, Petrobras recognized a tax benefit in the amount of US$82 (US$71 on June 30, 2009) 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 and these have been accounted for under the flow through method.

27

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)

4. Income Taxes (Continued)

The following table shows a breakdown between domestic and international income tax benefit (expense) attributable to income from continuing operations:

	Six-month periods ended June 30,	
	2010	**2009**
Income tax expense per consolidated statement of income:		
Brazil		
Current	**(2,487)**	(2,392)
Deferred	**(432)**	189
	(2,919)	(2,203)
International		
Current	**(134)**	(397)
Deferred	**6**	102
	(128)	(295)
	(3,047)	(2,498)

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)

4. Income Taxes (Continued)

The major components of the deferred income tax accounts in the consolidated balance sheet are as follows:

	June 30, 2010	December 31, 2009
Current assets	**609**	669
Valuation allowance	**(6)**	(8)
Current liabilities	**(9)**	(15)
Net current deferred tax assets	**594**	646
Non-current assets		
Employees postretirement benefits, net of Accumulated postretirement benefit reserves adjustments	**875**	879
Tax loss carryforwards	**2,275**	2,194
Other temporary differences, not significant individually	**1,229**	1,091
Valuation allowance	**(1,718)**	(1,691)
	2,661	2,473
Non-current liabilities		
Capitalized exploration and development costs	**(9,502)**	(8,912)
Property, plant and equipment	**(1,528)**	(1,609)
Exchange variation	**(860)**	(995)
Other temporary differences, not significant individually	**(400)**	(526)

	(12,290)	(12,042)
Net non-current deferred tax liabilities	**(9,629)**	(9,569)
Non-current deferred tax assets	**333**	275
Non-current deferred tax liabilities	**(9,962)**	(9,844)
Net deferred tax liabilities	**(9,035)**	(8,923)

29

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)

4. 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 six-month period ended June 30, 2010, 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.

5. Cash and Cash Equivalents

		June 30, 2010	December 31, 2009
Cash		**1,469**	1,478
Investments	Brazilian Reais **(1)**	**6,788**	10,780
Investments	U.S. dollars **(2)**	**4,715**	3,911
		12,972	16,169

(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)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

6. Marketable Securities

	June 30, 2010	December 31, 2009
Marketable securities classification:		
Available-for-sale	**2,782**	2,551
Trading	**50**	-
Held-to-maturity	**139**	180
	2,971	2,731
Less: Current portion of marketable securities	**(412)**	(72)
Long-term portion of marketable securities	**2,559**	2,659

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 June 30, 2010, Petrobras had a balance of US$2,374 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 13 (b)). The nominal value of the NTN-Bs is restated based on variations in the Amplified Consumer Price Index (IPCA). The maturities of these notes are 2024 and 2035 and they bear interest coupon of 6% p.a., which is paid semi-annually. At June 30, 2010, the balances of the National Treasury Notes - Series B (NTN-B) are updated in accordance with their market value, based on the average prices disclosed by the National Association of Open Market Institutions (ANDIMA).

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)

7. Inventories

	June 30, 2010	**December 31, 2009**
Products		
Oil products	**3,456**	3,379
Ethanol	**261**	377
	3,717	3,756
Raw materials, mainly crude oil	**5,189**	5,494
Materials and supplies	**1,929**	1,917
Other	**88**	75
	10,923	11,242
Current inventories	**10,857**	11,227
Long-term inventories	**66**	15

Inventories are stated at the lower of cost or net realizable value. The Company recognized a loss of US$173 for the six-month period ended June 30, 2010 (US$205 for the six-month period ended June 30, 2009), which was classified as other operating expenses in the consolidated statement of income, considering the declines in the oil products market prices.

32

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)

8. Recoverable Taxes

Recoverable taxes are as follows:

	June 30, 2010	**December 31, 2009**
Local:		
Domestic value-added tax (ICMS) **(1)**	**3,000**	2,816
PASEP/COFINS **(2)**	**5,520**	4,858
Income tax and social contribution	**751**	1,315
Foreign value-added tax (IVA)	**35**	42
Other recoverable taxes	**423**	371
	9,729	9,402
Less: Long-term recoverable taxes	**(5,971)**	(5,462)
Current recoverable taxes	**3,758**	3,940

(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 with 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 income tax and social contribution recoverable will be offset against future income tax 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)

Expressed in Millions of United States Dollars

(except as otherwise indicated)

(unaudited)

9. Petroleum and Alcohol Account - Receivable from Federal Government

The following summarizes the changes in the Petroleum and Alcohol account for the six-month period ended June 30, 2010:

	Six-month period ended June 30, 2010
Opening balance	**469**
Financial income	**1**
Translation loss	**(16)**
Ending balance	**454**

In order to conclude the settlement of accounts with the Federal Goverment, pursuant to Provisional Measure nº 2,181, of August 24, 2001, and after providing all the information required by the National Treasury Office - STN, Petrobras is seeking to settle all the remaining disputes between the parties.

The remaining balance of the Petroleum and Alcohol account may be paid as follows: (1) National Treasury Bonds issued at the same amount as the final balance of the Petroleum and Alcohol account; (2) offset of the balance of the Petroleum and Alcohol account, with any other amount owed by Petrobras to the Federal Government, including taxes; or (3) by a combination of the above options.

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. Financing

The Company has utilized project financing to provide capital for the continued development of the Company s exploration and production and related projects.

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

a) Short-term debt

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:

	June 30, 2010	**December 31, 2009**
Imports - oil and equipment	**148**	189
Working capital	**5,540**	4,070
	5,688	4,259

The weighted average annual interest rates on outstanding short-term borrowings were 2.75% and 2.53% at June 30, 2010 and December 31, 2009, respectively.

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. Financing (Continued)

b) Long-term debt

- Composition

	June 30, 2010	**December 31, 2009**
Foreign currency		
Notes	**11,493**	11,593
Financial institutions	**16,049**	12,119
Sale of future receivables	**300**	334
Suppliers credits	**47**	6
Assets related to export program to be offset against sales of future receivables	**(150)**	(150)
	27,739	23,902
Local currency		
National Economic and Social Development		
Bank - BNDES (state-owned bank)	**15,159**	16,332
Debentures	**770**	3,762
Debentures:		
Other Banks	**1,723**	1,610
Export Credit Notes	**10,912**	3,663
Bank Credit Certificate	**2,007**	2,075
Other	**390**	1,099

	30,961	28,541
Total	**58,700**	52,443
Current portion of long-term debt and interest	**(8,223)**	(4,294)
	50,477	48,149

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. Financing (Continued)

b) Long-term debt (Continued)

- Composition of foreign currency denominated debt by currency

	June 30, 2010	**December 31, 2009**
Currency		
United States dollars	**26,830**	23,007
Japanese Yen	**768**	654
Euro	**43**	53
Other	**98**	188
	27,739	23,902

- Maturities of the principal of long-term debt

The long-term portion at June 30, 2010, becomes due in the following years:

2011	**1,495**
2012	**3,417**
2013	**2,204**
2014	**2,688**
2015	**3,483**
2016 and thereafter	**37,190**
	50,477

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. **Financing** (Continued)

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

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

	June 30, 2010	**December 31, 2009**
Foreign currency		
6% or less	**18,818**	15,105
Over 6% to 8%	**6,906**	6,913
Over 8% to 10%	**1,832**	1,743
Over 10% to 12%	**75**	33
Over 12% to 15%	**108**	108
	27,739	23,902
Local currency		
6% or less	**1,962**	1,614
Over 6% to 8%	**14,508**	15,151
Over 8% to 10%	**3,198**	6,001
Over 10% to 12%	**11,293**	5,775
	30,961	28,541
	58,700	52,443

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. Financing (Continued)

b) Long-term debt (Continued)

Issuance of long-term debt

The main long-term funding carried out in the period from January to June 2010 is shown in the following table:

b.1) Foreign

Company	**Date**	**Amount US$ million**	**Maturity**	**Description**
Petrobras	Feb/2010	2,000	2019	Financing obtained from the China Development Bank (CDB), with a cost of Libor plus spread of 2.8% p.a.
Petrobras	March/2010	2,000	2019	
PNBV	Apr/2010	1,000	2015	Financing obtained from the Credit Agriclole, at a rate of Libor plus spread of 1.625% p.a.

5,000

b.2) In Brazil

Company	**Date**	**Amount (US$ million)**	**Maturity**	**Description**
Refap	Feb and Mar//2010	333	Until 2015	Export credit note with an interest rate between 109.4% and 109.5% of average rate of CDI.
Petrobras	Jun/2010	1,221	2016	Financing obtained from Banco do Brasil, through the issuing of export credit note at a rate of 110.5% p.a. + flat fee of 0.85%.
Petrobras	Jun/2010	1,110	2017	Financing obtained from Caixa Economica Federal, through the issuing of export credit note at a rate of 112.9% of average rate of CDI.
		2,664		

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. Financing (Continued)

c) Outstanding lines of credit with official credit agencies

c.1) Foreign

		Amount in US$			
Company	**Agency**	**Contracted**	**Used**	**Balance**	**Description**
Petrobras	China Development Bank	10,000	7,000	3,000	Libor +2.8% p.a.

c.2) In Brazil

		Amount in US$			
Company	**Agency**	**Contracted**	**Used**	**Balance**	**Description**
Transpetro (*)	BNDES	4,645	205	4,440	Program for Modernization and Expansion of the FLEET (PROMEF) - TJLP+2.5% p.a.

Transportadora Urucu Manaus	BNDES	1,382	1,351	31	Coari-Manaus gas pipeline - TJLP+1.96% p.a.
TUM Transportadora GASENE	BNDES	1,229	1,176	53	Cacimbas-Catu gas pipeline (GASCAC) TJLP+1.96% p.a.
Petrobras	Banco do Brasil	278	84	194	Cédula de Crédito Comercial (FINAME) 4.5% p.a.
Petrobras	Caixa Economica Federal	167	-	167	Cédula de Crédito Bancário (Crédito Rotativo) 110% of average rate of CDI.

(*) Agreements for conditioned purchase and sale of 38 ships were entered into with 5 Brazilian shipyards in the amount of US$5,161, where 90% is financed by BNDES.

40

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. Financial Income (Expenses), Net

Financial expenses, financial income and monetary and exchange variation, allocated to income for the six-month periods ended June 30, 2010 and 2009 are as follows:

	Six-month periods ended June 30,	
	2010	**2009**
Financial expenses		
Loans and financing	**(1,531)**	(856)
Project financing	**(171)**	(159)
Leasing	**(6)**	(15)
Losses on derivative instruments	**(68)**	(330)
Repurchased securities losses	**(14)**	(16)
Other	**(270)**	(114)
	(2,060)	(1,490)
Capitalized interest	**1,238**	1,008
	(822)	(482)
Financial income		
Investments	**344**	285
Marketable securities	**152**	221
Gains on derivative instruments	**106**	130
Clients	**61**	50
Other	**261**	136
	924	822

Monetary and exchange variation	**(781)**	(900)
	(679)	(560)

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)

12. Capital Lease Obligations

The Company leases certain offshore platforms and vessels, which are accounted for as capital leases. As of June 30, 2010, assets under capital leases had a net book value of US$470 (US$750 at December 31, 2009).

The following is a schedule by year of the future minimum lease payments as of June 30, 2010:

2010	**153**
2011	**105**
2012	**41**
2013	**17**
2014	**17**
2015	**17**
2016 and thereafter	**44**
Estimated future lease payments	**394**
Less amount representing interest at 6.2% to 12.0% annual	**(38)**
Present value of minimum lease payments	**356**
Less current portion of capital lease obligations	**201**

Long-term portion of capital lease obligations	**155**

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)

13. Employees Postretirement Benefits and Other Benefits

a) Employees postretirement benefits balances

The Company sponsors a contributory defined benefit pension plan covering substantially all of its employees and provides certain health care benefits for a number of active and retired employees. During 2010, the Company made contributions of US$368 to pension and health care plans (US$586 in 2009).

The balances related to Employees Postretirement Benefits are represented as follows:

	As of					
	June 30, 2010			**December 31, 2009**		
	Pension Benefits	**Health Care Benefits**	**Total**	**Pension Benefits**	**Health Care Benefits**	**Total**
Current liabilities						
Defined-benefit plan	**324**	**315**	**639**	182	325	507
Variable Contribution plan	**26**	**-**	**26**	187	-	187
Employees postretirement projected benefits obligation	**350**	**315**	**665**	369	325	694

Long-term liabilities						
Defined-benefit plan	**4,262**	**6,609**	**10,871**	4,419	6,544	10,963
Variable Contribution plan	**91**	**-**	**91**	-	-	-
Employees postretirement projected benefits obligation	**4,353**	**6,609**	**10,962**	4,419	6,544	10,963
Shareholders equity - Accumulated other comprehensive income						
Defined-benefit plan	**2,187**	**117**	**2,304**	2,282	121	2,403
Variable Contribution plan	**91**	**-**	**91**	91	-	91
Tax effect	**(774)**	**(40)**	**(814)**	(807)	(41)	(848)
Net balance recorded in shareholders equity	**1,504**	**77**	**1,581**	1,566	80	1,646

43

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)

13. Employees Postretirement Benefits and Other Benefits (Continued)

b) Funded status of the plans

Net periodic benefit cost includes the following components:

				As of June 30,
		2010		
	Pension Plans			
	Defined-Benefits	**Variable Contribution**	**Health Care Benefits**	**Defined-Be**
Service cost-benefits earned during the period	**118**	**42**	**55**	
Interest cost on projected benefit obligation	**1,456**	**16**	**369**	
Expected return on plan assets	**(1,237)**	**(8)**	**-**	
Amortization of net actuarial loss	**30**	**4**	**1**	
Amortization of prior service cost	**-**	**-**	**-**	
	367	**54**	**425**	
Employees contributions	**(109)**	**(12)**	**-**	

Net periodic benefit cost	**258**	**42**	**425**

b.1) Defined benefits plan

Petrobras and its subsidiaries sponsoring the Petros plan, trade unions and Petros executed a Financial Commitment Agreement on October 23, 2008, after legal homologation on August 25, 2008, to cover commitments with pension plans, which will be paid in semi-annually installments with interest of 6% p.a. on the debtor balance updated by the IPCA, for the next 20 years, as previously agreed during the renegotiation. At June 30, 2010, the balance of the obligation of Petrobras and subsidiaries referring to the Financial Commitment Agreement was US$2,467, of which US$24 matures in 2010.

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)

13. Employees Postretirement Benefits and Other Benefits (Continued)

b) Funded status of the plans (Continued)

b.1) Defined benefits plan (Continued)

The Company s obligation, through the Financial Commitment Agreement, presents a counterpart to the concessions made by the members/beneficiaries of the Petros Plan in the amendment of the plan's regulations, in relation to the benefits, and in the closing of existing litigations.

At June 30, 2010, Petrobras had long-term National Treasury Notes in the amount of US$2,374 (US$2,363 at December 31, 2009), acquired to balance liabilities with Petros, which will be held in the Company's portfolio and used as a guarantee for the Financial Commitment Agreement.

b.2) Variable contribution plan

As from July 01, 2007, the Company implemented the new supplementary pension plan, a Variable Contribution (CV) or mixed plan, called Petros Plan 2, for all new employees.

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)

A portion of this plan with defined benefits characteristics refers to the risk coverage for disability and death, a guarantee of a minimum benefit and a lifetime income, and the related actuarial commitments are recorded according to the projected credit unit method. The portion of the plan with defined contribution characteristics, earmarked for forming a reserve for programmed retirement, was recognized in the results for the year as the contributions are made. In the six-month period ended June 30, 2010, the contribution of Petrobras and subsidiaries to the defined contribution portion of this plan was US$92.

Petrobras and the other sponsors fully assumed the contributions corresponding to the period in which the participants had no plan. The plan will continue to admit new subscribers after this date but no longer including any payment for the period relating to past service.

The disbursements related to the cost of past service will be made on a monthly basis over the same number of months during which the participant had no plan and, therefore, should cover the part related to the participants and the sponsors.

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)

14. Shareholders Equity

a) Capital

The Company s subscribed and fully paid-in capital at June 30, 2010 and at December 31, 2009 consisted of 5,073,347,344 common shares and 3,700,729,396 preferred shares. The preferred shares do not have any voting rights and are not convertible into common shares and vice-versa. Preferred shares have priority in the receipt of dividends and return of capital.

The relation between the ADS and shares of each class is of 2 (two) shares for one ADS.

Current Brazilian law requires that the Federal Government retain ownership of 50% plus one share of the Company s voting shares.

The Special General Shareholders Meeting, held jointly with the General Shareholders Meeting on April 22, 2010, approved the increase in the Company s capital from US$36,194 (R$78,967 million) to US$39,741 (R$85,109 million), through the capitalization of part of the profit reserves in the amount of US$3,251 (R$5,627 million), where US$519 (R$899 million) is from the statutory reserve, US$2,724 (R$4,713 million) from the profit retention reserve, in accordance with article 199, of Law 6404/76, and US$8 (R$15 million) from part of the tax incentive reserve formed in 2009, in compliance with article 35, paragraph 1, of Ordinance 2091/07 of the Government Ministry of

National Integration, and from capital reserves in the amount of US$296 (R$515 million).

The Special General Shareholders Meeting, held on June 22, 2010, approved some amendments to the bylaws of the Company, the main as follows:

a.1) Increase the limit of preferred shares to two billion four hundred million (2,400,000,000) shares of the Company without changing the corresponding current amount of US$33,937 (R$60,000 million), in accordance with article 40, I of the bylaws of the Company; and

a.2) Include a provision to set a limit for authorized capital for common shares of the Company in the amount of US$50,905 (R$90,000 million) by the issuance of a number of common shares not exceeding three billion two hundred thousand (3,200,000,000) shares, in accordance with article 40 of the bylaws of the Company.

For more information see Petrobras Press Release of June 22, 2010.

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)

14. Shareholders Equity (Continued)

b) Dividends and interest on shareholders equity related to 2009 results

The General Shareholders Meeting of April 22, 2010 approved dividends referring to 2009, in the amount of US$4,560 (R$8,335 million), to common and preferred share, without distinction, that compose the capital, the value of which should be monetarily restated in accordance with the variation of the SELIC rate as from December 31, 2009 until the date of the beginning of payment on April 30, 2010.

Interest on shareholders equity in the total at amount of US$3,912 (R$7,195 million), is included in these dividends, and was distributed as follows:

- On June 24, 2009, in the amount of US$1,347 (R$2,632 million), which was made available to shareholders on November 30, 2009, based on the share position of July 3, 2009.

- On September 21, 2009, in the amount of US$964 (R$1,755 million), which was made available to shareholders on December 21, 2009, based on the share position of September 30, 2009.

- On December 17, 2009, in the amount of US$1,002 (R$1,755 million), which was made available to shareholders on December 29, 2009, based on the share position of December 18, 2009.

- On February 26, 2010, the final portion of interest on shareholders equity, which was made available to shareholders on April 30, 2010, based on the shareholding position as of April 22, 2010, in the amount of US$599 (R$1,053 million), together with the dividends of US$648 (R$1,140 million).

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)

14. Shareholders Equity (Continued)

c) Interest on shareholders' equity fiscal year 2010

The Company s Board of Directors approved distribution in advance of remuneration to shareholders in the form of interest on shareholders equity, as established in article 9 of Law 9249/95 and Decrees 2673/98 and 3381/00, as follows:

- On May 14, 2010, in the amount of US$977 (R$1,755), which was made available to shareholders on May 30, 2010, based on the shareholding position at May 21, 2010.

- On July 16, 2010, in the amount of US$986 (R$1,755), to be made available not later than September 30, 2010, based on the shareholding position at July 30, 2010.

This interest on shareholders equity should be discounted from the remuneration that will be distributed on the closing of the fiscal year 2010. The amount will be monetarily updated according to the variation of the SELIC rate since the date of effective payment until the end of the aforementioned fiscal year.

The interest on shareholders equity is subject to the levy of income tax at the rate of 15% (fifteen percent), except for shareholders that are declared immune or exempt.

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)

14. Shareholders Equity (Continued)

d) Dividends and interest on shareholders equity related to 2010 results

	Six-month periods ended June 30,	
	2010	**2**
Net income for the period attributable to Petrobras	**8,563**	6,
Less priority preferred share dividends	**(1,243)**	(9
Less common shares dividends, up to the priority preferred shares dividends on a per-share basis	**(1,704)**	(1,3
Remaining net income to be equally allocated to common and preferred shares	**5,616**	4,
Weighted average number of shares outstanding:		
Common	**5,073,347,344**	5,073,347,
Preferred	**3,700,729,396**	3,700,729,
Basic and diluted earnings per:		
Common and preferred share	**0.98**	(
Common and preferred ADS	**1.96**	1

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)

15. Commitments and Contingencies

Petrobras is subject to a number of commitments and contingencies arising in the normal course of its business. Additionally, the operations and earnings of the Company have been, and may be in the future, affected from time to time in varying degrees by political developments and laws and regulations, such as the Federal Government's continuing role as the controlling shareholder of the Company, the status of the Brazilian economy, forced divestiture of assets, tax increases and retroactive tax claims, and environmental regulations. The likelihood of such occurrences and their overall effect upon the Company are not readily predictable.

a) Litigation

The Company is a defendant in numerous legal actions involving civil, tax, labor, corporate and environment issues arising in the normal course of its business. Based on the advice of its internal legal counsel and management s best judgment, the Company has recorded accruals in amounts sufficient to provide for losses that are considered probable and reasonably estimable.

At June 30, 2010 and December 31, 2009, the respective amounts accrued by type of claims are as follows:

	June 30, 2010	December 31, 2009

Labor claims	**129**	71
Tax claims	**207**	94
Civil claims	**537**	272
Commercials claims and other contingencies	**61**	63
Total	**934**	500
Current contingencies	**(30)**	(31)
Long-term contingencies	**904**	469

51

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)

15. Commitments and Contingencies (Continued)

a) Litigation (Continued)

As of June 30, 2010 and December 31, 2009, in accordance with Brazilian law, the Company had US$1,316 and US$1,158, respectively, into federal deposit accounts to provide for certain claims until they are settled. These amounts are reflected in the balance sheet as restricted deposits for legal proceedings and guarantees.

The principal proceedings, disclosed previously as a possible loss, this quarter are classified as a probable loss, due to the development of the legal case or agreements in progress, as follows:

a.1) ICMS Sinking of Platform P-36

In 2001, Platform P-36 was imported by Petrobras through temporary admission in accordance with the special regime for imports and exports (REPETRO) which suspends taxation and, therefore, on this occasion state taxes were not due.

With the sinking of the platform, the State of Rio de Janeiro initiated actions for collection of the suspended ICMS through tax foreclosure proceedings as it understands that there will no longer be return of the platform.

In February 2010, with an unfavorable decision at the last level of appeals in the Superior Court of Rio de Janeiro, Petrobras began to evaluate the legal aspects of the suit and the economic aspects of the use of the benefits of tax amnesty established in State Law 5647, of January 18, 2010, which permits elimination of fines and an expressive decrease in other charges, as well as the possibility of payment with court order debts.

Petrobras adhered to the payment conditions of the aforementioned State Law, fixing the total amount agreed upon with the State of Rio de Janeiro in the amount of US$249.

In May 2010 Petrobras paid the amount of US$174. The remaining balance of US$75, which has been provided and will be paid in court order debts. In addition, the State of Rio de Janeiro has undertaken to analyze tax benefits related to other projects and negotiation with the Company.

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)

15. Commitments and Contingencies (Continued)

a) Litigation (Continued)

a.2) Triunfo Agro Industrial S.A and others

During the year 2000, Triunfo Agro Industrial and Others filed a suit against Petrobras, claiming losses and damages as a result of the annulling of a credit assignment transaction excise tax (IPI) premium. The hearing by the Superior Court of Rio de Janeiro, in the second instance, was unfavorable to Petrobras and approval was denied for the appeal lodged by the Company. Appeals will be filed against this decision in the higher courts in Brasilia. The maximum estimated exposure is around US$255, which has been provided.

a.3) Notices of Infraction Federal Revenue Department

Petrobras received Notices of Infraction for denial of offsetting of corporate income tax (IRPJ) and social contribution on net income (CSLL) computed during the year by monthly estimate. The Company is relying on an administrative level. Some notices were considered to have grounds in the first administrative instance. The Company filed spontaneous appeals which are awaiting a hearing. The maximum estimated exposure is around US$198. Based on its legal counsels advice, the Company has assessed risk of loss to be possible.

a.4) Processes for small amounts

The Company is involved in a number of legal and administrative proceedings with expectations of possible losses, whose total is broken down as follows: US$85 for civil actions, US$420 for labor actions, US$415 for tax actions and US$185 for environmental actions.

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)

15. Commitments and Contingencies (Continued)

b) Environmental matters

The Company is subject to various environmental laws and regulations. These laws regulate the discharge of oil, gas or other materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of such materials at various sites.

The Company s management considers that any expenses incurred to correct or mitigate possible environmental impacts should not have a significant effect on operations or cash flows.

16. Fair value Measurements

The Company s debt including project financing obligations, resulting from Codification Topic 810 consolidation amounted to US$50,477 at June 30, 2010, and had estimated fair value of US$52,021.

The fair value hierarchy for the Company s financial assets and liabilities accounted for at fair value on a recurring basis, at June 30, 2010, was:

	As of June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Marketable securities	**2,832**	**-**	**-**	**2,832**
Foreign exchange derivatives (Note 3)	**-**	**73**	**-**	**73**
Commodity derivatives (Note 3)	**47**	**-**	**-**	**47**
Total assets	**2,879**	**73**	**-**	**2,952**
Liabilities				
Commodity derivatives (Note 3)	**(35)**	**-**	**-**	**(35)**
Total liabilities	**(35)**	**-**	**-**	**(35)**

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)

16. Fair value Measurements (Continued)

The fair value hierarchy for the Company s non financial assets and liabilities accounted for at fair value on a non-recurring basis at June 30, 2010, was:

	As of June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Long-lived assets held for sale	-	34	-	34
Long-lived assets held and used	-	-	94	94

According with the provisions of ASC Topic 360, long-lived assets held for sale with a carrying amount of US$84 were written down to their fair value of US$34, resulting in a before tax impairment charge of US$50. The fair value was obtained from bids of prospective buyers.

In accordance with the provisions of ASC Topic 360, long-lived assets held and used with a carrying amount of US$138 were written down to their fair value of US$94, resulting in an impairment charge of US$44, before taxes, which was included in earnings for the period.

55

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)

17. Segment Information

The following presents the Company s assets by segment:

	As of June 30, 2010					
	Exploration and Production	**Refining, Transportation and Marketing (1)**	**Gas and Power (1)**	**International (see separate disclosure)**	**Distribution**	**Corporate (**
Current assets	3,820	14,665	2,602	2,825	3,559	17,10
Cash and cash equivalents	-	-	-	-	-	12,97
Other current assets	3,820	14,665	2,602	2,825	3,559	4,13
Investments in non-consolidated companies and other investments	290	2,458	684	1,240	207	58
Property, plant and equipment, net	74,109	35,976	21,237	9,912	2,298	3,55
Non-current assets	3,607	2,534	1,407	1,629	314	8,52
Total assets	**81,826**	**55,633**	**25,930**	**15,606**	**6,378**	**29,77**

(1) The segment information for 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to

"Gas and Power".

(2) The assets related to biofuels are included in the Corporate segment.

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)

17. Segment Information (Continued)

	As of June 30, 2010						
				International			
	Exploration and Production	Refining, Transportation and Marketing	Gas and Power	Distribution	Corporate	Eliminations	Total
Current assets	987	1,518	253	365	123	(421)	2,825
Investments in non-consolidated companies and other investments	735	28	163	36	278	-	1,240
Property, plant and equipment, net	8,654	1,014	252	237	124	(369)	9,912
Non-current assets	1,701	305	114	61	1,256	(1,808)	1,629
Total assets	12,077	2,865	782	699	1,781	(2,598)	15,606

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)

17. Segment Information (Continued)

The following presents the Company s assets by segment:

				As of Decembe
	Exploration and Production	**Refining, Transportation and Marketing (1)**	**Gas and Power (1)**	**Internation (see separa Disclosure**
Current assets	3,636	14,810	2,971	2,7
Cash and cash equivalents	-	-	-	
Other current assets	3,636	14,810	2,971	2,7
Investments in non-consolidated companies and other investments	285	1,635	761	1,3
Property, plant and equipment, net	70,098	31,508	20,196	9,3
Non-current assets	3,577	2,016	1,433	1,4
Total assets	77,596	49,969	25,361	14,9

(1) The segment information for 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to "Gas and Power".

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)

17. **Segment Information** (Continued)

			As of December 31, 200 International	
	Exploration and Production	**Refining Transportation and Marketing**	**Gas and Power**	**Distributio**
Current assets	1,004	1,400	231	292
Investments in non-consolidated companies and other investments	833	37	160	38
Property, plant and equipment, net	7,961	1,105	271	249
Non-current assets	1,581	271	107	71
Total assets	11,379	2,813	769	650

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)

17. Segment Information (Continued)

Revenues and net income by segment are as follows:

			Six-month period	
	Exploration and Production	**Refining, Transportation and Marketing (1)**	**Gas and Power (1)**	**Internatio (see separ disclosur**
Net operating revenues to third parties	141	32,012	3,034	5,
Inter-segment net operating revenues	25,959	15,284	432	1,
Net operating revenues	26,100	47,296	3,466	6,
Cost of sales	(10,018)	(43,442)	(2,100)	(4,5
Depreciation, depletion and amortization	(2,652)	(546)	(244)	(4
Exploration, including exploratory dry holes	(758)	-	-	(1
Impairment	-	-	(44)	(
Selling, general and administrative expenses	(189)	(1,452)	(408)	(3
Research and development expenses	(228)	(74)	(32)	
Employee benefit expense	-	-	-	
Other operating expenses	(367)	(554)	(210)	(1

Costs and expenses	(14,212)	(46,068)	(3,038)	(5,6
Operating income (loss)	11,888	1,228	428	6
Equity in results of non-consolidated companies	5	(100)	65	
Financial income (expenses), net	-	-	-	
Other taxes	(24)	(27)	(13)	(
Other expenses, net	(5)	84	5	
Income (loss) before income taxes	11,864	1,185	485	6
Income tax benefits (expense)	(4,032)	(437)	(141)	(
Net income (loss) for the period	7,832	748	344	6
Less: Net income (loss) attributable to the noncontrolling interest	7	(32)	49	(
Net income (loss) attributable to Petrobras	7,839	716	393	5

(1) The segment information for 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to "Gas and Power".

(2) The results with biofuels are included in the Corporate segment.

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)

17. Segment Information (Continued)

	Six-month period ended June 3				
	International				
	Exploration and Production	**Refining Transportation and Marketing**	**Gas and Power**	**Distribution**	**Co**
Net operating revenues to third parties	324	2,638	245	1,894	
Inter-segment net operating revenues	1,472	949	21	19	
Net operating revenues	1,796	3,587	266	1,913	
Cost of sales	(438)	(3,327)	(212)	(1,750)	
Depreciation, depletion and amortization	(349)	(41)	(9)	(15)	
Exploration, including exploratory dry holes	(134)	-	-	-	
Impairment	-	(50)	-	-	
Selling, general and administrative expenses	(78)	(64)	(3)	(119)	
Research and development expenses	-	-	-	-	
Other operating expenses	(64)	(107)	5	7	
Costs and expenses	(1,063)	(3.589)	(219)	(1,877)	
Operating income (loss)	733	(2)	47	36	
Equity in results of non-consolidated companies	12	9	1	3	
Other taxes	(17)	(2)	(1)	(2)	

Other expenses, net	15	-	-	1
Income (loss) before income taxes	743	5	47	38
Income tax benefits (expense)	(100)	(3)	(2)	(5)
Net income (loss) for the period	643	2	45	33
Less: Net income (loss) attributable to the noncontrolling interest	-	(1)	(1)	-
Net income (loss) attributable to Petrobras	643	1	44	33

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)

17. Segment Information (Continued)

	Six-month period ended			
	Exploration and Production	**Refining Transportation and Marketing** [1]	**Gas and Power** [1]	**Internatio (see separ disclosur**
Net operating revenues to third parties	316	21,282	2,408	3,
Inter-segment net operating revenues	14,712	10.956	475	
Net operating revenues	15,028	32,238	2,883	3,
Cost of sales	(6,887)	(23,657)	(2,248)	(2,9
Depreciation, depletion and amortization	(1,805)	(488)	(126)	(2
Exploration, including exploratory dry holes	(681)	-	-	(1
Selling, general and administrative expenses	(157)	(1,065)	(183)	(3
Research and development expenses	(126)	(73)	(7)	
Employee benefit expense	-	-	-	
Other operating expenses	70	(286)	(153)	(
Costs and expenses	(9,586)	(25,569)	(2,717)	(3,8
Operating income (loss)	5,442	6,669	166	
Equity in results of non-consolidated companies	(1)	148	46	
Financial income (expenses), net	-	-	-	
Other taxes	(39)	(21)	(5)	(

Other expenses, net	(26)	120	(7)	(1
Income (loss) before income taxes	5,376	6,916	200	
Income tax benefits (expense)	(1,828)	(2,301)	(54)	(2
Net income for the period	3,548	4,615	146	(2
Less: Net income attributable to the noncontrolling interest	49	(46)	42	(
Net income (loss) attributable for Petrobras	3,597	4,569	188	(3

(1) The segment information for 2009 and 2010 was prepared considering the changes in business areas, due to the transfer of the management of the fertilizer business from the segment "Refining, Transportation and Marketing" to "Gas and Power".

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)

17. Segment Information (Continued)

	Six-month period ended June 30, 2009					
				International		
	Exploration and Production	**Refining Transportation and Marketing**	**Gas and Power**	**Distribution**	**Corporate**	**Elimin**
Net operating revenues to third parties	386	1,897	171	1,038	2	
Inter-segment net operating revenues	728	625	27	23	-	
Net operating revenues	1,114	2,522	198	1,061	2	
Cost of sales	(416)	(2,374)	(150)	(970)	(2)	
Depreciation, depletion and amortization	(228)	(43)	(7)	(10)	(11)	
Exploration, including exploratory dry holes	(117)	-	-	-	-	
Selling, general and administrative expenses	(80)	(71)	(9)	(61)	(122)	
Research and development expenses	-	-	-	-	(1)	
Other operating expenses	(5)	(83)	(3)	5	7	
Costs and expenses	(846)	(2,571)	(169)	(1,036)	(129)	
Operating income (loss)	268	(49)	29	25	(127)	
Equity in results of non-consolidated companies	15	3	3	4	(4)	
Other taxes	(5)	(2)	-	(1)	(28)	
Other expenses, net	(7)	(148)	-	-	(1)	

Income (loss) before income taxes	271	(196)	32	28	(160)
Income tax benefits (expense)	(80)	61	-	(3)	(273)
Net income for the period	191	(135)	32	25	(433)