

# 2011 Operational Report



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PETROBRAS – ORGANIZATIONAL STRUCTURE

## Profile

Founded in 1953 and the leader of the Brazilian oil sector, Petrobras is a publicly-held company. According to the consulting firm PFC Energy, it closed 2011 as the world's fifth largest energy company by market capitalization.

In the oil, gas and energy industry, the Company operates in an integrated and specialized manner in the exploration and production, refining, transportation, marketing, petrochemical, oil product distribution, natural gas, energy and biofuel segments.

## Mission

To operate in a safe and profitable manner in Brazil and abroad, with social and environmental responsibility, providing products and services that meet clients' needs and that contribute to the development of Brazil and the countries in which it operates.

## 2020 Vision

We will be one of the world's five largest energy companies and the preferred choice of our stakeholders.

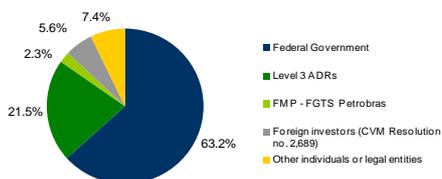
## 2020 Vision Attributes

The main aspects of our business will be:

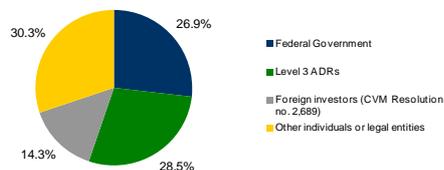
- Strong international presence
- Global leader in biofuels
- Operational excellence in management, energy efficiency, human resources and technology
- Profitability
- Social and environmental responsibility benchmark
- Commitment to sustainable development

## OWNERSHIP STRUCTURE AT THE END OF 2011

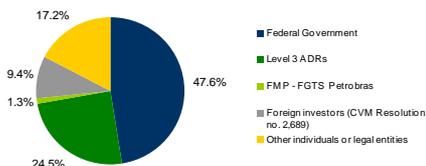
Voting Capital - Common Stock



Non-Voting Capital - Preferred Stock

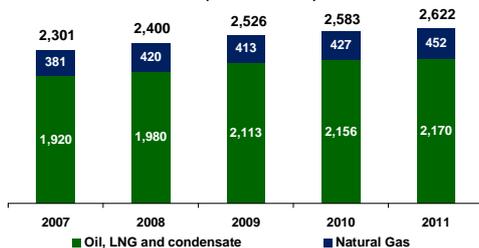


Capital Stock

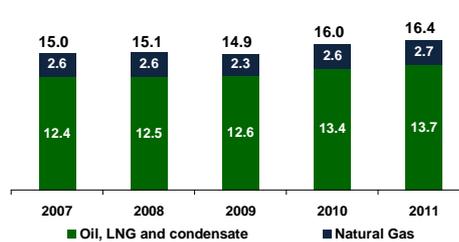


## MAIN INDICATORS

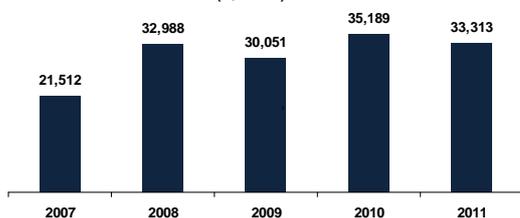
Oil, LNG, Condensate and Natural Gas Production (thousand boed)



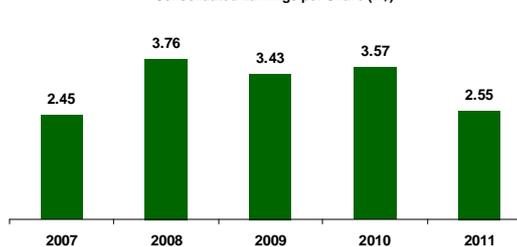
Proven Oil, LNG, Condensate and Natural Gas Reserves - ANP/SPE Criterion (billion boe)



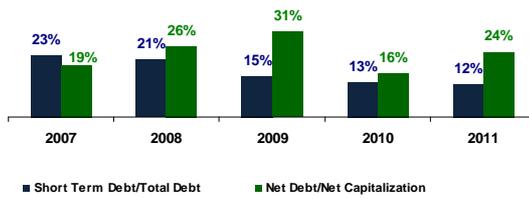
Consolidated Net Income (R\$ million)



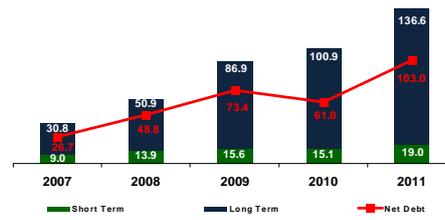
Consolidated Earnings per Share (R\$)



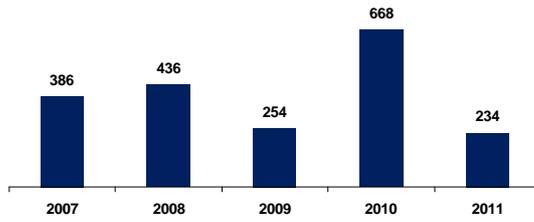
Debt Ratios



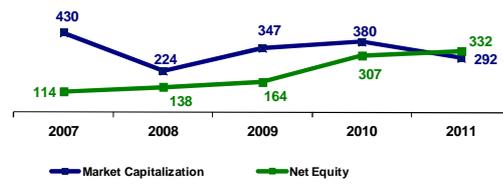
Consolidated Gross Debt (R\$ billion)



Oil and Oil Products Spills (m³)



Market Capitalization x Net Equity (R\$ billion)



## MESSAGE FROM THE CEO

Dear shareholders and investors,

Petrobras showed that it was fully prepared to confront the international economic crisis and closed 2011 with a legacy of solidity and expansion. In fact, it was a year of triumph. Despite the volatility and uncertainty surrounding the global scenario, our performance once again demonstrated our operational stability and financial credibility. Supported by our technical and technological expertise and the strength of our portfolio and largest market – Brazil – we maintained strong cash flow, increased output and moved ahead with our projects, especially in regard to the pre-salt discoveries.

Our oil production in Brazil grew by 1%, fueled by the start-up of the P-56 platform in the Marlim Sul field and the new wells connected to platforms installed in previous years. We recorded important advances on our two main expansion fronts: the pre-salt layer and the Campos Basin, where we expect a major contribution from the new systems and the Varredura Project in the near future.

We continued to make important strides in the pre-salt area. We implemented the Lula Pilot Project, which recorded production of up to 36,000 boed, confirming the high potential of the reservoirs. We also began extended well tests (EWTs) in Lula Nordeste and Carioca and began operating the Lula-Mexilhão natural gas pipeline, which guaranteed outflow from the Santos Basin Pre-Salt Complex. Another milestone was the declaration of commercial viability in regard to the second Santos Basin pre-salt area, Guar, which became to the Sapinho field.

Continuing with our ambitious project schedule, we announced the chartering of two new FPSO (Floating Production, Storage and Offloading) platforms for the Sapinho Norte and Cernambi pilot projects and the acquisition of four hulls for conversion to FPSOs for the development of the transfer of rights areas, constituting the largest sequence of projects by an oil company in any single region of the world. To guarantee their execution, we carried out the annual revision of the Pre-Salt Master Plan (Plansal), which indicated a 32% reduction in the investments needed to develop the area compared with the previous Plan.

Driven by the country's economic growth, Brazilian oil product sales increased by 9%. The combination of increased demand and higher ethanol prices, which led many consumers to switch to gasoline, required us to operate at maximum efficiency and capacity use in our 12 refineries in Brazil averaged 92%. Even so, we were still forced to increase oil product imports to meet domestic demand. It is worth noting that the Brazilian market, one of the fastest-growing in the world, is a pillar of stability and development for Petrobras.

In the gas segment, we consolidated our transportation and thermal power generation structure and are now preparing for the challenge of guaranteeing the transport and monetization of pre-salt natural gas. We are therefore

investing in a new LNG terminal and in fertilizer plants that will use gas as an input to produce urea and ammonia.

Biofuels have become consolidated as a reference for renewable energy and the supply difficulties in 2011 made us even more determined to expand our ethanol business by entering into partnerships and constructing new plants.

We know it is impossible to make progress alone. We continued with initiatives aimed at strengthening the oil and gas chain in Brazil. Aware of the need for skilled labor, we have already helped qualify some 80,000 workers for the industry, and this year we took one more pioneering step by launching the Progridir program to reduce supplier financing costs.

We also made progress with our strategy of ensuring key equipment and technology. We formed a partnership with Sete Brasil, which will build the first lot of seven drilling rigs to be constructed in Brazil. In addition, leading international suppliers announced the installation of research centers in Brazil, making Rio de Janeiro a new technological center for the oil industry.

All this was achieved without jeopardizing the Company's financial health. Committed to maintaining our investment grade status and excellent market relations, we were able to execute our plans with liquidity and solvency, exemplified by the improvement in our bond rating and our raising of US\$ 18.4 billion on the Brazilian and international markets.

These advances have always been underpinned by sustainability. In this context, our investments in technology, operational safety, the environment and human resources have proved particularly crucial, since they will allow us to continue moving ahead with confidence, overcoming challenges and attaining the Company's objectives.

**José Sergio Gabrielli de Azevêdo**  
CEO of Petrobras

## RESULTS AND MANAGEMENT

### Analysis of the oil market

Oil prices in 2011 were affected by the uprisings and overthrow of governments in North Africa and the Middle East, known as the Arab Spring, as well as by variations in macroeconomic conditions, especially in the developed countries. Brent crude prices oscillated more than in 2010, ranging from a minimum of US\$92.98 to a maximum of US\$126.74 per barrel. The annual price averaged US\$111.27/bbl, 40% up on the 2010 average and the highest ever nominal figure.

Oil consumption posted a moderate upturn, led by growth in non-OECD countries such as China and India. On the other hand, demand in the developed nations declined throughout the year due to limited economic growth, which came lower than analyst's expectations. Fiscal problems in the United States and European countries lowered economic growth expectations, causing fears of a new recession in the developed countries.

Oil supply was adversely impacted by the civil war in Libya and its effects, which caused the loss of approximately 1.6 million bpd of light crude with a low sulfur content, driving up prices in the first half.

To offset the loss of Libyan oil, the Persian Gulf countries unilaterally decided to increase supply, since the OPEC nations — who had been exceeding their target of 24.8 million bpd since 2009 — reached a consensus on the need for a new output ceiling. The International Energy Agency (IEA) announced the release of 60 million barrels from their strategic stocks to offset the reduction in supply, a measure previously adopted only twice since the agency's creation in 1974. In the last quarter, the return of Libya's output exceeded expectations and relieved the pressure on prices.

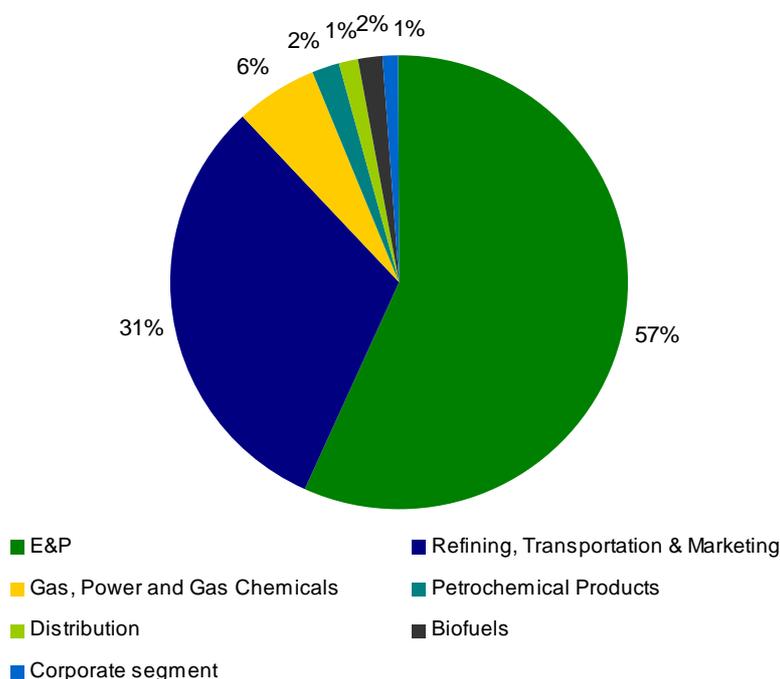
Production growth in the non-OPEC countries was well below expectations, impacted by conflicts in countries such as Yemen and Syria and the restrictions on North Sea output due to the high number of non-scheduled maintenance stoppages. A positive highlight was the upturn in unconventional onshore output in the United States. As a result of this, plus the logistics problems in the American Midwest, WTI (U.S. benchmark crude) was trading at record discounts in relation to Brent, reaching a difference of US\$29.70/bbl in September.

## Corporate strategy

Petrobras' corporate strategy focuses on expanding all the Company's business areas, based on the following sustainability factors: integrated growth, profitability, and social and environmental responsibility. The investments needed to achieve the growth targets in the 2011-15 Business Plan total US\$224.7 billion, or an average of US\$44.9 billion per year, US\$213.5 billion of which (95%) allocated to projects in Brazil and US\$11.2 billion (5%) to foreign operations, chiefly in the United States, Latin America and West Africa.

### 2011-15 Business Plan

US\$ 224.7 billion



Exploration & Production (E&P) will absorb the lion's share of the investments – US\$127.5 billion, or 57% of the total. Of this amount, US\$53.4 billion will be allocated to exploring and developing the pre-salt discoveries, which are expected to produce 543,000 bpd by 2015. The 2011-2015 Plan prioritizes domestic production and envisages investments in the transfer of rights projects of US\$12.4 billion. Total oil and natural gas output is expected to reach 3,993,000 boed in 2015, 3,688,000 boed of which produced in Brazil.

Investments in the Refining, Transportation & Marketing (RTM) segment come to US\$70.6 billion, or 31% of the total. The Company will maintain its strategy of increasing refining capacity in order to ensure domestic oil products supply. Investments will focus on improving fuel quality and upgrading and expanding refining capacity. With the operational start-up of the Abreu e Lima Refinery and the first phase of the Rio de Janeiro Petrochemical Complex (Comperj) in 2013, processed crude in Brazil is expected to reach 2,205,000 bpd by the end of 2015.

Investments in Gas, Power and Gas Chemicals total US\$13.2 billion, which will be allocated to concluding the expansion of the natural gas pipeline system and thermal power generation. These investments will also benefit the LNG production chain, as well as facilitating the outflow of pre-salt gas and the conversion of natural gas to urea, ammonia and methanol.

The Biofuels segment will absorb US\$4.1 billion: US\$1.9 billion will go to ethanol, US\$1.3 billion to distribution logistics, US\$0.6 billion to biodiesel, and US\$0.3 billion to R&D.

For the first time, Petrobras included a divestment program in its Business Plan, totaling US\$13.6 billion between 2011 and 2015. The idea is to ensure the more efficient management of the Company's assets and increase their profitability.

## Investments

R\$ million					
	Fiscal Year				
	2011	%	2010	%	Δ%
Exploration & Production	34,251	47	32,736	43	5
Refining, Transportation & Marketing	27,117	37	28,458	38	(5)
Gas and Power	3,848	5	6,903	9	(44)
International	4,440	6	4,771	6	(7)
Distribution	1,157	2	895	1	29
Biofuels	503	1	1,174	1	(57)
Corporate	1,230	2	1,474	2	(17)
<b>Total Investments</b>	<b>72,546</b>	<b>100</b>	<b>76,411</b>	<b>100</b>	<b>(5)</b>

Petrobras invested R\$72.6 billion in 2011, mostly in exploration, production development and technology. In order to reinforce its operations as a vertically integrated company, it also invested in the construction of refineries – to meet domestic demand – and in the distribution chain.

Exploration and Production absorbed 47% of the total, 26% of which to exploration, 62% to production and 12% in other investments. These investments are designed to develop pre-salt production, maintain output in the older fields, and improve logistics and technological infrastructure.

The highlight was the August start-up of the P-56 semi-submersible platform, in the Marlim Sul field, in the Campos Basin, which will reach its maximum processing capacity of 100,000 bpd of oil and 6 million m<sup>3</sup>/day of gas in the first half of 2012.

The pipeline linking the Lula field to the Mexilhão platform began operations in September, transporting natural gas from the platforms used in the development of the first pre-salt exploration phase in the Santos Basin. The Company also began installing the Sul-Norte Capixaba pipeline, which will expand natural gas outflow infrastructure, ensuring increased oil and gas output in the Parque das Baleias region, off the south coast of Espírito Santo.

In November, the vessel whose hull will be converted into the FPSO P-74 platform, the first to be assigned to the transfer of rights fields in the pre-salt areas in the Santos Basin, arrived in Rio de Janeiro. Another three vessels will arrive from Malaysia in 2012 and 2013 for conversion into the P-75, P-76 and P-77 platforms. The conversion work for all four will be carried out at the Inhaúma shipyard, in Rio.

It is also worth mentioning the Lula Nordeste and Carioca Nordeste extended well tests (EWTs), in the Santos Basin, as well as the Aruanã EWT, in the Campos Basin.

Part of the investments went to the P-55, P-61, and P-63 platforms, which are under construction, and will begin operations in 2012 and 2013, ensuring sustainable production growth.

Investments in the Refining, Transportation & Marketing segment totaled R\$ 27.1 billion. Given growing domestic demand, the Company is building four new refineries (Abreu e Lima, Premium I, Premium II, and Comperj), which are scheduled for start-up in 2020, and will turn Brazil self-sufficient in oil product output.

The company also invested in upgrading, conversion, and products quality improvement projects, especially in the development of more technological products such as the new-generation S-50 Diesel.

Transpetro took delivery of the Celso Furtado product ship, the first of the 49 vessels in the Fleet Upgrading and Expansion program, which is designed to strengthen the logistics system.

The Gas & Power segment absorbed R\$ 3.8 million. In the gas segment, the cycle of investments in expanding the transportation network was concluded with the completion of the Gastau pipeline, which increased supply in the Southeast, and of the Gaspal II and Gasan II pipelines, which expanded supply in the São Paulo metropolitan area. Implementation of the Bahia LNG Regasification Terminal began, which will ensure more flexible domestic market supply. In July, the Company acquired Gas Brasileiro Distribuidora (GBD), increasing its share of the São Paulo market.

Investments in the power segment went to the implementation of four wind plants in Guimarães (RN), converting the Juiz de Fora thermal plant to ethanol, and closing the cycle of the UTE Luis Carlos Prestes thermal plant.

In the fertilizer segment, Petrobras invested in the installation of the UFN-III nitrogen-based fertilizer plant in Mato Grosso do Sul and the expansion of Fafen Sergipe's ammonia production. In Fafen Bahia, the first phase of the ARLA 32 project was completed (a urea solution for new diesel-powered heavy vehicles to reduce emissions).

With a view to maintaining its leadership of the Brazilian market and make its brand the favorite among Brazilian consumers, Petrobras invested R\$ 1.1 billion

in the Distribution segment, mainly allocated to expanding logistics capacity to cope with growing domestic demand.

Investments in Biofuels totaled R\$ 0.5 billion, 78% of which went to increasing ethanol supply in order to expand the market share of Petrobras Biocombustíveis and its partners. The biodiesel segment received 22% of the total, in line with the plans to increase installed capacity.

The Company invested R\$ 4.4 billion in the International segment, most of which (89%) in exploration and production projects in the Gulf of Mexico and West Coast of Africa. A global leader in deep-water operations, Petrobras uses its experience and technology developed in Brazil to seize opportunities abroad.

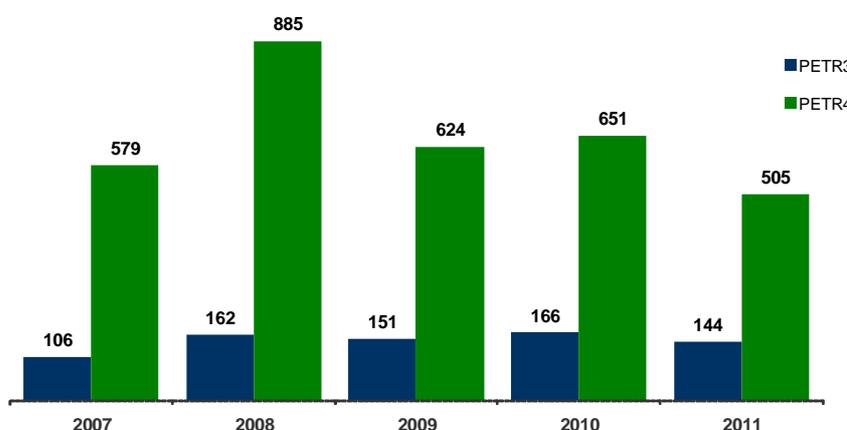
Corporate investments refer to administrative buildings, information technology and telecommunications, software and other non operational activities.

## Stock performance

The year was marked by external uncertainties due to the fiscal crisis in several European countries and the slow recovery of the U.S. economy. Nevertheless, the Dow Jones closed 5.53% up, despite high volatility throughout the year, whereas the leading European exchanges all recorded a substantial decline. The Ibovespa index closed the year at 56,754 points, down by 18.11%.

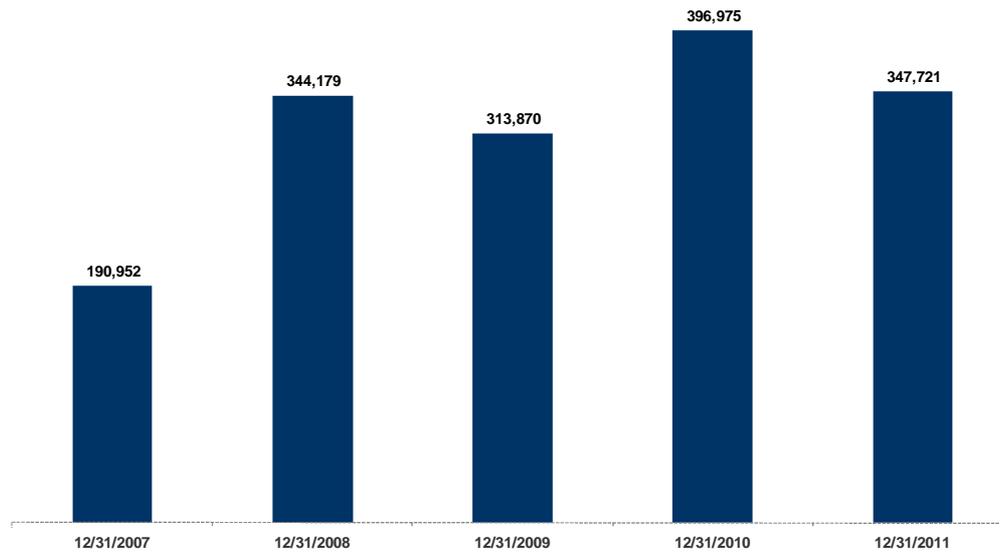
Petrobras' shares were adversely impacted by the global volatility and economic uncertainty, closing on a downward note. In Brazil, the Company's common shares (PETR3) fell by 24.71%, and its preferred shares (PETR4) by 21.25%, while on the NYSE, its common (PBR) and preferred (PBR/A) ADRs declined by 34.31% and 31.23%, respectively. The Company's market capitalization came to US\$158 billion at year-end.

Average Daily Traded Volume on the BM&FBovespa  
(R\$ million)



Source: Bloomberg

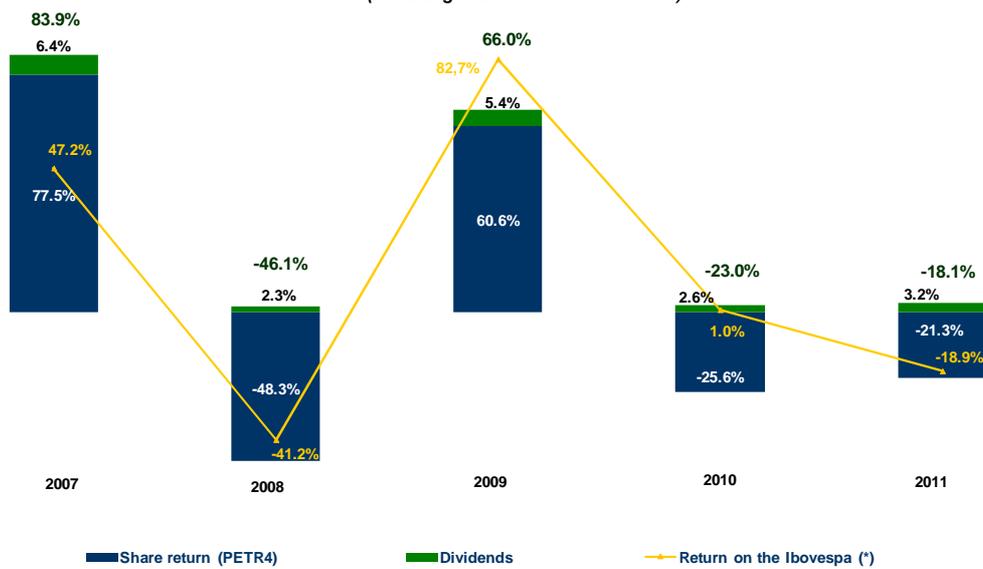
**Shareholders at BM&FBovespa  
(excluding FGTS and FIAs Petrobras quota holders)**



Source: BM&FBovespa

FIAs= Share investment fund

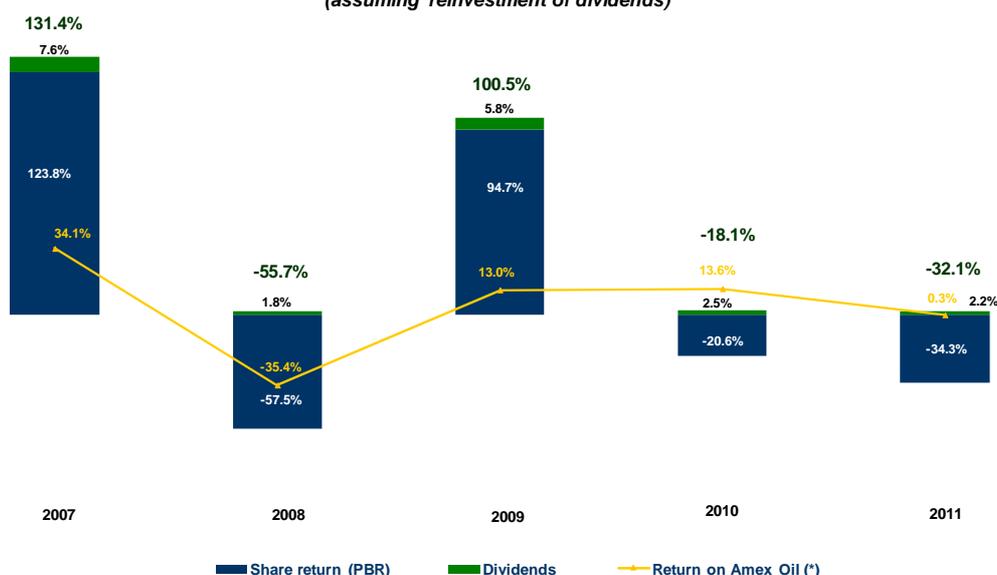
**Annual Return Comparison: Petrobras preferred shares (PETR4) vs. Ibovespa  
(assuming reinvestment of dividends)**



Source: Bloomberg

(\*) includes dividends for comparison purposes

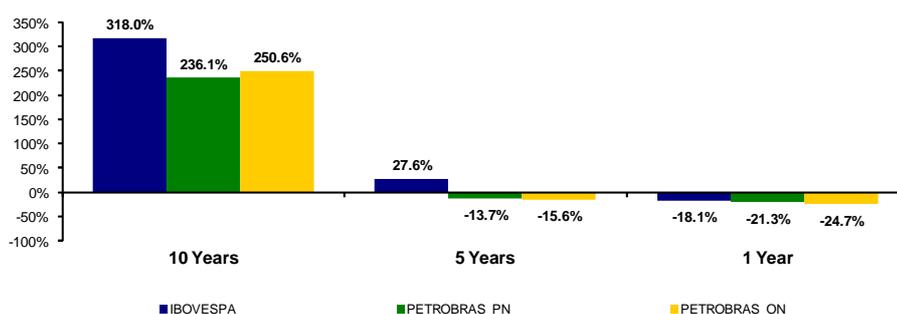
Annual Return Comparison: PBR vs. Amex Oil  
(assuming reinvestment of dividends)



Source: Bloomberg

(\*) includes dividends for comparison purposes

Petrobras and Ibovespa Returns (\*)  
Real Accrued Variation



(\*) The IGP-DI was used as deflator.

Source: Bloomberg

## Corporate governance

Petrobras strives to constantly improve its corporate governance practices and management instruments. As a publicly-held company, it is subject to the regulations of the Brazilian Securities and Exchange Commission (CVM) and the Securities, Commodities and Futures Exchange (BM&FBovespa). In the international markets, it complies with the regulations of the SEC and NYSE in the United States, the Madrid Stock Exchange Latibex in Spain, and the Buenos Aires Stock Exchange and Argentinean Securities and Exchange Commission (CNV) in Argentina.

Its corporate governance structure includes a Board of Directors and associated advisory committees, an Executive Board, a Fiscal Council, an Internal Audit, an Ombudsman, an Audit Committee, a Business Committee and Integration Committees.

The Board of Directors improved the governance instruments, formalizing the holding of an executive session in Board meetings, and the inclusion of Board performance evaluation criteria in its internal regulations. It also approved the inclusion of an item dealing with the Board of Executive Officers' performance evaluation.

In 2011, the Company's employees were granted the right to appoint a member of the Board of Directors for election by their peers, pursuant to the electoral rules. The Internal Audit Regulations were also ratified, establishing the body's norms, guidelines, and principles.

The Company developed corporate governance training programs for executives, managers and Fiscal Council and Board of Directors members on the System's companies. These included lectures addressing such subjects as government-owned companies, management's duties, and corporate risk management, and programs to raise awareness of the best corporate governance practices adopted in Brazil and abroad and promote their propagation.

## **Internal controls**

Pursuant to Section 404 of the Sarbanes-Oxley Act (SOX) and CVM Instruction 480/09, the Internal Control Certifications of Petrobras, Petrobras International Finance Company (PifCo) and Petrobras Argentina related to 2010 were concluded. The consolidated financial statements were approved by the independent auditors, with no restrictions, repeating the success of previous years.

These certifications are planned and put into operation by the Internal Controls Department and include the main processes of the parent company as well as of those subsidiaries and affiliated companies considered relevant according to SOX/CVM criteria and regulations. The work is supervised by the financial area's Corporate Committees and the Board of Directors' Audit Committee.

The annual certification process is divided into three phases: evaluation of entity-level controls in order to assess the corporate governance environment; management's self-evaluation of business processes and internal controls; and the testing of these controls by the internal auditors.

## **Information on the provision of services other than the external audit by the independent auditors – CVM Instruction 381/2003**

Petrobras adopts business management instruments based on its Code of Ethics, Code of Best Practices and Corporate Governance Guidelines.

Article 29 of the Company's Bylaws states that the independent auditors must not provide consulting services to Petrobras during the effectiveness of the auditing contract.

Petrobras hired KPMG Auditores Independentes to provide specialized technical accounting audit services for fiscal years 2006, 2007 and 2008, as of April 2006.

In April 2009, the contract was extended for two more years to cover fiscal years 2009 and 2010.

In April 2011, the contract was extended for one more year to provide specialized technical accounting audit services for fiscal year 2011.

During fiscal year 2011, KPMG Auditores Independentes provided the following services to Petrobras and its subsidiaries and associated companies:

	<b>R\$ thousand</b>
Accounting Audit	24,879
SOX Auditing	2,659
Services related to auditing	1,446
Other	100
Total value of services	<u>29,084</u>

## Risk management

Petrobras' risk management is handled by its Executive Officers, based on specific policies and guidelines.

### Market risks

Petrobras is exposed to several risks, especially those resulting from variations in oil and oil product prices, and exchange or interest rates, which can adversely affect the value of its financial assets and liabilities, as well as its future earnings and cash flow.

The Company adopts an integrated risk management philosophy, according to which management does not focus on individual risks (of particular operations or business units), but takes a broader and more consolidated approach, taking advantage of possible natural hedges. Structural initiatives created as a result of the proper management of corporate capital and debt are preferred to derivative financial instruments.

### Insurance

Petrobras takes out insurance policies in order to transfer risks that could generate substantial losses to the insurance market, as well as those risks for which insurance is mandatory due to legal or contractual provisions. The Company is capable of absorbing a large share of its risks and, as a result, takes out policies with deductibles of up to US\$60 million. Most of the pipeline

network in Brazil and the risks related to lost earnings (in case of accidents) and well control are not insured. Platforms, refineries and other facilities are covered by operational and petroleum risk policies. Cargo handling is covered by transportation policies, while vessels are covered by hull and equipment insurance. Civil liability and environmental pollution also have specific policies.

Projects and facilities under construction, with potential maximum damages of more than US\$60 million, are covered against engineering risks by insurance taken out preferably by Petrobras itself, or by the contractors. Given the volume of investments envisaged in the 2011-15 Business Plan, the total amount paid in insurance premiums to cover the risks associated with the new projects is expected to increase substantially. To meet this demand, Petrobras maintains two umbrella insurance policies covering engineering risks, one for onshore projects and another for offshore projects.

For insurance purposes, assets are evaluated at their replacement cost. The maximum indemnification limit of the operational risk policy is US\$1.2 billion. In the case of the petroleum risk policy, this limit is US\$2.3 billion, corresponding to the highest replacement cost for the Company's platforms. In 2011, premiums for the Company's main policies (operational and petroleum risks) totaled US\$51 million, covering assets worth US\$101 billion.

## **Credit**

The Company's policy for granting and reviewing customer credit comply with SOX guidelines. After analysis, credit is approved by the Credit Commission or, at higher levels, by the financial and customer relations departments. The volume of credit has been increasing every year, alongside the Company's expansion, permitting increased sales with the lowest possible risk, especially abroad.

The control of credit utilization in Brazil and abroad is centralized and the credit control and granting processes are constantly being improved, supporting the increasingly sustainable sales performance. This allows the Company to build closer relations with its customers and increase the use of credit as a commercial instrument.

## **Financing**

### **Corporate financing**

Petrobras undertook several funding operations to maintain the liquidity level necessary to carry out its investment plan. Recognition of the Company's credit quality by banks, investors and official credit agencies (Export Credit Agencies – ECAs) is reflected in favorable financing conditions for its activities in terms of cost and maturity.

In the international capital market, Petrobras issued bonds totaling US\$9.6 billion, while bank loans came to US\$1.64 billion abroad and US\$1.38 billion in

Brazil. The Company also rescheduled liabilities worth US\$509 million in order to extend its debt profile, while ECA financing amounted to US\$1.39 billion.

## Structured financing

**Suape Complex: Companhia Integrada Têxtil de Pernambuco (Citepe) and Companhia Petroquímica de Pernambuco (PetroquímicaSuape)** — Citepe obtained financing of R\$561 million and PetroquímicaSuape R\$605 million for the construction of PET (polyethylene terephthalate) and POY (polyester oriented yarn) plants.

**Alberto Pasqualini (Refap S.A.) Refinery** — Refap obtained credit lines of R\$1.11 billion for the construction of a hydrotreatment unit.

Petrobras obtained credit lines of R\$1.02 billion from the BNDES for investments in the PMXL-1 fixed platform.

## Financing suppliers and clients

In 2011, Petrobras maintained its policy of fomenting suppliers' activities through the Private Equity and Receivables Programs, the Client Financing Program and the recently launched *Progridir* program.

The year's most important event was the June launch of the *Progridir* program, which aims to facilitate access to working capital by companies supplying products and services to the Company, as well as by *their* respective suppliers, by ensuring lower interest rates, since the credit risk assumed by the banks is that of Petrobras itself. By year-end, 157 companies had taken out 254 loans, totaling R\$1.024 billion.

The Receivables Program was consolidated through the development and monitoring of Receivables Backed Investment Funds (FIDCs). With the support of Petrobras, capital market institutions structured the funds in order to offer interest rates lower than those available in the banking market. A total of eight FIDCs were implemented, making R\$1.1 billion available to suppliers, R\$70 million of which injected by Petrobras itself.

The Private Equity Program was created to strengthen the finances of the production chain, focusing on companies experiencing difficulties to obtain the financing necessary to enter into agreements with Petrobras. The direct transfer of capital to oil and gas chain suppliers takes place through the structuring of Private Equity Funds (FIPs). There are three such funds with total net assets of R\$1.6 billion in 2011. These investments leverage companies' operational and technological capacity and their ability to provide guarantees.

The Client Financing Program is designed to improve the cash flow management of the Company's clients and is based on a FIDC, which acts a bridge between Petrobras and the clients. The fund pays Petrobras on demand and receives payment over time from the clients, thereby ensuring that purchase payment terms are met without impacting the Company's cash flow.

This year Petrobras structured the first such FIDC (for financing Braskem), and R\$1 billion is available.

## Human Resources

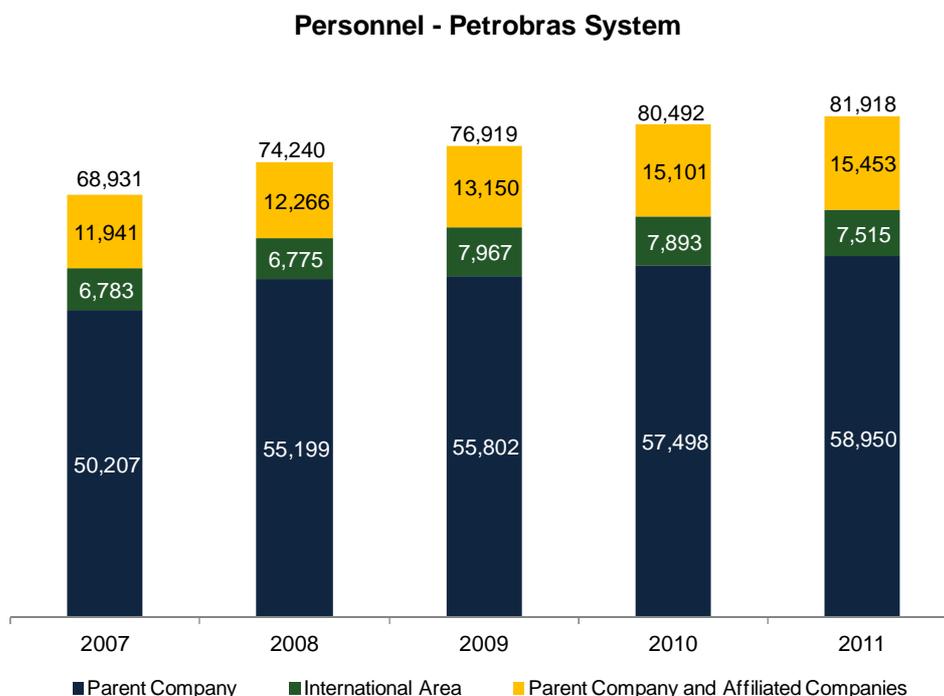
Throughout its 58 years of operations, Petrobras has been renowned for valuing its employees and for the way Brazilians relate to the Company's values. In many aspects 2011 was a special year for Petrobras' people management.

A survey conducted by *Valor Econômico* newspaper and the consulting firm Aon Hewitt placed Petrobras among the most desired companies to work for for the fourth consecutive year. It also maintained its second place in the *Empresa dos Sonhos dos Jovens* (Young People's Dream Company) survey conducted by Cia. de Talentos, ranking among the top ten for the eighth consecutive year.

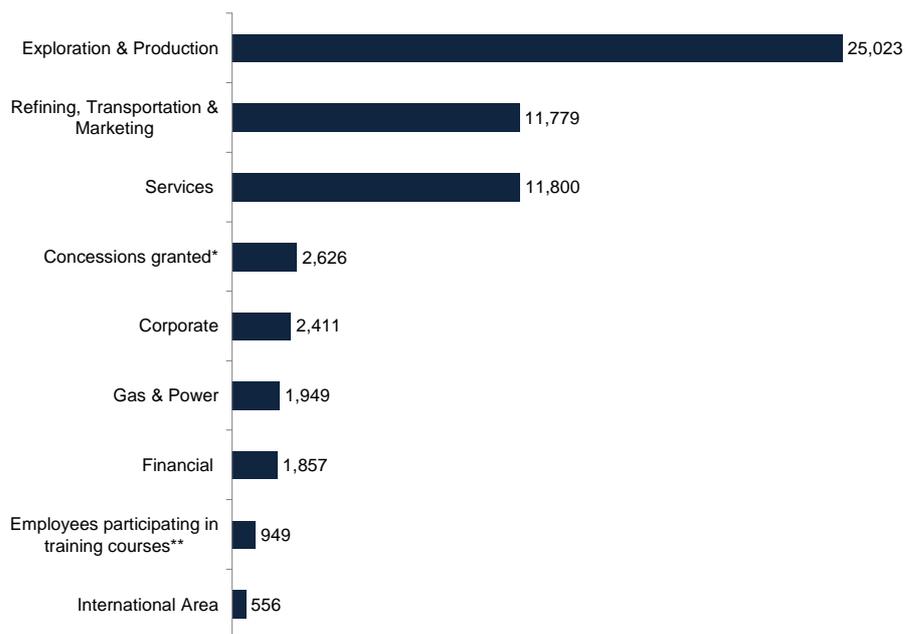
It was also included in the list of the world's most sustainable companies, according to the criteria of the Dow Jones Sustainability Index (DJSI), for the sixth consecutive year. Its people management played an important role in this recognition.

## Workforce growth

The Petrobras System closed 2011 with 81,918 employees, 1.8% up on the previous year. Due to the expansion of business, two selective hiring processes were held for the parent company, with approximately 217,000 applicants, 2,406 of whom were hired.



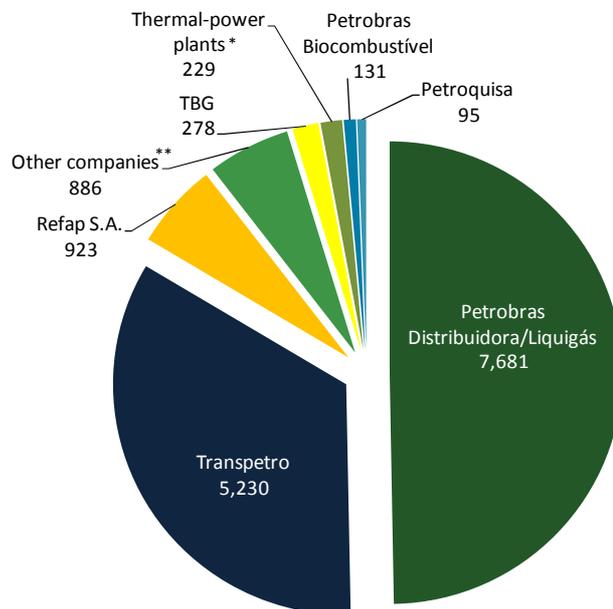
### Personnel by Department - Parent Company



\* Parent company employees working in Petrobras System companies

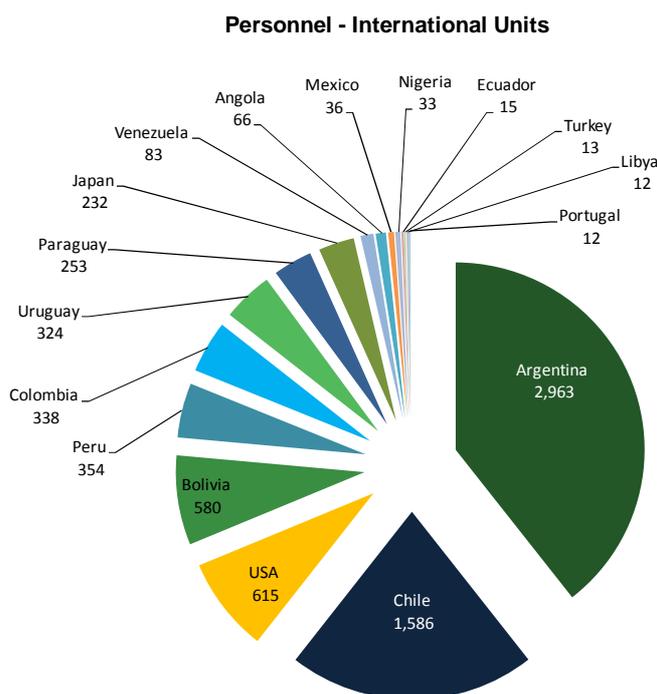
\*\* Recently hired personnel from Petrobras University

### Personnel - Subsidiaries



\* Termoçu S.A, Sociedade Fluminense de Energia EWta., Termomacaé EWta., Termo Ceará EWta.

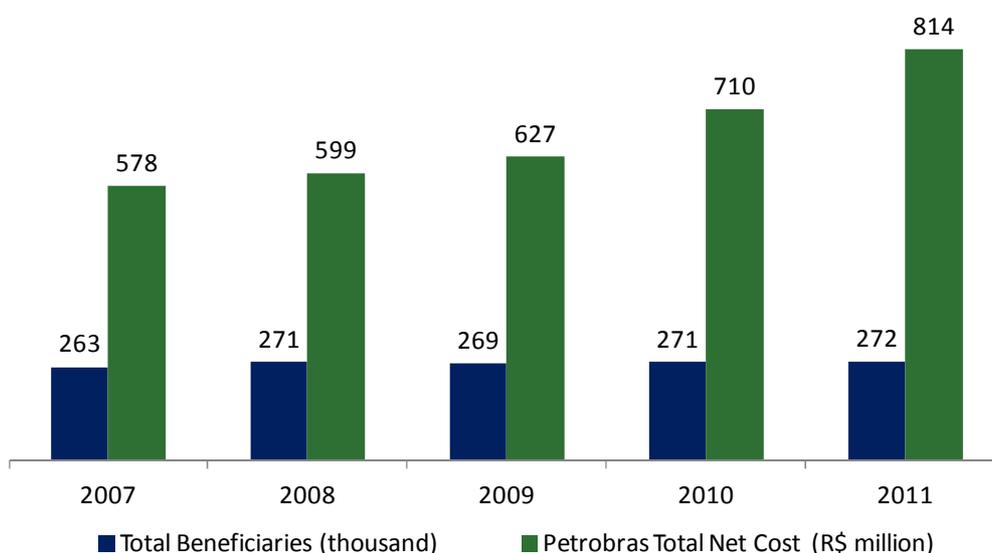
\*\* Companhia Petroquímica de Pernambuco, Companhia Integrada Têxtil de Pernambuco (Citepe), Ipiranga Asfaltos S/A, Innova, Breitener (Energia; Jaraqui; Tambaqui).



## Benefits

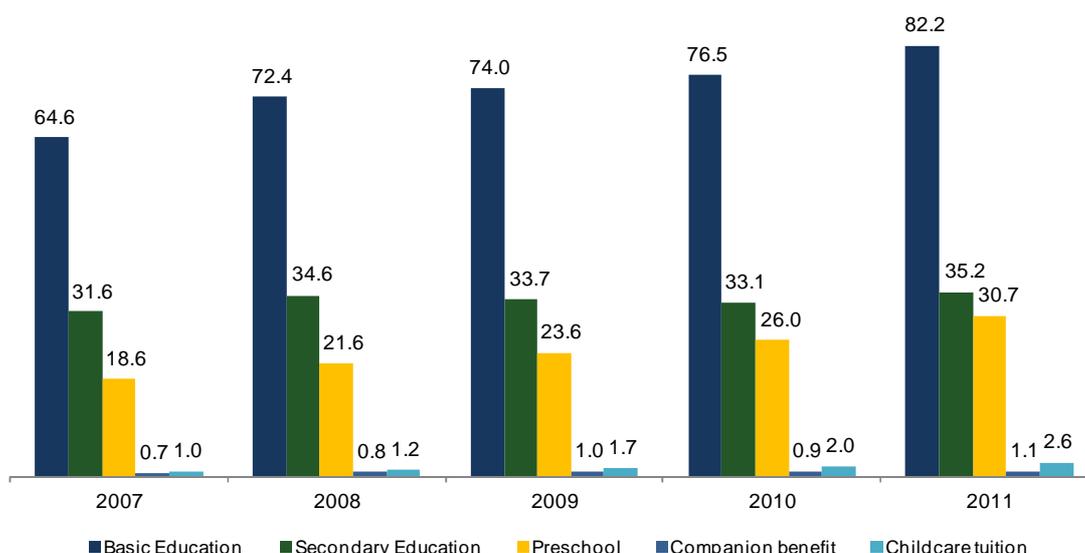
The Multidisciplinary Healthcare Plan (AMS) covered 272,000 beneficiaries at approximately 23,000 points of service. Expenses with medical consultations, tests and hospitalization totaled R\$ 814 million.

**Multidisciplinary Healthcare Plan (AMS) - Beneficiaries x Net Cost (Petrobras)**



The Company spent R\$151.8 million on educational benefits, involving 20,677 employees and 29,443 dependents.

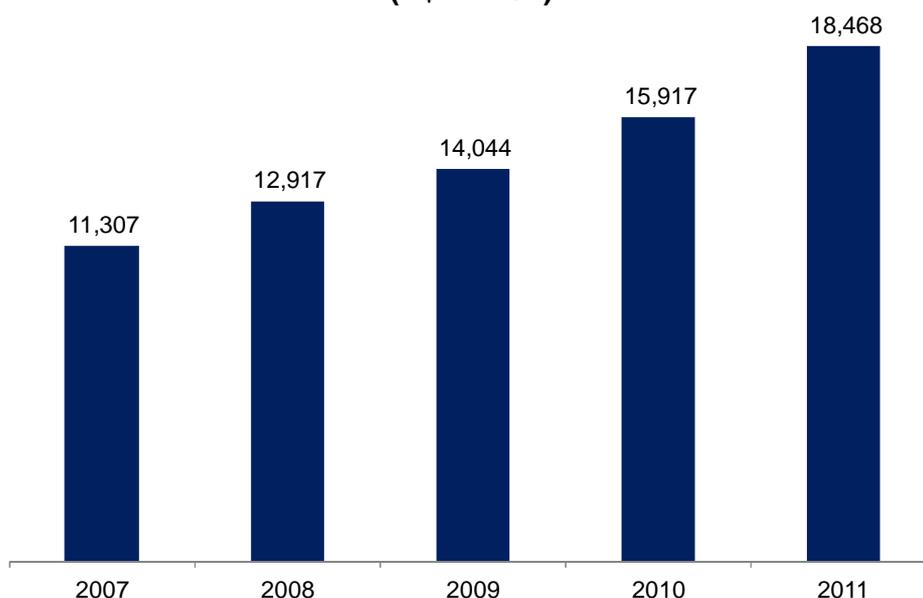
**Evolution of Tuition Costs by Modality (R\$ million)**



## Personnel costs

Personnel costs include employees' fixed compensation (salaries and benefits) and expenses with educational benefits, private pension plans and the AMS. In 2011 these costs totaled R\$ 14.6 billion for the parent company, 18.3% up on the previous year, thanks to the wage increase (real rise of up to 3.25%), the expansion of the workforce and consequent growth of the payroll, time-of-service increases and promotions. In the Petrobras System as a whole, personnel costs totaled around R\$ 18.5 billion.

**Personnel Costs - Petrobras System (R\$ million)**



## Human resources development

The Company invested R\$ 207.5 million in personnel development, equivalent to an average of 89.2 hours of training per employee, benefiting newly-hired staff and approximately 227,000 participants in continuous education courses in Brazil and abroad. In Brazil alone these investments totaled R\$ 185.6 million.

In order to create skilled professionals for the oil, gas, power and biofuel industry, the partnerships established by the Petrobras Human Resources Training Program (PFRH) allowed the Company to allocate resources from the Special Participation Fund to scholarships for courses related to careers in the oil and gas industry. These resources are provided in the research and development clause of the concession contracts executed between Petrobras and the National Petroleum, Natural Gas and Biofuels Agency (ANP). The program, which was launched in 2010, includes 34 affiliated institutions, with investments of more than R\$ 200 million and 11,000 scholarship holders attending technical and secondary education courses for visiting researchers, undergraduates and those studying for master's degrees and doctorates.

Petrobras continued to develop the Future Professions project ([www.profissoesdefuturo.com.br](http://www.profissoesdefuturo.com.br)), which aims to develop an interest in technical careers in the oil and gas industry among final-year basic education and high school students.

Petrobras also created the Talent Attraction Program to encourage college students to participate in the Company's selective hiring processes. During lectures in several educational institutions and other student events, Company employees outlined the various career opportunities available and the challenges arising from Petrobras' Business Plan.

Aware of the need for skilled labor in its supply chain, Petrobras coordinates the National Professional Training Plan (PNQP) in association with the federal government and other entities. Structured in 2006, the program provides free training courses to thousands of professionals in all Brazilian states. By 2011, it had trained 80,000 people in 185 different professional categories, across 17 Brazilian states, with investments of R\$220 million from Petrobras.

## BUSINESS AREAS

### Exploration and Production

2011 was a year worthy of celebration, thanks to the discovery of new reserves, the implementation of new projects, the expansion of gas outflow infrastructure, and the upturn in oil and gas output, including the volumes from the pre-salt area. Petrobras also contracted drilling rigs and production platforms, and incorporated new proven reserves.

#### Exploration

In 2011, Petrobras consolidated its successful exploration of the pre-salt and post-salt areas of the sedimentary basins in the South and Southeast of Brazil (Espírito Santo, Campos and Santos). It also moved ahead with activities related to the Discovery Evaluation Plans (PADs) in these basins, confirming the initial evaluations of previous discoveries, especially those made in 2010. This success has ensured that Brazilian oil production will continue its sustainable growth trajectory in the coming decades.

A total of 123 exploratory wells were drilled, 76 of which onshore and 47 offshore, 17 of the latter in the pre-salt discoveries. The exploratory success rate stood at 59%.

#### CAMPOS BASIN

Two new exploratory wells resulted in the Forno and Guanabara accumulations, the former in the pre-salt area of the Albacora field, and the latter in the post-salt area 70 km southeast of the Jubarte field. The drilling of the Gávea prospect, located 110 km east of the Maromba and Papa Terra fields, in the south of the Basin, at a depth of 2,708 m, resulted in another pre-salt discovery. The consortium is integrated by Repsol/Sinopec (the operator, with a 35% share), Petrobras (30%), and Statoil (35%).

#### SANTOS BASIN

Discoveries were not limited to the pre-salt layers. In November, a post-salt accumulation was located in the Patola prospect near the Tiro and Sidon areas, contributing to consolidate of a new production center in the southeast region of the Basin.

In the pre-salt area, the drilling of the Abaré prospect, in the BMS-9 block, which also contains the Carioca accumulation, resulted in a discovery that may increase the area's potential. A formation test will be performed in the well to evaluate the productivity of the reservoirs.

The evaluation plan of the Carioca area began in February. Of the three extension wells scheduled, Carioca Nordeste has already been drilled and

Sela's drilling began in December. The Carioca Nordeste extended well test (EWT) indicated a production potential of 28,000 bpd.

In December, thanks to the drilling of the second extension well as part of the Guará discovery evaluation plan, which confirmed the continuity of the pre-salt accumulation, and the conclusion of the discovery well EWT, Petrobras filed a declaration of commercial viability, resulting in the Sapinhoá field.

## **ESPÍRITO SANTO BASIN**

Between May and August, the drilling of the Brigadeiro, Pé de Moleque, and Quindim prospects, at a depth of 1,900 m, resulted in the discovery of three post-salt accumulations. They are located around 45 km east of the Golfinho field and, together with the Cocada area (discovered in 2010), have consolidated the Parque dos Doces area, in whose concession Petrobras has a 65% share.

The consortium comprising Petrobras (88.1%) and Repsol/Sinopec (11.9%) discovered gas when drilling the Malombe prospect, around 20 km southeast of the Peroá and Cangoá fields. Exploration will continue with the proposed drilling of another two wells.

## **Concessions**

There were no ANP bids in 2011, although Petrobras increased its share in some contracts through farm-in operations in the blocks under concession, and relinquished certain other blocks as envisaged. As a result, the Company's portfolio comprises 132 concession agreements, totaling 119,132 km<sup>2</sup>, distributed through 194 exploratory blocks, 31,068 km<sup>2</sup> of which corresponding to 51 discovery evaluation plans.

## **Production**

Petrobras started the implementation of five oil production projects: the P-56 platform (module 3 of the Marlim Sul field) and four EWTs, which, combined with the upturn in production resulting from the interconnection of new wells in several platforms (P-48, P-57, FPSO-Capixaba, and FPSO Cidade de Angra dos Reis), offset the natural decline in output and resulted in a 1% increase in national oil and gas production. In 2011, production averaged 2,022,000 bpd.

The Varredura project, implemented in the Campos Basin in 2009 to identify exploration opportunities in the areas adjacent to existing fields and infrastructure, also recorded excellent results, reaching an average output of 125,000 bpd in 2011, reflecting the 2010 discoveries in the Brava, Carimbé, and Tracajá prospects, all of which in the pre-salt layer, in the Marlim, Caratinga, and Marlim Leste concessions, respectively; and in Jabuti and Aruanã, in the post-salt layer.

In February, Petrobras began the Sidon EWT, through the SS-11 platform, which was performing the Tiro EWT that began in 2010. The Tiro and Sidon

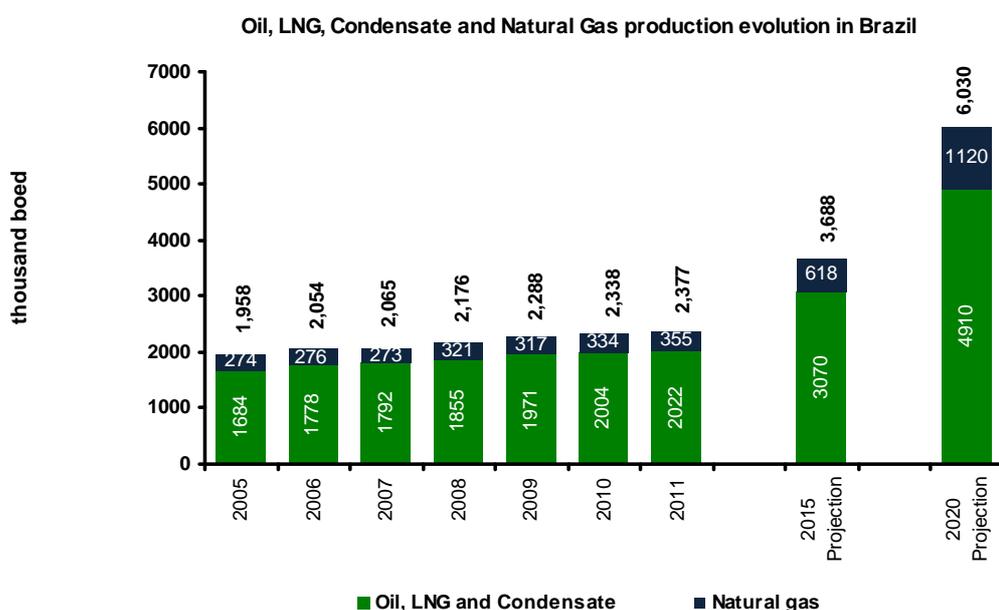
accumulations are located in shallow waters of the post-salt layer south of the Santos Basin.

In April, Petrobras initiated the EWT in the Lula Nordeste area, in the Santos Basin, in the old BM-S-11 exploratory block in the pre-salt layer, approximately 300 km off the coast of Rio de Janeiro. The test was performed by the FPSO BW Cidade de São Vicente, anchored at a depth of 2,120 m. Petrobras is the operator, with a 65% share of the consortium, the other members being BG Group (25%) and Galp Energia (10%). The data obtained from the test will be used in the studies for the development of Lula Nordeste's second pilot production system.

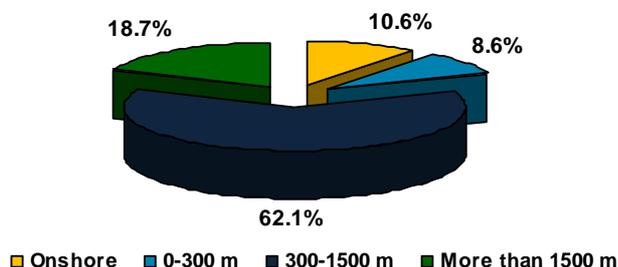
In June, the Company began the Aruanã EWT in the post-salt layer in the south of the Campos Basin, through the 1-RJS-661 well, connected to the FPSO Cidade de Rio das Ostras. The exploratory block (C-M-401) is located between the Pampo and Espadarte fields, at a depth of between 350 m and 1,500 m. The data obtained from the test will be used for an in-depth analysis of the reservoir rock, the liquids and the production potential of the block's oil accumulations.

In August, the P-56 semi-submersible platform, with a processing capacity of 100,000 bpd, began operations in the Marlim Sul field at a depth of 1,670 m. P-56's topside has a very high local content ratio (73%). The hull was almost entirely built in Brazil, which supports the domestic industry's capacity to meet Petrobras' orders.

In October, the Company began another EWT in the Carioca Nordeste area through the FPSO Dynamic Producer, the same FPSO that performed the Guara EWT, also in the BM-S-9 exploratory block. The well was drilled at a depth of 2,151 m, 275 km off the coast of So Paulo. The system is expected to operate for approximately six months. Petrobras has a 45% share in this area, and its consortium partners are BG Group (30%) and Repsol (25%).



Production of Oil, LNG and Condensate in Brazil  
(onshore and by water depth)



## Natural gas production

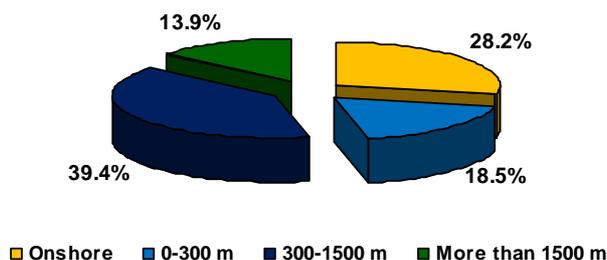
In 2011, natural gas production totaled 56.4 million m<sup>3</sup>/day, 6.2% up on the previous year, reflecting the excellent performance of the Canapu, Cachalote, Baleia Franca, and Peroá fields, as well as the initial outflow from P-57 in the Parque das Baleias field, in Espírito Santo. In addition, the conclusion of the improvements to the Gas Processing Unit in the Presidente Bernardes Refinery (RPBC) increased the production from the Lagosta field, in the Santos Basin.

In April, Petrobras began production in the Mexilhão (PMXL-1) fixed platform, at a depth of 172 m in the Santos Basin, 137 km off the coast. With a total height of 227 m, PMXL-1 is the Company's tallest fixed platform, with a production capacity of 15 million m<sup>3</sup> of gas per day.

Proceeding with the projects envisaged in the Anticipated Gas Production Plan (Plangas) in the Santos Basin, Petrobras initiated gas outflow from the Uruguá and Lula fields, ensuring sufficient supply to meet growing market demand.

It is also worth mentioning the substantial upturn in gas deliveries to the North Region, thanks to the ongoing conversion of diesel and oil-powered thermal plants to gas.

Production of Natural Gas in Brazil  
(onshore and by water depth)



## Lifting costs

In 2011, lifting costs, excluding the government take, averaged US\$ 12.59/boe, 26% up on the previous year, due to the higher number of well interventions. Including government take, lifting costs came to US\$ 32.52/boe, 32% more than in 2010, mainly fueled by the upturn in the average reference price for local oil.

In reais, extraction costs averaged R\$ 21.19/boe, 21% up on 2010, or R\$ 55.04 including government take, up by 27%, also fueled by the 33% increase in the average reference price in reais for local oil.

## Pre-Salt Discoveries

Expectations regarding the pre-salt area began to materialize in 2011, mainly due to the beginning of commercial production by the Lula Pilot Project, which confirmed the discoveries in the Santos Basin as a new oil frontier with high productivity.

The exploratory success rate remains high, with 37 wells drilled in 2011, all of which showing evidence of hydrocarbon accumulations. With the discovery of Franco, Carioca Nordeste, and Macunaíma, Petrobras completed 35 wells in the areas put out to tender, one well in the transfer of rights area, and another for the ANP. Ten drilling rigs were used in the operations and another nine are expected to begin operating in the area in 2012.

The first Production Anticipation Project in 2011 began in February, in the 6-MLL-70 well, in the Tracajá reservoir in the Marlim Leste field, in the Campos Basin. In April, the Company initiated the Production Anticipation Project in the Brava area, in the Marlim field, as well as the EWT in the Lula Nordeste area through the FPSO Cidade São Vicente, which produced 14,400 bpd in July.

The 9-RJS-660 well of the Lula Pilot Project, the first to begin production in the pre-salt layer of the Santos Basin, recorded Petrobras' highest production volume in May, averaging 28,436 bpd. The well is connected to the FPSO Cidade de Angra dos Reis, and is the first of the six producing wells that will be linked to this platform. Including oil and gas output, volume came to 36,322 boed, underlining the enormous potential of Brazil's pre-salt reservoirs. In April, the first gas injection well was connected.

In September, the Lula-Mexilhão pipeline began operations, enabling natural gas flow from the platforms allocated to the first pre-salt production development phase in the Santos Basin, and ensuring greater supply flexibility in the domestic market. With a flow capacity of up to 10 million m<sup>3</sup>/day, the pipeline transports the gas produced by the Lula Pilot Project, connecting the Cidade Angra dos Reis and Mexilhão platforms. The pipeline will also be used to transport gas from the Sapinhoá and Tupi Nordeste pilot projects, scheduled for start-up in 2012 and 2013, respectively.

October saw the start-up of the Carioca Nordeste EWT, in the FPSO Dynamic Producer, which produced 22,000 bpd in December.

In the final months of the year, two additional producing wells began operating in the Lula field. As a result, the Company's share of pre-salt production from the Santos and Campos Basins came to 133,100 bpd in December, which accounted for 6.6% of its total domestic output.

It is also worth mentioning the chartering of two FPSO-type platforms for the pilot projects in the Sapinhoá Norte and Cernambi areas, both in the Santos Basin pre-salt area. The idea is to anticipate production in these areas, whose initial flow tests recorded promising results. Each FPSO will have capacity to produce up to 150,000 bpd of oil, and between 6 and 8 million m<sup>3</sup>/day of gas, respectively. They are scheduled for start-up in 2014.

## **Integrated Planning of the Pre-Salt Area**

To help it prepare for the impact from the development of the pre-salt discoveries, the Company drew up the Santos Basin Pre-Salt Area Integrated Development Plan (Plansal), with the participation of several corporate and business areas.

In April, the annual Plansal review indicated that the investments needed to develop the area would be lower than projected in previous plans. In fact, the Company managed to reduce the original estimate (2008) by 45% and the previous estimate (2010) by 32%, thanks to the increase in well productivity (from 12,000 to 20,000 bpd), and to a 34% reduction in drilling time.

All in all, Petrobras expects to invest US\$53.4 billion by 2015 in developing the pre-salt project. As a result, output in 2017 should exceed the target of 1 million bpd previously set by Petrobras and its partners.

## **Drilling rigs**

Petrobras' strategy focuses on anticipating demand, building new equipment, and long-term contracting.

In 2011, one shallow-water floating rig expired contract and 11 marine rigs began operations, six of which at a depth of more than 2,000 m. Another three rigs were being tested for acceptance at year-end. Petrobras contracted the construction and chartering of the first lot of seven new marine rigs, which will be allocated to the long-term drilling program. This lot is part of the series of bids for the contracting of up to 28 rigs, which will be built in Brazil to operate at a water depth of 3,000 m.

In 2012, the Company will receive 16 rigs (14 floating rigs operating at depths of more than 2,000 m, and two jack-up rigs).

Drilling rigs	December 31					
	2011		2010		2009	
	Contracted	Own	Contracted	Own	Contracted	Own
<b>Onshore</b>	<b>17</b>	<b>11</b>	<b>22</b>	<b>12</b>	<b>31</b>	<b>13</b>
<b>Offshore, based on water-depth (WD)</b>	<b>54</b>	<b>8</b>	<b>44</b>	<b>8</b>	<b>36</b>	<b>8</b>
Jack-up rigs	1	4	1	4	2	4
Floating rigs	53	4	43	4	34	4
<i>WD of 500 to 1,000 m</i>	8	2	9	2	9	2
<i>WD of 1,000 to 1,500 m</i>	16	1	13	1	12	1
<i>WD of 1,500 to 2,000 m</i>	10	1	8	1	8	1
<i>WD of 2,000 to 2,500 m</i>	10	0	9	0	4	0
<i>WD of 2,500 to 3,000 m</i>	9	0	4	0	1	0
<b>TOTAL</b>	<b>71</b>	<b>19</b>	<b>66</b>	<b>20</b>	<b>67</b>	<b>21</b>

## Proven reserves

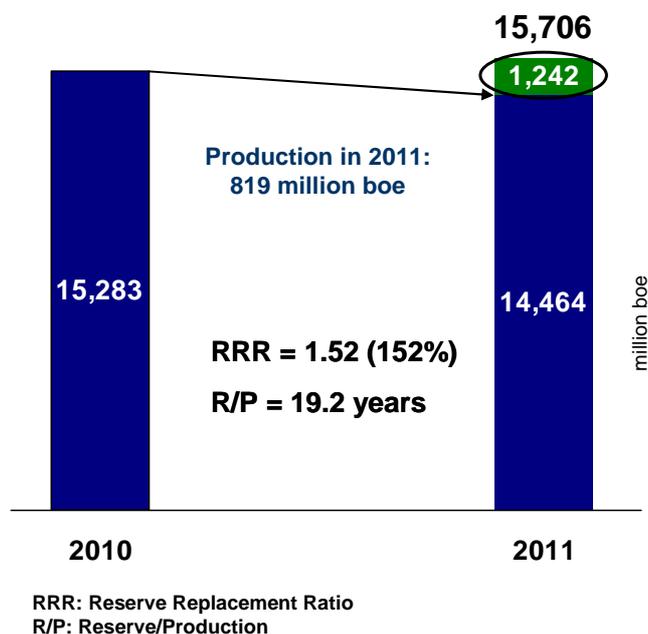
Petrobras' proven oil, condensate and natural gas reserves in Brazil totaled 15,706 million boe in 2011, according to the ANP/SPE criterion, 2.8% up on the previous year. The Company appropriated reserves of 1,242 million boe and produced 819 million boe, adding 423 million boe to its proven reserves.

As a result, the reserve replacement ratio (RRR) came to 152%, which means that for each barrel of oil equivalent produced during the year, reserves increased by 1.52 barrels. The Reserve/Production indicator (R/P) improved to 19.2 years.

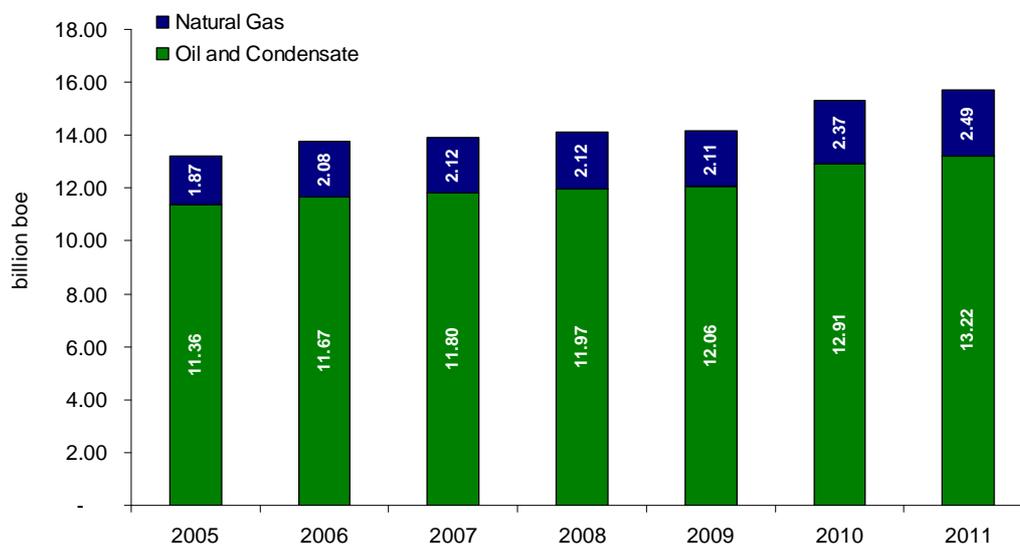
The most important appropriations in 2011 include:

- The discovery of Sapinhoá in the pre-salt layer of the Santos Basin
- The discovery of Tiziu and Patativa, in the states of Rio Grande do Norte and Ceará, and Tapiranga Norte, in the state of Bahia
- The discovery in the Albacora field, in the Campos Basin
- Reservoir management initiatives

## Evolution of Proven Reserves ANP/SPE Criterion



Proven Reserves - Brazil  
ANP/SPE criterion



## Projects and EWTs – 2012

The most important systems which will begin production in 2012 are:

- Baleia Azul** — Located 85 km off the south coast of Espírito Santo, in the northern region of the Campos Basin pre-salt area, the FPSO Cidade de Anchieta has a production capacity of up to 100,000 bpd of oil and 3.5 million m<sup>3</sup>/day of gas;

- **Tiro and Sídón** — Located in shallow waters in the Santos Basin, with a production capacity of 80,000 bpd of oil and 2 million m<sup>3</sup>/day of gas, the FPSO Cidade de Itajaí will be installed at a depth of 270 m;
- **Sul/Norte Capixaba pipeline** — The GSNC pipeline, which will connect the southern and northern regions of Espírito Santo, will transport gas from the Parque das Baleias pre-salt area to Camarupim for processing at the Cacimbas Gas Treatment Unit (UTGC);
- **Sapinhoá Pilot System (formerly Guará)** — Located in the Santos Basin pre-salt area, the FPSO Cidade de São Paulo will have a processing capacity of 120,000 bpd of oil and 5 million m<sup>3</sup>/day of natural gas.

Four Santos Basin pre-salt EWTs will be implemented by the FPSOs Cidade de São Vicente and Dynamic Producer: Lula (Iracema area), Sapinhoá (northern area), Lula (Tupi Alto area), and Franco. Two EWTs (Oliva and Espadarte) will be implemented by FPSO Cidade de Rio das Ostras in the Campos Basin post-salt system.

## Refining and Marketing

### Refining

Petrobras' 12 refineries in Brazil processed 1,862,000 bpd of crude in 2010, with an average capacity use of 92%, and produced 1,896,000 bpd of oil products. Brazilian fields supplied for 82% of total processed crude.

The Presidente Bernardes (RPBC), Landulpho Alves (RLAM), Duque de Caxias (Reduc), Clara Camarão (RPCC), Gabriel Passos (Regap), Lubrificantes do Nordeste (Lubnor), and Paulínia (Replan) refineries all held programmed maintenance stoppages in 2011.

The Refining Flexibilization Program (ProFlex) led to a reduction of 23 million average barrels in oil product imports.

Gasoline output reached record levels, increasing by 12% over 2010, in line with the substantial upturn in domestic demand.

Jet fuel output totaled 5,395,000 m<sup>3</sup>, 15.7% more than last year.

Diesel production came to 43,249,000 m<sup>3</sup>, a 1.1% improvement over 2010.

Another highlight was the operational start-up of 14 new units envisaged in the refineries' modernization project: one diesel hydrotreatment unit (Recap); two coker naphtha hydrotreatment units (RPBC and Regap); three cracked naphtha hydrodesulfurization units (Regap, RPBC and Reduc); one catalytic reforming unit at the Henrique Lage refinery (Revap); six auxiliary facilities (five diethanolamine units — Reduc, RPBC, Regap and Repar — and one hydrogen generator — Recap); and one cogeneration unit at the Capuava refinery (Recap). All the new equipment is designed to produce fuel with a low sulfur

content and in compliance with the restrictive specifications that will come into effect in the coming years.

## **New developments**

### **Abreu e Lima Refinery**

The Abreu e Lima refinery will have a heavy crude processing capacity of 230,000 bpd and will produce up to 162,000 bpd of low-sulfur diesel (10 ppm), in compliance with internationally accepted standards. The unit will also produce LPG, petrochemical naphtha, fuel oil for ships and petroleum coke. Operations are scheduled to begin in June 2013.

### **Premium refineries**

Petrobras will build two refineries for the production of premium oil products (high quality and low sulfur content compounds), optimizing the use of local oil. These refineries will basically produce middle distillates, such as diesel, jet fuel, and coke, part of which will be used by the units themselves to generate steam and power.

The Premium I refinery will be installed in Bacabeira (MA), approximately 60 km from São Luiz, the state capital. It will be capable of processing 600,000 bpd of domestic crude into S10 ppm Euro V diesel (high quality and exceptionally low sulfur content) with international specifications. Construction will take place in two phases of 300,000 bpd each, with operations scheduled to begin in 2016 and 2019. The development will also have a port terminal to receive, store and dispatch bulk liquids and solids.

The Premium II refinery, scheduled to begin operations in 2017, will be built in Caucaia (CE), with a crude processing capacity of 300,000 bpd. The refinery will be connected to a port terminal in Pecém by an 11 km pipeline.

### **Rio de Janeiro Petrochemical Complex (Comperj)**

The Comperj refinery, under construction in Itaboraí (RJ) is programmed to operate in two phases: the first phase is expected to be concluded in 2014, with a crude processing capacity of 165,000 bpd, and the second phase, scheduled for 2018, will extend this capacity to 330,000 bpd.

The refinery will produce diesel, LPG, jet fuel, naphtha, fuel oil, coke and sulfur for the local market and supply the petrochemical units with feedstock.

## **Sales**

### **Domestic market**

Fueled by Brazil's economic growth, the Company sold 2,131,000 bpd of oil products on the domestic market in 2011, 9% up on 2010.

Diesel sales moved up by 9%, reflecting the country's GDP growth, the healthy retail performance, the Company's increased market share, and the record grain harvest in 2011. Gasoline sales recorded the highest growth rate among the leading oil products, climbing by 24%, mainly due to the expansion of the flex-fuel fleet and the price advantage of gasoline over ethanol.

LPG sales edged up by 3%, while naphtha sales remained flat. Jet fuel deliveries grew by 12%, thanks to the economic upturn, the higher exchange rate and the increase in the number of flights by medium-sized and regional airlines.

Fuel oil sales dropped by 18%, due to competition from substitute products, especially natural gas for thermal and industrial use.

### **Exports vs. imports**

Oil exports totaled 435,000 bpd, 12% down on 2010, chiefly due to the processing of a higher volume of national oil in Brazil's refineries. Oil product shipments came to 217,000 bpd, an increase of 9%, driven by the upturn in fuel oil exports.

Oil imports stood at 362,000 bpd, up by 15%, while oil product imports climbed by 29% to 387,000 bpd. Light oil product imports, especially gasoline and diesel, moved up, thanks to domestic consumption growth, the poor harvest and higher ethanol prices. Diesel imports amounted to 164,000 bpd, 15% more than in 2010, while gasoline imports increased by 378% to 43,000 bpd.

The Company's 2011 financial trade balance, based on oil and oil product export and import volume, excluding natural gas, LNG and nitrogen compounds, recorded a deficit of US\$4.969 billion.

### **Petrochemicals**

The Company's petrochemical activities are integrated with its other business segments in order to increase production of petrochemicals and biopolymers, preferably through acquiring stakes in Brazilian and foreign companies.

### **Expansion of Braskem**

Braskem consolidated its position as the largest polypropylene producer in the United States through the acquisition of Dow Chemical's polypropylene business, comprising four plants, two of which are located in the U.S. and two in Germany.

The American assets have a combined annual production capacity of 505,000 tons, raising Braskem's annual PP capacity in that country by 50% to 1.4 million

tonnes. The German assets have a combined annual production capacity of 545,000 tonnes.

In October, the BNDES approved a R\$2.46 billion loan to Braskem, which will be used to finance its scheduled investments in Alagoas, Bahia, Rio de Janeiro, and Rio Grande do Sul.

In September, in Mexico, Braskem began the earthworks works on the site where the Ethylene XXI Petrochemical Complex will be built. The complex will produce 1.05 million tonnes of ethylene per year to supply, mainly, the Mexican market. The result of a joint venture between Braskem (65%) and the Mexican Idesa group (35%), the project will absorb investments of US\$3 billion and is Braskem's main greenfield project.

### Acquisition of Innova

In March, Petrobras acquired 100% of Innova S.A., a former subsidiary of Petrobras Energia Internacional S.A..

Based in the Triunfo Petrochemical Complex, Innova is Brazil's largest styrenics producer and one of its leading second-generation petrochemical units. The acquisition demonstrates the Company's intention of investing in the domestic styrenics market and it expects to double Innova's output and capture synergies with similar units envisaged for the Comperj complex.

### Projects

The 2011-15 Business Plan calls for petrochemical investments of US\$3.8 billion, or around 2% of the Company's total investments. In addition to Comperj, the following projects are particularly worth mentioning:

- **Companhia Petroquímica de Pernambuco (PetroquímicaSuape) and Companhia Integrada Têxtil de Pernambuco (Citepe)** — Responsible for the implementation of the Suape Petrochemical Complex, these two companies will have a joint production capacity of 700,000 t/year of purified terephthalic acid (PTA), 450,000 t/year of polyethylene terephthalate (PET resin), and 240,000 t/year of textile polymers and polyester yarn.

At year-end, the PTA unit was almost complete and the feedstock supply contracts had already been signed, while Citepe had begun selling its own texturized products to more than a hundred clients.

The complex will be the largest integrated polyester center in the Americas, reinitiating national PTA production and doubling Brazil's PET supply, in addition to revitalizing the textile segment by ensuring the domestic supply of good-quality, attractively-priced yarn.

## Transportation

### Transportation and storage

Petrobras Transporte S.A. (Transpetro), a Petrobras subsidiary in the petroleum, oil product, biofuel and natural gas transportation and storage segment, operates 7,179 km of oil pipelines, 7,327 km of gas pipelines and 48 terminals — 20 onshore and 28 offshore, in addition to 56 vessels.

In 2011, it transported 44.2 million tonnes of oil and oil products by ship, 9.5% down on 2010. Its port terminals handled 747 million m<sup>3</sup> of liquids and an average of 51.3 million m<sup>3</sup> of natural gas per day in its oil pipelines and terminals, 10% down on the previous year, respectively. The natural gas daily handling record was 63 million m<sup>3</sup>.

### New vessels

Transpetro's Fleet Modernization and Expansion Program (Promef) comprises the construction of 49 vessels, adding 4 million dwt to the current fleet tonnage. The Program, which will enable the incorporation of new technologies, was developed based on three premises: the ships will be built in Brazil, there will be a minimum nationalization ratio of 65% in the first phase and 70% in the second phase, and the shipyards will become internationally competitive.

In 2011, the bids for eight oil product tankers (48,000 dwt each) for the second phase of the program were concluded.

The first ship delivered by Promef, the 48,500 dwt oil product tanker *NT Celso Furtado*, is already part of the maritime transportation fleet. Three shuttle tankers (dynamic positioning), with a total capacity of 272,000 dwt, were also added to the fleet.

Four vessels were converted to double-hull ships to supply Petrobras's support vessels in the Campos and Santos basins. Including those converted in 2010, there are now seven ships to meet the logistics needs related to oil production.

In 2012, six vessels will be incorporated. In addition, three of the twenty barge convoys contracted by Transpetro to transport ethanol on the Tietê and Paraná rivers are scheduled for delivery.

### Terminals and oil pipelines

In 2011, there were a number of initiatives to expand Transpetro's capacity:

- The higher volume of oil handled by the São Sebastião-Guararema pipeline (Osvat), responsible for supplying Revap and Replan – flow

rates will increase from the current 4,500 m<sup>3</sup> per hour to an average of 5,100 m<sup>3</sup> per hour in the first half of 2012, with the addition of two intermediate pumping stations.

- The higher volume of oil products transported – in March, the São Paulo-Brasília pipeline (Osbra) handled 243,957 m<sup>3</sup> of gasoline, 10.8% more than its previous record. In the same period, the Guarulhos terminal recorded a 15% upturn in gasoline deliveries to 102,437 m<sup>3</sup>.
- Ship-to-ship oil operations at the Baía de Ilha Grande maritime terminal (Tebig) – the introduction of direct ship-to-ship transfers, permitting transshipment without the use of terminal facilities, thereby increasing speed and reducing costs.
- Port logistics support bases – Transpetro began operating port logistics bases at its waterway terminals to support Petrobras' E&P area. These bases are responsible for ports and contractual management, storage, cargo unitization and handling, the supply of water, liquids and bulk solids for well operations, and waste disposal.

## Natural gas operations

Following the conclusion of the investments to expand the gas pipelines, Transpetro's networks extended for 7,327 km. Handling capacity is increased by adding new pumping stations.

The following facilities became operational in 2011: the Gaspal II and Gasan II pipelines, as well as the Caraguatatuba-SDV03 stretch of the Gastau pipeline and branches of the Lagoa Parda and Catu pipelines; the Campos Elíseos, Catu, Taubaté, Coari, Juruana, Prado, Vale do Paraíba, Guararema, Aracruz and Piúma pumping stations; and the Japeri II, Catu, Candeias-Residual and Veracel delivery points.

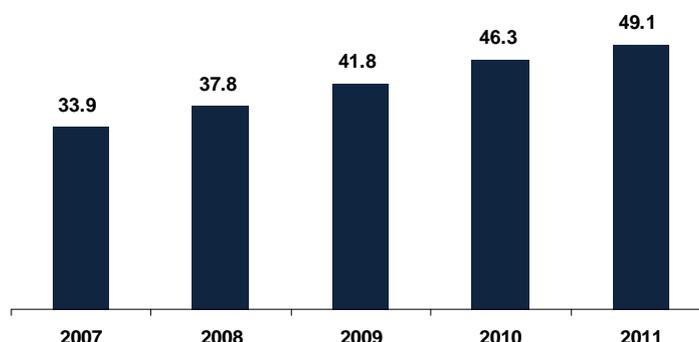
Transpetro operates seven plants in the Cabiúnas terminal (Tecab), with a processing capacity of 19.7 million m<sup>3</sup>/day of natural gas and 4,500 m<sup>3</sup>/day of natural gas condensate from the Campos basin. In 2011, processed volume averaged 11.6 million m<sup>3</sup>/day and 1,260 m<sup>3</sup>/day, respectively.

## Distribution

Petrobras Distribuidora, which completed 40 years of operations in 2011, is the largest fuel distributor in Brazil, having closed the year with sales of 49.1 million m<sup>3</sup>, 6.1% up on 2010 and averaging more than 4 million m<sup>3</sup> per month. It established a new monthly sales record of 4,392,000 m<sup>3</sup> and maintained its leadership of the local fuel market, with an annual share of 39.2%, 0.4 p.p. higher than the previous year.

With a network of 7,485 gas stations and approximately 12,000 direct consumers, Petrobras Distribuidora posted net operating revenue of R\$74 billion and net income of R\$1.27 billion.

**Petrobras Distribuidora – Sales Volume Trends (million m<sup>3</sup>)**



In line with its strategy of leading Brazil's oil product and biofuel distribution market, it invested R\$1.157 billion in 2011, 54.1% of which (R\$626 million) in the maintenance and expansion of logistics infrastructure; 13.6% (R\$157.4 million) in the development and modernization of the gas station network; 4.7% (R\$54.4 million) in gas distribution and energy sales; 5% (R\$57.9 million) in the aviation segment; and 2.3% (R\$26.6 million) in the consumer market. Liquigás, a subsidiary that distributes liquified petroleum gas, absorbed 12.5% (R\$144.6 million), which was allocated to the maintenance of LPG distribution infrastructure. Another R\$53.2 million went towards information technology, R\$17.5 million to chemicals and R\$8.1 million to asphaltic products.

The investments in Petrobras Distribuidora included the expansion and upgrading of the Duque de Caxias lubricant plant, 18 terminals, 30 pooled establishments and 28 distribution bases; the construction of two bases in Cruzeiro do Sul (AC) and Porto Nacional (TO); and improvements to the operational infrastructure throughout Brazil to enable the handling of low-sulfur S50 diesel, which will be sold as of January 2012, and the packaging and distribution of ARLA 32 (a nitrogen oxide reduction solution to be used in conjunction with S50 diesel). In addition, adjustments were made to more than 800 gas stations to equip them to sell the new products.

The company also acquired equipment for airports and pools, which will be used in important projects to expand operational capacity, while the gas station network absorbed R\$131 million, which went to works, equipment and adjustments to visual elements, as well as the installation of the Lubrax+ Vehicle Lubricant Technological Center.

Another highlight was the expansion of the piped gas network in Espírito Santo, with an entry point in Linhares, and the increase in sales capacity in Vitória, Vila Velha and Serra. Further investments went to three air conditioning projects and 25 peak generation units (biodiesel or gas-powered generators for use during peak hours or emergencies to reduce costs), and expanding the client portfolio.

In order to ensure its leadership of the increasingly competitive distribution market, Lubrax was revitalized and the Integrated Marketing Plan (PIM) was maintained, with a focus on cementing consumer loyalty to increase sales.

## Natural gas

With the conclusion of important production and transportation infrastructure projects, natural gas supply in 2011 averaged 62.0 million m<sup>3</sup>/day. Domestic supply came to 33.5 million m<sup>3</sup>/day, excluding LPG and gas used in the production process and well injection, as well as losses.

Of the Brazilian total, 26.8 million m<sup>3</sup>/day arrived via the Bolivia-Brazil gas pipeline. Regasified LNG imports came to 1.7 million m<sup>3</sup>/day.

The increase in consumption in relation to the previous year was chiefly due to the buoyant economy, reflecting the upturn in industrial demand.

## Transportation

The Petrobras system gas pipeline network totaled 9,251 km. The following pipelines began operations in 2011:

- **Gastau** – with 96 km of extension and a nominal capacity of 20 million m<sup>3</sup>/day, the Gastau pipeline transports gas processed by the Caraguatatuba Gas Treatment Unit from the Mexilhão and Uruguá-Tambaú fields and the Lula Pilot System in the Santos Basin Pre-Salt Complex, boosting supply in the Southeast.
- **Gaspal II** – extending for 54.5 km, Gaspal II has increased the transportation capacity of the Guararema-RPBC System from 12 million to 17 million m<sup>3</sup>/day, together with Gasan II and the Guararema Pumping Station, increasing supply in the São Paulo metropolitan region.
- **Gasan II** - 39 km long, it is one of the projects that expanded the transportation capacity of the Guararema-RPBC System from 12 million to 17 million m<sup>3</sup>/day and enabled the deactivation of the 23 km Gasan I pipeline.
- **Variante do Nordeste** — extending for 31.7 km, it connects km 383.5 and 404 of the Nordeste gas pipeline, raising the latter's maximum operational pressure and ensuring more flexible and reliable supply in Pernambuco, Paraíba and Rio Grande do Norte.

## Liquefied natural gas

In 2011, Petrobras continued operating in the liquefied natural gas (LNG) market. Constantly diversifying its portfolio, the company reached the mark of 44 Master Sales Agreements (MSA) signed and conducted 14 cargo purchase

operations – 12 of which in Brazil and 2 resold in the export market. It also carried out re-export operations, exporting 2 cargoes.

Petrobras began implementing Bahia's LNG regasification terminal (TRBA), which will be built at the Baía de Todos os Santos with a capacity of 14 million m<sup>3</sup> of natural gas per day. The TRBA, the third such terminal installed in the country, will become operational in 2013. The Golar Winter regasification vessel will be transferred from the Baía de Guanabara Regasification Terminal (TRBGUA) to operate at the TRBA. It will be replaced by a chartered regasification vessel currently being built in South Korea, which will enable operations at full capacity in TRBGUA, i.e. 20 million m<sup>3</sup>/day.

## Natural Gas Sales

Petrobras carried out new electronic auctions for short-term natural gas sales, with improved rules compared to those in 2010, in accordance with the published bid notices.

In these auctions, the gas distributors entered into four-month contracts for natural gas supply. There were three rounds: the first in March, the second in July and the third in November and processed volume totaled 8 million m<sup>3</sup>/day, 8.1 million m<sup>3</sup>/day and 8.8 million m<sup>3</sup>/day, respectively.

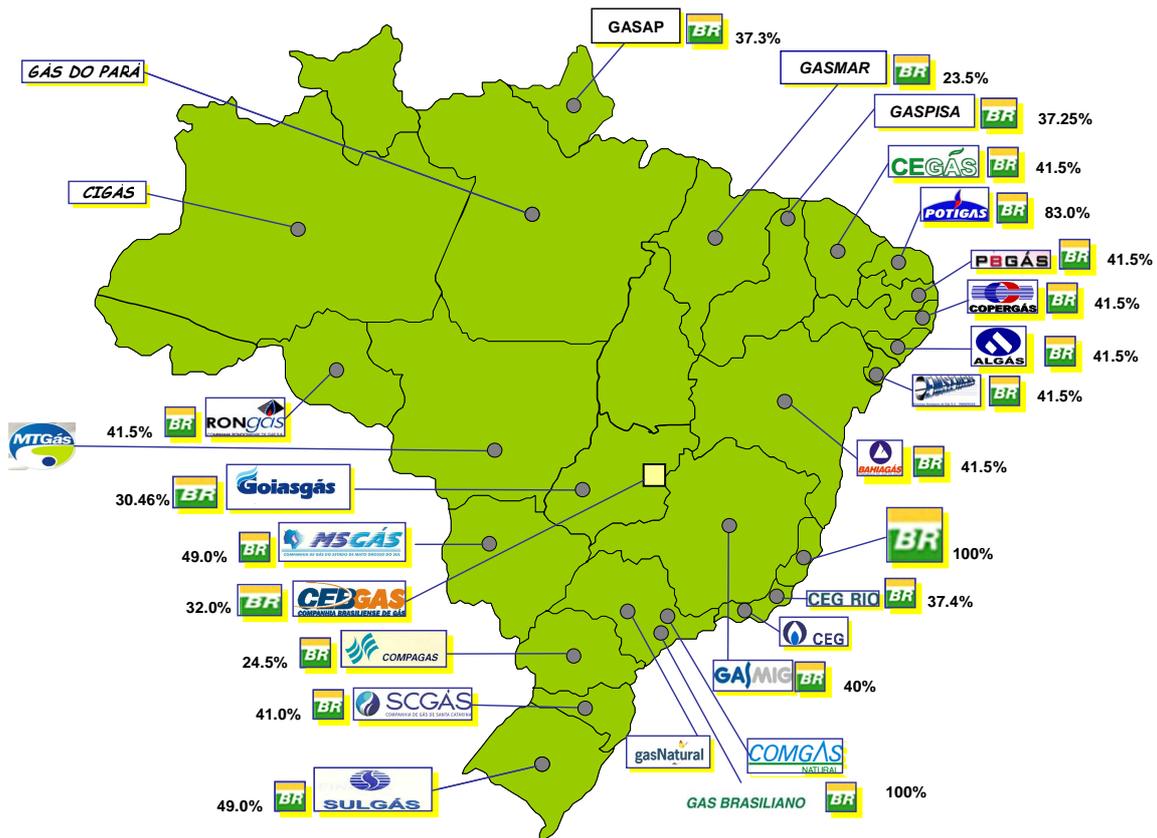
In order to reallocate unsold volumes to the thermoelectric market, in April Petrobras began selling gas on the secondary market. Given favorable hydro plant reservoir conditions and the opportunity cost of natural gas, this type of sale is offered to clients in the industrial segment where natural gas is not the major source of fuel. By the close of 2011, it had nine supply agreements with CEG, BR-ES, Gasmig and Bahiagás, totaling 1.5 million m<sup>3</sup>/day.

## Distribution

Distributors' gas sales in Brazil averaged 47.5 million m<sup>3</sup>/day in 2011, 3% down on 2010.

With July's acquisition of the gas distribution concessionaire Gas Brasileiro Distribuidora (GBD), located in the northeast of São Paulo state, the Company now holds an interest ranging from 24% to 100% (as in 2010) in 21 of Brazil's 27 state distributors.

Non-thermal consumption by distributors in which the Company holds a stake increased by 17% (from 17.3 million to 20.3 million m<sup>3</sup>/day), while thermal consumption fell by 43% (from 7.4 million to 4.2 million m<sup>3</sup>/day), resulting in a total reduction of 0.8% (from 24.7 million to 24.5 million m<sup>3</sup>/day).

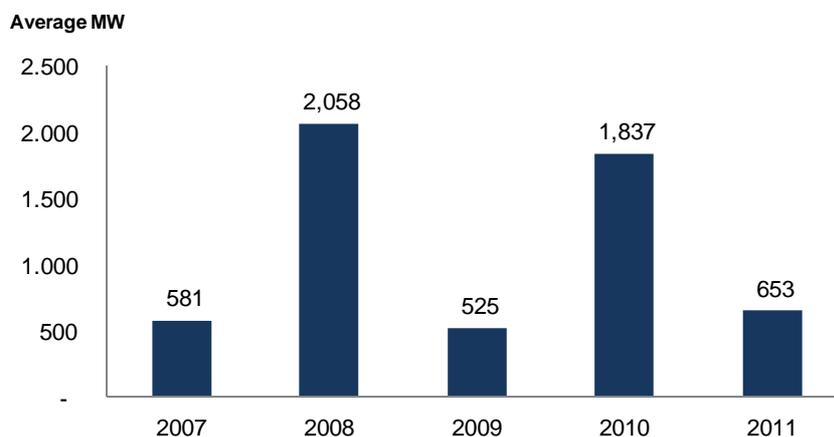


## Electric Power

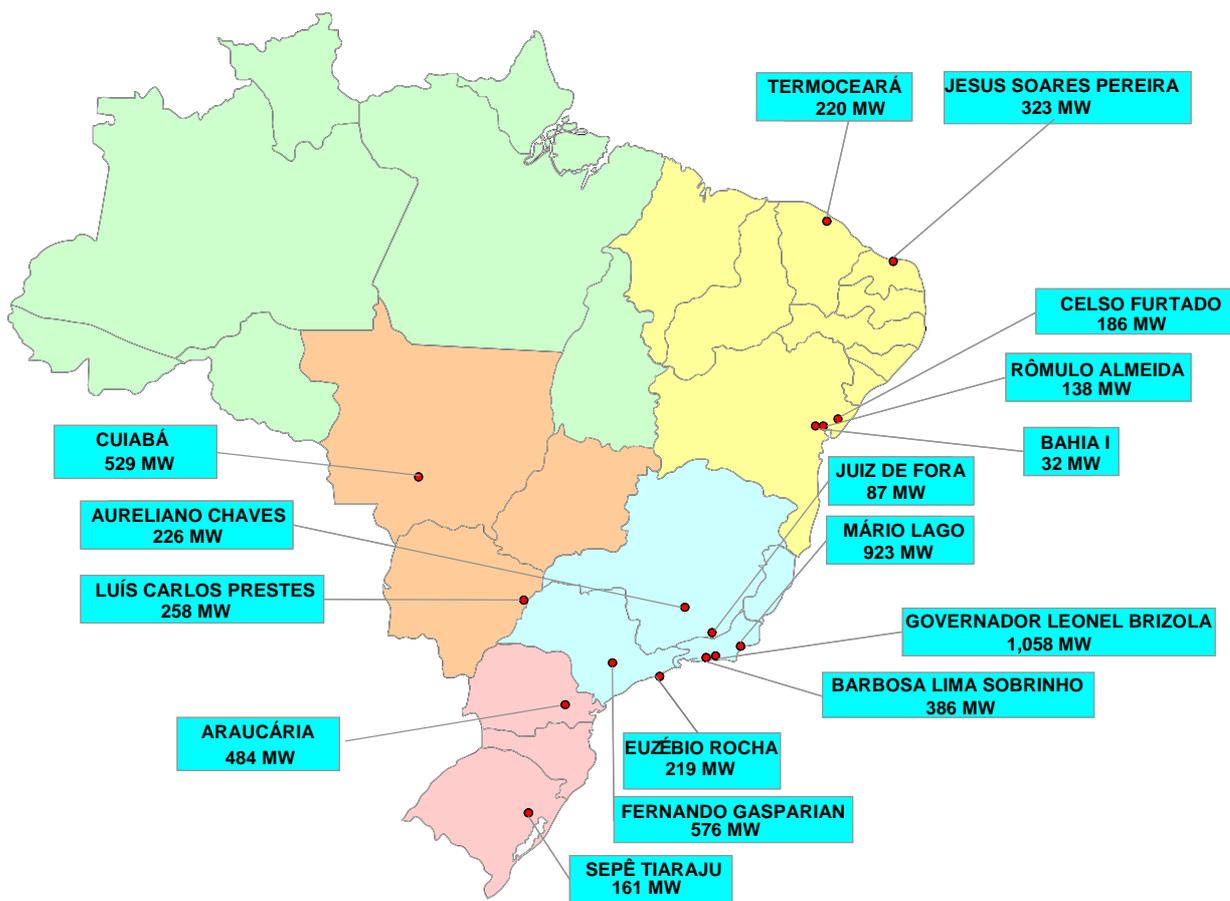
Petrobras generated 653 average MW for the National Interconnected System (SIN), in its 16 owned and leased thermal plants (UTEs), with a joint installed capacity of 5,806 MW.

The annual decline in generation was due to the highly favorable rainfall conditions in 2011, when levels in the reservoirs of hydroelectric plants remained high. Consequently, the Company's UTE output was only used to cover fixed volumes sold at auction, supply steam to clients, for SIN dispatches and for energy exports to Argentina and Uruguay.

**Petrobras - Thermal Power Generation**



## INSTALLED THERMAL GENERATION CAPACITY



Note: Own thermal plants and those leased from the SIN. The map does not show the Company's interests in other generation projects.

## Energy Projects

With the operational start-up of new plants, including those in which Petrobras retains a partial interest, the Company's total installed capacity came to 6,533 MW.

Own project concluded in 2011:

**Conversion of UTE Juiz de Fora (MG) into a dual-fuel plant**— Conversion of the second 47 MW turbine to natural gas and ethanol.

Projects in which Petrobras holds an interest concluded in 2011:

**UEEs Mangue Seco, Cabugi, Potiguar and Juriti (Guamaré-RN)** — Construction of four wind-power plants with an installed capacity of 26 MW each.

## Wind power

In 2011, the company concluded the implementation of four wind-power plants in Guamaré (RN): Mangue Seco, Cabugi, Potiguar and Juriti, with a joint installed capacity of 104 MW and sales of 49 average MW.

The plants' energy-sale agreements were tendered in the first wind power energy reserve auction in December 2009 and are effective for twenty years. The energy was scheduled to become available to the National Interconnected System on July 1, 2012, but Petrobras anticipated the schedule and the wind farm has been operational since November 1, 2011.

## Energy sales

In 2011, Petrobras sold 2,385 average MW of energy on the so-called "free" market, recording gross revenue of R\$2.2 billion, excluding taxes and spot market settlement costs, and income after taxes of R\$1.4 billion.

## Fertilizers

Petrobras has two fertilizer plants in Bahia and Sergipe, whose products are urea, ammonia, nitric acid, carbon dioxide and ARLA 32, sold for the first time in 2011.

In the latter year, the area posted record revenue of R\$1 billion in the year, 37% up on the previous year, from the sale of 831,000 tonnes of urea and 241,000 tonnes of ammonia. Thanks to the improved operational performance of the plants, ammonia production totaled 733,000 tonnes, a new record, and urea output came to 836,000 tonnes, the highest figure for 12 years.

## New projects

Petrobras is installing three new fertilizer plants and expanding two existing ones. Investments are estimated at R\$9.41 billion between 2011 and 2015. The 2011 highlights were:

**Nitrogen Fertilizer Plant III (Três Lagoas-MS)** – This plant, which is in the implementation phase, will provide 1,223,000 tonnes of urea and 70,000 tonnes of ammonia per year as of **2014**.

**Expansion of Fafen-SE** — An ammonium sulfate plant under implementation which will produce 303,000 tonnes of ammonia per year from surplus sulfuric acid produced by the Abreu e Lima refinery (RNEST). Operations are scheduled to begin in 2013.

**ARLA 32 at Fafen-BA** — The first construction phase of the Arla 32 project, designed for a production capacity of 63,000 m<sup>3</sup>/year, was concluded in October. ARLA is a solution of urea diluted in demineralized water at a concentration of 32.5% for use in diesel-powered heavy vehicles to reduce the

emission of pollutants. The second phase will be concluded in October 2012, increasing capacity to 200,000 m<sup>3</sup>/year.

## **BIOFUELS**

### **Biodiesel**

Petrobras Biocombustível operates three biodiesel plants, in Candeias (BA), Quixadá (CE) and Montes Claros (MG). Since 2010, following the doubling of the Candeias plant's capacity to 216,000 m<sup>3</sup>/year, joint production capacity has totaled 434,000 m<sup>3</sup>/year. In July 2011, the Company invested R\$75.6 billion to acquire a 50% interest in BSBIOS Indústria e Comércio de Biodiesel Sul Brasil, based in Passo Fundo (RS), which operates a 160,000 m<sup>3</sup>/year biodiesel plant and a vegetable oil extraction unit. Both companies already operated the Marialva (PR) plant. They are now responsible for operating an industrial complex with a total biodiesel capacity of 287,000 m<sup>3</sup>/year.

A new 120,000 m<sup>3</sup>/year plant is under construction in Pará state, which is scheduled for start-up in 2013.

As part of the Belém project, Belém Bioenergia Brasil S.A. was constituted to develop agribusiness activities in Brazil and plant 3,200 ha of palm in the cities of Tailândia and Tomé Açu in 2011. The project will enable participation in the European biofuel market, with production of 250,000 tonnes/year of green diesel in Portugal (second-generation biodiesel) from palm oil produced in Pará.

With all these developments, Petrobras Biocombustível's total biodiesel production capacity will reach 855,000 m<sup>3</sup>/year by 2013.

### **Agricultural supplies**

Petrobras Biocombustível's plants are certified with the Social Fuel Seal (Selo Combustível Social), being therefore in compliance with the guidelines of the National Program for Biodeisel Production and Use (PNPB). The company maintains grain purchase agreements with 64,812 family farmers, with a total cultivated area of 133,762 ha, 105,348 ha of which planted with castor bean, 5,150 ha with sunflower and 23,264 ha with soybean. The company made 449 tonnes of seeds available for the 2010/2011 harvest (413 tonnes of castor bean and 36 tonnes of sunflower) and acquired 58,900 t of grain for R\$49.9 million.

### **Vegetable oil extraction**

Petrobras Biocombustível holds a 50% interest in Bioóleo Industrial e Comercial S.A., located in Feira de Santana (BA), which has a processing capacity of up to 65,000 tonnes per year of oil-bearing plants and a storage capacity of 30,000 tonnes of grain and 10 million liters of oil. Operational improvements are

scheduled to increase oil-seed processing capacity to 130,000 t/year and oil semi-refining capacity to 60,000 t/year.

## **Ethanol**

Petrobras Biocombustível's associated companies will jointly close the 2011/2012 harvest with a sugarcane crushing capacity of 20.1 million tonnes, ethanol production of 769,000 m<sup>3</sup> and sugar output of 1.4 million tonnes. It also sold 490 GWh of electricity.

## **Total Agroindústria**

In 2011, Petrobras transferred the final R\$22 million tranche (of R\$155 million) to Total Agroindústria Canavieira S.A., an ethanol plant located in Bambuí-MG, giving it a 43.58% interest in the company.

Also in 2011, Total invested more than R\$21 million in expanding its sugarcane plantations and R\$11.1 million in the acquisition of equipment. It initiated investments of R\$122 million allocated to the 2011-13 construction of the second phase of the Bambuí plant, which will increase sugarcane crushing capacity to 2.4 million tonnes by the end of the latter year. As a result, ethanol production capacity could reach 200,000 m<sup>3</sup>, in turn increasing energy sales from the current 30 to 86 GWh/year.

## **Guarani**

In March 2011, Petrobras Biocombustível invested R\$195.4 million in Guarani S.A, increasing its interest to 31.44%. The transaction followed an agreement with Tereos Internacional S.A. for the acquisition of 45.7% of Guarani via a capital transfer of up to R\$1.6 billion over five years. Currently, Guarani owns seven units in São Paulo and one unit in Mozambique, Africa.

The company is analyzing the feasibility of producing ethanol at the Mozambique unit to supply the local market, estimated at 20,000 m<sup>3</sup> per year. Mozambique's government has approved the 10% ethanol blend in gasoline (E10) as of 2012 and Guarani's distillery is readying to meet the upturn in demand when the measure becomes effective.

Investments totaling R\$767 million, approved in 2010 and 2011, are under way to raise sugarcane crushing capacity from 21.3 to 24.6 million t/year, ethanol production to 888,000 m<sup>3</sup>/year, sugar output to 1.7 million t/year and surplus energy sales to 1,200 GWh/year. In the second half of 2011, the São José unit's distillery came onstream, expanding the group's ethanol production in Brazil by 110,000 m<sup>3</sup>.

## **Nova Fronteira**

Petrobras Biocombustível invested R\$163 million in Nova Fronteira Bioenergia S.A., increasing its stake to 49%, in accordance with the Investment Agreement signed in 2010.

Nova Fronteira announced investments of R\$530.7 million in the Boa Vista Unit over the next three years. The funds will be allocated to expanding the unit's crushing capacity to up to 8 million t/year, increasing annual ethanol output from 176,000 to up to 700,000 m<sup>3</sup> and surplus energy sales from 135 GWh to 600 GWh/year. The company also signed an agreement with Petrobras Distribuidora for the sale of 50,000 m<sup>3</sup>/year of anhydrous ethanol.

## **INTERNATIONAL MARKET**

### **International operations**

Petrobras operates in 24 countries, in addition to Brazil, with projects in five continents and offices in New York, London, Tokyo and Beijing. It also maintains cooperation agreements with a number of partners for the development of technologies and businesses.

The main strategic pillars for the Company's international operations are:

- To apply the technical and geo-scientific knowledge acquired by Petrobras' E&P operations off the Brazilian coast to areas with similar characteristics and high potential oil reserves, with a current focus on the West African coast and the Gulf of Mexico;
- To open new markets, ensure downstream growth and align the portfolio with the domestic segments in order to increase profitability and integrate product chains;
- To expand natural gas businesses, complementing the Brazilian market and meeting its commitment to energetic responsibility in Brazil.

## Presence and positioning

Country	Activities				
	Exploration & Production	Gas & Power	Refining / Petrochemicals	Distribution / Sales	Representation
<b>The Americas</b>					
Argentina	√	√	√	√	
Bolivia	√	√			
<b>Brazil</b>	√	√	√	√	<b>HQ</b>
Chile				√	
Colombia	√			√	
Curacao				√	
USA	√		√		√
Mexico	√				
Paraguay				√	
Peru	√				
Uruguay	√	√		√	
Venezuela	√				
<b>Africa</b>					
Angola	√				
Benin	√				
Libya	√				
Namibia	√				
Nigeria	√				
Gabon	√				
Tanzania	√				
<b>Europe</b>					
The Netherlands				√	
United Kingdom					√
Portugal	√				
<b>Asia</b>					
China					√
Singapore					√
Japan			√		√
Turkey	√				
<b>Oceania</b>					
Australia	√				
New Zealand	√				

In the international market, Petrobras closed 2011 with investments of R\$4.4 billion, production of 147,500 bpd of oil and 16.54 million m<sup>3</sup>/day of natural gas, totaling 244,900 boed, in addition to 174,030 bpd of crude processed in its refineries, whose processing capacity at year-end totaled 230,500 bpd. Capacity use averaged 67% in the year.

International proven reserves totaled 0.706 billion boe, 0.4% up on 2010, resulting in a reserve replacement ratio of 104%. According to the Society of Petroleum Engineers (SPE) criterion, this volume represents 4.3% of the Company's total reserves.

## Business development

Petrobras invested R\$4.4 billion in its international operations, in keeping with its strategy of alignment with the company's domestic portfolio, opening new markets and expanding its natural gas businesses, with a focus on the West African coast and the Gulf of Mexico, 10% of which went to refining, petrochemicals, distribution and gas and power activities, and 90% to exploration and production, with 59% of the latter allocated to production development in existing projects.

### The Americas

In addition to Brazil, Petrobras operates in 11 countries in the Americas: Argentina, Bolivia, Chile, Colombia, Curacao, the United States, Mexico, Paraguay, Peru, Uruguay and Venezuela. There are 872 gas stations, in addition to exploration and production assets in eight of these countries, which jointly produced 89,700 bpd of oil and 16.5 million m<sup>3</sup>/day of natural gas, totaling 187,100 boed.

In Argentina, the sale of the San Lorenzo refinery was concluded in May, reducing the Company's crude processing capacity in that country by 50,000 bpd to 30,500 bpd, all of which in the Ricardo D. Eliçabe refinery, in Bahía Blanca.

In Bolivia, the Company's natural gas output from the San Alberto and San Antonio fields helps supply the Brazilian market, which connects both countries. In 2011, the Company acquired a 30% interest in the Itaú gas field.

In Peru, lot X is producing around 15,000 boed and the Company is continuing to develop production in lot 57 (Kinteroni) and explore lot 58, which represent a potential increase in its international gas production.

In the United States, Petrobras announced recent discoveries in the Hadrian and Logan prospects in the Gulf of Mexico, and continues to develop its production assets in St. Malo, Tiber, Stones and Cascade & Chinook, in addition to its exploration projects. The moratorium on drilling operations in the Gulf and the overhaul of safety procedures due to the 2010 oil spill from another firm's platform forced Petrobras to reschedule certain projects, including the start-up of production at Cascade & Chinook, which was postponed to 2012.

### Africa

The west coast of Africa is one of Petrobras' strategic international market regions. Oil production in Nigeria (Akpo and Agbami fields) and Angola (lot 2) totaled 57,800 bpd in 2011. The continuing revaluation of the Company's portfolio led to the repositioning of certain assets in Angola, with the sale of a 50% interest in block 26, the withdrawal from block 15 due to the sale of its stake, and from block 34, which was returned to the government. The Company

is also carrying out exploration activities in Tanzania, where it is in the well drilling phase; Namibia, where it has operational rights and is preparing to drill its first well; in Benin, where it carried out 3D seismic surveys; and Gabon, where it will begin acquiring seismic 3D data.

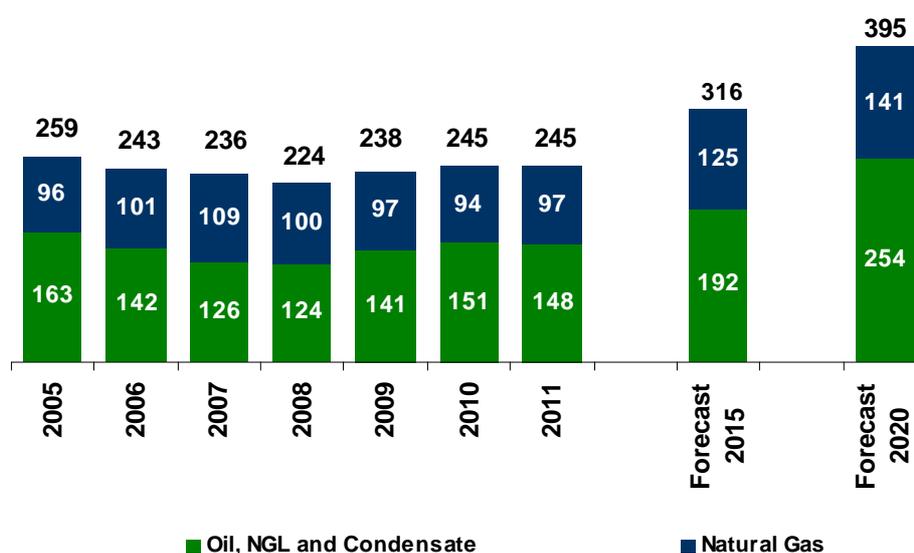
## Asia and Oceania

Petrobras owns a refinery in Okinawa Island, in Japan, with a processing capacity of 100,000 boed, and has exploration projects under way in New Zealand, with the acquisition of 2D seismic data. In Australia, it opted not to proceed with the project in the North Carnarvon Basin after drilling indications a dry well.

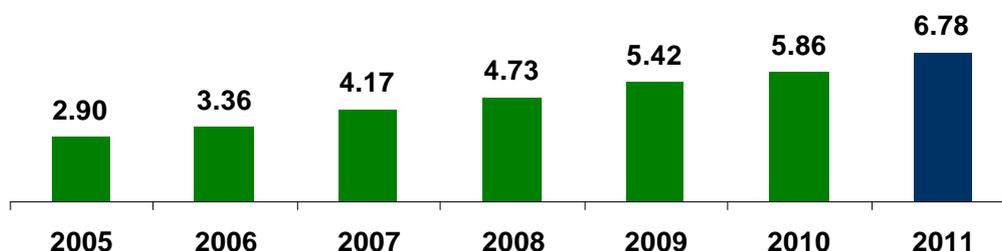
## Europe

In Portugal, the Company has exploration projects in the Peniche basin, where it is processing and interpreting data, and the Alentejo basin, where it has acquired 3D seismic data, in addition to projects related to production, technological development and biofuel sales in partnership with local companies.

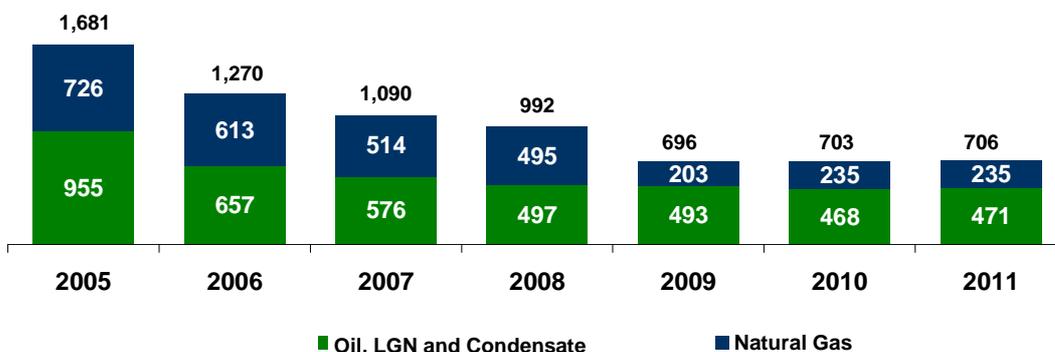
**International Production of Oil, LNG, Condensate and Natural Gas (thousand boed)**



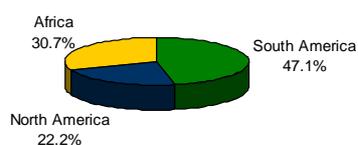
### Unit Lifting Cost - International Market (US\$/bbl)



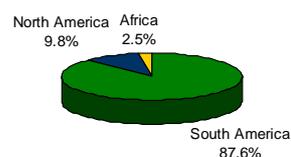
### International Proven Reserves of Oil, LNG, Condensate and Natural Gas - SPE Criterion (million boe)



International Proven Reserves of Oil and Condensate per Region - SPE Criterion



International Proven Reserves of Natural Gas per Region - SPE Criterion



## Research & Development

In 2011, Petrobras invested R\$2.4 billion in R&D, 41% up on 2010. These funds are managed and coordinated by the Leopoldo Américo Miguez de Mello Research and Development Center (Cenpes), the largest research complex in the southern hemisphere, which has 1,814 employees, 1,342 of whom dedicated exclusively to R&D and 314 to basic engineering of the industrial installation projects. In terms of qualifications, 24% of researchers have a doctorate and 43% have a master's degree. The main achievements in 2011 were:

## **Business expansion**

- Development of a methodology that enabled the identification of different types of oil from the pre-salt layer of the Santos Basin, which will enable more efficient production planning.
- Drilling of the world's first well using Liner Conveyed Gravel Pack technology, which reduces horizontal well drilling times in mature fields;
- Demonstration of the compact GTL (gas to liquid) technology for production of synthetic oil from gas, eliminating EWT gas burning;
- Installation of a prototype subsea oil-water separator in the deep waters of the Marlim field, which will be connected to the Marlim production system in 2012. This technology helps increase output from mature offshore fields by ensuring the more efficient use of the existing production system;
- Drilling of a well with 53° final inclination in the salt layer. This technological solution, developed for the drilling of extended and horizontal wells in the pre-salt layer, will increase production and reduce the number of wells;
- Qualification of the subsea seawater injection system to boost production in mature fields. Three of these systems are in the final phase of installation in the Albacora field;
- Confirmation of the rigid riser technology for the pre-salt platforms, increasing competitiveness in this market and consequently reducing costs.

## **Adding value and diversifying products**

- Initial production of Podium diesel with 50 ppm of sulfur (S50) at the Henrique Lage refinery (Revap), bringing this product to the Brazilian market six months earlier than originally scheduled;
- Conclusion of the castor bean and sunflower production system optimization model in the Brazilian semi-arid region, which will enable major productivity gains through the selection of planting densities and varieties, improved pest and disease control, more efficient fertilizing and associations with other food crops;
- Production of 12 tonnes of a high-density polyethylene in a Braskem demonstration unit for the production of highly-resistant, floatable, low-cost oil platform anchor cables.

## **Sustainability**

- Conclusion of tests in a prototype system to reduce particulate emissions by fluid catalytic cracking units (FCC) by up to 50%;
- Conclusion of the first global oxy-combustion test in FCC units, with the potential to capture up to 1 tonne of CO<sub>2</sub> per day and reduce CO<sub>2</sub> emissions by up to 32% in refineries at a 50% lower cost;
- Conclusion of the scientific environmental characterization of the Campos Basin, the most complete set of environmental information on the region, in line with Environment Ministry policy;
- Implementation of a unit for the biological treatment of saline industrial effluents to reduce environmental impact in the São Sebastião (SP) terminal;

- Installation of a membrane-separation effluent treatment and reuse unit at Revap and a reverse-electrodialysis effluent treatment and reuse through salt removal facility at Regap, both of which to reduce effluent disposal.

It is also worth highlighting the strengthening of ties with suppliers and the Brazilian academic community, especially in relation to pre-salt projects. In 2011, Petrobras invested R\$500 million in Brazilian universities and science and technology institutes, allocated to R&D projects, the training of technicians and researchers, and the expansion of laboratory infrastructure, with the inauguration of 35 new laboratories, totaling 10,000 m<sup>2</sup> of built-up and refurbished area in 17 institutions in 11 states. With the encouragement of the Company, 15 major oil and gas industry suppliers constructed, or began to construct, research centers in Brazil. Petrobras also maintained 44 cooperation agreements or protocols of intent with Brazilian and international companies.

## **SOCIAL AND ENVIRONMENTAL RESPONSIBILITY**

### **Social responsibility management**

Petrobras invested R\$640.9 million in social, cultural, environmental and sporting projects in 2011, doing everything possible to ensure that its sponsorship programs make a real contribution to sustainable development. In order to enable equal access and broaden the reach of these projects, the Company conducts a public selection process and encourages the definition of goals to achieve economic and organizational feasibility, thereby ensuring that the resulting benefits continue after the sponsorship agreement is terminated.

For the sixth consecutive year, the company was included in the Dow Jones Sustainability Index (DJSI), the most important global index of its kind. The DJSI evaluates the social, economic and environmental performance of more than 300 companies, and Petrobras' continuing inclusion consolidates its presence among those firms with the world's best management practices.

A survey conducted by the consulting firm Management & Excellence (M&E) granted the Company the top score in sustainability. The 7<sup>th</sup> edition of the Global Ranking 100 put it among the most sustainable companies in the world for the second consecutive time.

For the third consecutive time, Petrobras was granted the Pro-Gender Equality Seal by the Special Secretariat for Women's Policies (SPM), the International Labor Organization (ILO) in Brazil and the United Nations Development Fund for Women (Unifem). The initiatives implemented under the program include the adoption of 180-day maternity leave; the installation of four breastfeeding rooms in Company units; and a series of continuing education courses and seminars on topics such as gender relations, women's rights, and diversity, in addition to the Regional Encounters to Strengthen Gender Equality.

To celebrate the 30<sup>th</sup> anniversary of the International Day for the Elimination of Violence Against Women, the campaign *Quem Ama Abraça* was launched in Brazil. The Company's sponsorship of this project is aligned with the 2011-2012 Pro-Gender Equality Action Plan and adherence to the fourth edition of the Pro-Gender and Racial Equality Program.

Following the 2010 Brazilian launch of the international social responsibility norm ISO 26000, Petrobras, together with the Brazilian Association of Technical Standards (ABNT), held several events in the country's main state capitals to divulge the content of the new standard, especially with domestic industry and the trade union movement.

In 2011, the Company concluded the implementation of Local Agenda 21 processes in the communities around the Comperj works. A total of 14 municipalities received the Agenda 21 local development plan, developed through the joint mobilization of government, the service sector, companies and the communities themselves.

As part of the program's implementation, the Company held an awareness-raising caravan in its various units and areas, and training was given to the workforce involved directly in the Program and the institutions that will implement the initiatives.

## **Health, Safety, the Environment and Energy Efficiency**

In 2011, Petrobras invested R\$5.25 billion in health, safety and the environment (HSE) initiatives and approved the 2011-2015 Strategic Energy Efficiency and Greenhouse Gas Emission Intensity Indicators, as well as the various goals, strategic challenges and corporate positioning related to the issue.

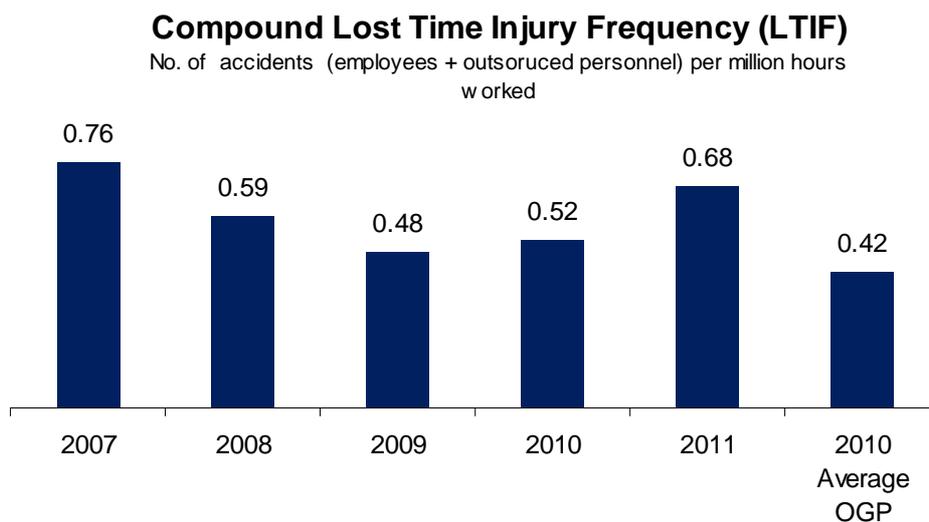
Project portfolios for each business area were drawn up, detailing their contribution to energy efficiency and the reduction of greenhouse gas emissions intensity, and a working group was set up, coordinated by the Health, Safety, the Environment and Energy Efficiency area, to evaluate opportunities for integration among the activities, thereby further reducing energy consumption.

The Company invested R\$115 million in the rationalization of energy use and the use of solar thermal energy.

It also concluded the planning of Phase II (2011-15) of the Excellence in HSE Project, thereby ensuring its alignment with the growth and diversification of its businesses in the coming years. The project is part of Petrobras' strategic agenda and includes the company's most important initiatives in this area.

## Operational safety

Petrobras' safety performance indicators were once again compatible with the best international oil and gas industry benchmarks. The annual Lost Time Injury Frequency (LTIF) was 0.68, 36% more than the maximum admissible limit (MAL) established in the 2011-15 Business Plan, This was mainly due to lost-time accidents in shipbuilding activities, drilling operations and administrative departments.



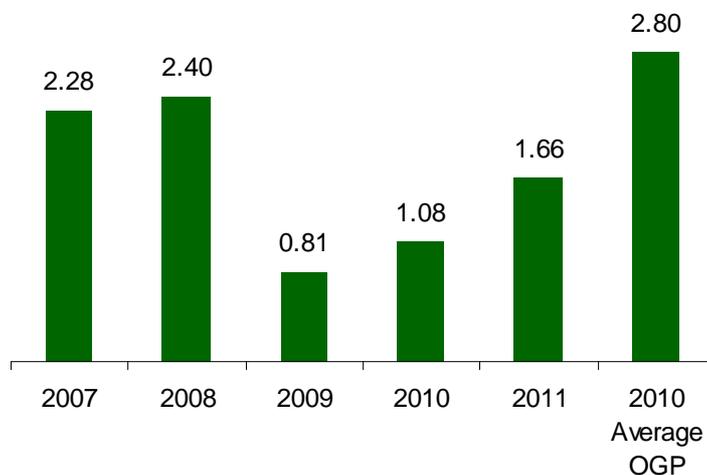
OGP – International Association of Oil & Gas Producers

Fatalities at work (company and outsourced employees) moved up from ten to 16, while the Fatal Accident Rate (FAR), representing the number of fatalities per 100 million man-hours of exposure to risk, increased from 1.08, in 2010, to 1.66.



### Fatal Accident Rate

No. of fatalities (employees + outsourced personnel) per 100 million hours worked



## Environment

As usual, Petrobras sought to minimize the environmental impact of its operations and products in order to reduce pollution and the consumption of natural resources.

In December 2011, environmental management systems in 90% of the Company's certifiable units, in Brazil and abroad, were in compliance with ISO 14001 standards.

## Energy efficiency, atmospheric emissions and climate change

Petrobras' strategic challenge in this area is to maximize energy efficiency and reduce the emission of greenhouse gases (GHGs) in order to achieve oil and gas industry benchmark standards and contribute to the sustainability of the business.

By 2015, the company expects to reach the following targets, taking 2009 as the base year:

- a) 10% reduction in energy consumption in Refining operations and 5% reduction in energy consumption in Gas & Power operations (thermal plants);
- b) 65% reduction in natural gas flaring in E&P operations;
- c) respective 15%, 8% and 5% reductions in GHG emissions in E&P, Refining and Gas & Power (thermal plant) operations.

Petrobras prepares an annual emissions report, consolidating data from more than 30,000 sources, whose results are verified by independent consultants.

The most important initiatives in energy efficiency and management of emissions of greenhouse gases adopted include:

- Improved energy efficiency governance through constitution of the Energy Efficiency, Emissions and Climate Change Committee, which meets on a monthly basis;
- A reduction of GHG emissions intensity, highlighting a 50% reduction of gas flare intensity in Exploration and Production operations as compared to 2009;
- Increased energy efficiency in the units due to projects developed with the support of 48 Internal Energy Conservation Committees;
- Implementation of the Campos Basin Gas Utilization Optimization Program, involving 93 initiatives in 24 platforms;
  - R&D investments aimed at mitigating climate change by means of two technological programs and a network of 12 Brazilian universities;
- Increase of investments in biofuels;
- Encouraging rational fuel use through initiatives of the National Program for the Rationalization of Oil and Natural Gas Product Use (Conpet).

In the last five years, Petrobras has invested more than R\$480 million in energy efficiency projects, generating savings of approximately 4,200,000 boed. Total investments from 2010 to 2015 should come to US\$976 million.

Petrobras is the Executive Secretary of Conpet. In 2011, the program generated savings of 65 million liters of diesel through the Save and Transport projects and 562,000 m<sup>3</sup> of gas in the residential sector through energy efficiency and equipment labeling initiatives.

## **Water resources and effluents**

With the aim of ensuring sustainable water supply for its activities, Petrobras has been investing in the rationalization of water use in its operations.

In 2011, nearly 20.5 billion liters of water were reused, around 15% more than in 2010 and enough to supply a city with a population of 500,000. The reused water corresponded to 10% of the total volume used in the Company's operations, thereby sparing natural sources. Other projects, scheduled for conclusion in 2012 and 2013, will enable Petrobras to save an additional 13.5 billion liters of water.

Studies on water supply scenarios in the next 20 years in the main river basins in the regions where Petrobras operates will allow the Company to plan its activities in an effective manner. Issues taken into consideration include the use of technologies that ensure more efficient water use, the identification of alternate supply sources, water reuse projects, and even the reallocation of certain undertakings.

## **Solid waste**

Petrobras does everything possible to reduce its solid waste output and encourage reuse and recycling. With this in mind, it created the Solid Waste

Minimization Project, which, as its name implies, identifies opportunities for reducing waste and tests cleaner and innovative treatment technologies. In 2011, possibilities for reducing solid waste disposal were detected in several E&P areas, as well as in the distribution, biofuel and thermal plant areas. It is also testing technologies such as phytoremediation, plasma treatment, the separation of sediment phases and the use of surfactants in bioreactors.

In 2011, the Company recycled 92,000 tonnes of hazardous solid waste, corresponding to 37% of the total, with energy recovery playing an important role.

The volume of hazardous solid waste produced (281,000 tonnes) was lower than the MAL of 366,000 tonnes established for the year.

Year	Production (m <sup>3</sup> of oil/day)	Production of hazardous solid waste (t/year)
2007	284,000	296,000
2008	294,000	233,000
2009	313,000	254,000
2010	318,000	271,000
2011	321,000	281,000

## Biodiversity

Petrobras is mapping its environmentally protected, sensitive and vulnerable areas existing within and around their facilities. In order to consolidate the survey, it uses GeoPortal, a geographic information system that enables integration with and access to environmental information.

The Company participates in several projects and initiatives, in Brazil and abroad, aimed at consolidating information, recognizing and taking part in biodiversity preservation initiatives, including the UN's Proteus Project, Lasting Initiative for Earth (Life) and the Project to Value Biodiversity and Ecosystem Services, developed by the Brazilian Business Council for Sustainable Development (CEBDS).

## Performance in emergencies

Petrobras has trained teams and material resources for emergency plans. The material resources include 30 large-scale oil collecting vessels; 130 support vessels; 150,000 meters of oil spill containment booms; 120,000 meters of absorbent booms; 400 oil skimmers; and 200,000 liters of chemical dispersants, among other items available in its ten Environmental Defense Centers and 13 advanced bases, as well as in the Emergency Response Centers, present in more than 20 cities in Brazil.

In 2011, Petrobras carried out 18 regional emergency simulations, which involved the Brazilian Navy, Civil Defense, firefighters and the Military Police, as well as environmental bodies, municipal authorities and local communities.

## Oil and oil product spills

In 2011, oil and oil product spills totaled 234 m<sup>3</sup>, 61% below the MAL of 601 m<sup>3</sup> established for the year. The Company maintained its spill volume below one cubic meter per million barrels of oil produced, making it a benchmark for excellence in the global oil and gas sector.

## Health

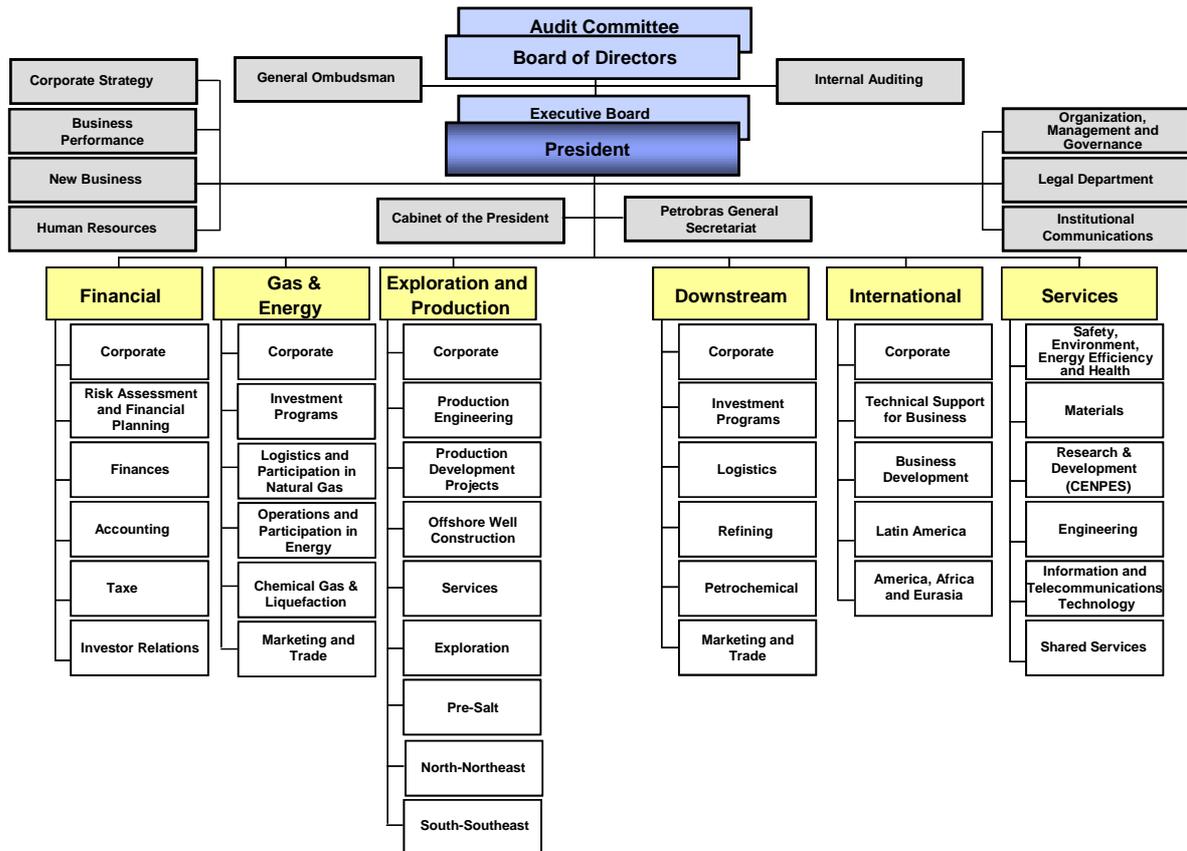
Petrobras measures its health-related results through a series of indicators, including Percentage of Time Lost (PTL), which measures working hours lost due to accident or illness. In 2011, the Company's PTL stood at 2.33%, lower than the annual MAL of 2.41%.

## PETROBRAS – ORGANIZATIONAL STRUCTURE

In 2011, in line with its Strategic Plan, changes were introduced to Petrobras' organizational structure, including:

- **Exploration and Production** – Creation of a Resource and Product Programming area and restructuring of the E&P Corporate units, due to the new executive departments – Production Development Projects and Offshore Well Construction.
- **Services**
  - **Cenpes** — Adjustments to the names and attributes of the units and creation of the Geoengineering and Well Engineering areas and eight other departments. These adjustments were motivated by the growing investments in gas and energy, gas-chemical and biofuel activities; the complexity of the technological challenges related to water and effluent treatment and reuse in the facilities; and the technological challenges related to exploration and production in the pre-salt reservoirs.
  - **Information and Telecommunication Technology (ITT)** — Organizational adjustments at head office and the regional units to generate gains in scale and improve process governance. The adjustments were made due to the challenges arising from pre-salt exploration and the new Supply units, altering the size of the E&P ITT and Supply ITT departments.
- **Health, Safety, the Environment and Energy Efficiency in the Business Areas** – Development of Energy Efficiency and HSE processes using Petrobras's Value Chain and adjustments to the organizational structure of the Business Areas, aligning them with these processes.

# PETROBRAS - ORGANIZATIONAL STRUCTURE



## **Board of Directors**

Guido Mantega – Presidente  
José Sergio Gabrielli de Azevêdo  
Francisco Roberto de Albuquerque  
Jorge Gerdau Johannpeter  
Luciano Galvão Coutinho  
Sergio Franklin Quintella  
Marcio Pereira Zimmermann  
Miriam Aparecida Belchior  
Josué Christiano Gomes da Silva

## **Board of Executive Officers**

José Sergio Gabrielli de Azevêdo  
Chief Executive Officer

Almir Guilherme Barbassa  
Chief Financial Officer and Chief Investor Relations Officer

Renato de Souza Duque  
Chief Services Officer

Guilherme de Oliveira Estrella  
Chief Exploration and Production Officer

Paulo Roberto Costa  
Chief Downstream Officer

Maria das Graças Silva Foster  
Chief Gas and Power Officer

Jorge Luiz Zelada  
Chief International Officer

## **Fiscal Council**

### **Sitting members**

Marcus Pereira Aucélio  
César Acosta Rech  
Nelson Rocha Augusto  
Maria Lúcia de Oliveira Falcón  
Marisete Fátima Dadald Pereira

# FINANCIAL ANALYSIS

## 1. Economic and Financial Summary

Economic and Financial Summary				
	R\$ million			
	Consolidated		Petrobras	
	2011	2010	2011	2010
• Sales revenues	244,176	211,842	183,821	156,487
• Income before financial results, profit-sharing and taxes	45,403	46,394	31,474	36,554
Own activities	32,927	36,583	27,303	29,180
Subsidiaries/affiliated companies	386	585	5,808	7,039
• Net income attributable to shareholders of Petrobras	33,313	37,168	33,111	36,219
Net income per share <sup>1</sup>	2.55	3.57	2.54	3.55
Gross margin (%)	32	36	32	39
Operating margin (%) <sup>2</sup>	19	22	17	23
Net margin (%)	14	17	18	22
Adjusted EBITDA - R\$ million	62,246	59,391	43,493	45,835
• Net debt <sup>3</sup>	103,022	61,006	19,369	10,541
• Total assets	599,150	516,846	494,181	466,655
• Investments, Property, plant and equipment, intangible assets and deferred charges	436,799	373,226	362,673	319,013
• Shareholders' Equity	332,224	309,828	330,475	307,317
• Own capital / Third-party capital ratio <sup>4</sup>	61/39	67/33	72/28	73/27

Breakdown of Ebitda						
	Consolidated			Parent Company		
	2011	2010	%	2011	2010	%
Income before financial results, profit-sharing and income taxes	45,403	46,394	(2)	31,474	36,554	(14)
Profit-sharing	(1,560)	(1,691)	(8)	(1,295)	(1,428)	(9)
Depreciation, depletion and amortization	17,739	14,612	21	12,902	10,813	19
Impairment	664	76	774	412	(104)	(495)
<b>EBITDA</b>	<b>62,246</b>	<b>59,391</b>	<b>5</b>	<b>43,493</b>	<b>45,835</b>	<b>(5)</b>
<b>EBITDA margin (%)</b>	<b>25</b>	<b>28</b>	<b>(3)</b>	<b>24</b>	<b>29</b>	<b>(5)</b>
<b>Net indebtedness/EBITDA</b>	<b>1.66</b>	<b>1.03</b>	<b>0.63</b>	<b>0.45</b>	<b>0.23</b>	<b>0.22</b>

EBITDA is not an index calculated in accordance with accounting practices adopted in Brazil, and possibly it may not serve as a basis for comparison with indexes with the same name, presented by other companies. EBITDA should not be considered as a substitute index to measure operating income, or even as a better form for measuring the liquidity

<sup>1</sup> Net income per share calculated based on the weighted average of the number of shares.

<sup>2</sup> Calculated based on income before financial results, profit-sharing and income taxes.

<sup>3</sup> It includes indebtedness contracted through financial leases and federal government bonds with maturity of more than 90 days.

<sup>4</sup> Third party capital net of cash and financial investments.

and cash flow of the operating activities. EBITDA is additional information on the ability to pay debts, to maintain investments and to cover working capital needs.

### Main consolidated economic indexes

	Year		2011 vs 2010 (%)
	2011	2010	
<b>Economic and Financial Indexes</b>			
• Brent crude (US\$/bbl)	111,27	79,47	40
• Average commercial selling rate for U.S. Dollar (R\$/US\$)	1,67	1,76	(5)
• Period-end commercial selling rate for U.S. Dollar (R\$/US\$)	1,88	1,67	13
<b>Price indexes</b>			
• Domestic basic oil product prices (R\$/bbl)	167,87	158,43	6
Sales price - Brazil			
• Crude oil (US\$/bbl) <sup>5</sup>	102,24	74,66	37
• Natural gas (US\$/bbl) <sup>6</sup>	52,96	41,19	29
Sales price - International			
• Crude oil (US\$/bbl)	91,37	66,42	38
• Natural gas (US\$/bbl)	17,28	14,15	22

In 2011, the Company adopted the accounting practice established in CPC 19 (R1), approved by CVM Resolution 666/11, which allows the use of the equity method for valuation and demonstration of investments in jointly controlled entities. Previously, these investments were consolidated in assets, liabilities, income and expenses in proportion to the shareholding.

Despite the fact that the adoption of CPC 19 had produced changes in assets, liabilities, income and expenses, as well as in indicators, the effect was zero in terms of net income and shareholders' equity attributable to shareholders of Petrobras.

Accordingly, for comparison purposes, the information from prior periods has been adjusted retroactively to January 1, 2010, as presented in Note 3 of the financial statements of Petrobras, attached.

<sup>5</sup> Average of the exports and internal transfer prices from E&P to Supply.

<sup>6</sup> Internal transfer price from E&P to Gas and Energy.

## 2. Volume of Sales

Volume of sales - Thousand barrels per day			
	Year		
	2011	2010	Δ %
Diesel	880	809	9
Gasoline	489	394	24
Fuel oil	82	100	(18)
Naphtha	167	167	0
LPG	224	218	3
Jet fuel	101	90	12
Other	188	180	4
<b>Total oil products</b>	<b>2,131</b>	<b>1,958</b>	<b>9</b>
Alcohols, renewable nitrogen compounds and others	86	99	(13)
Natural gas	304	312	(3)
<b>Total domestic market</b>	<b>2,521</b>	<b>2,369</b>	<b>6</b>
Exporting	655	698	(6)
International sales	540	581	(7)
<b>Total foreign market</b>	<b>1,195</b>	<b>1,279</b>	<b>(7)</b>
<b>Overall total</b>	<b>3,716</b>	<b>3,648</b>	<b>2</b>

The volume of sales on the domestic market was 6% higher than in 2010, reflecting the sales of the following products:

- Diesel oil (up 9%) - reflecting the growth of the economy, the increase in the grain harvest and lower placement of the product by third parties;
- Gasoline (up 24%) - greater price competitiveness in relation to ethanol in the majority of the states, growth in the fleet of flex-fuel vehicles and a decrease in the placing of the product by other players;
- Jet fuel (up 12%) – upswing in the economy and a greater offer of domestic and international flights, and
- Fuel oil (down 18%) – due to substitution of part of the consumption by natural gas, both in the thermoelectric sector and in the industrial sector.

The volume of sales on the foreign market was 7% lower than 2010, due to:

- Exports (down 6%) – due to the greater allocation of oil produced for domestic refining, observing that in 2011 there was a lower level of scheduled refining stoppages, an increase in the installed capacity in REPLAN and investments in reliability in the refining park, as well as the need for forming stocks aimed at the stoppage for maintenance of the oil pipeline handling the São Paulo logistics system, scheduled for 2012, and
- International sales (down 7%) – it resulted mainly from the lower volume of trading, especially for gasoline for the domestic market.

### 3. Consolidated results

Petrobras and its subsidiaries presented a consolidated net profit of R\$ 33,313 million in the year ended December 31, 2011, after eliminating intercompany transactions and deducting the minority interest (R\$35,189 million in 2010).

This result was impacted by:

- Increase in gross profit of R\$ 1,012 million, due to:
  - Higher international prices for oil (Brent 40%) and oil products, reflected on the prices of exports, international sales, trading transactions and derivatives traded on the domestic market pegged to international prices;
  - Increase in prices of gasoline and diesel on the domestic market in November, of 10% and 2%, respectively;
  - Increase in the demand on the domestic market (6%), especially gasoline (24%), reflecting its greater competitiveness compared to ethanol, diesel (9%) and aviation fuel (12%); and.
  - 2% increase in oil and gas production in Brazil.

These effects were partially offset by higher volumes of imported oil and oil products and higher international prices on imports of oil and oil products, trading operations and government holdings.

- Increase in expenses of R\$ 2,003 million, especially:
  - General and Administrative (R\$ 845 million), due to increases in personnel expenses, arising from the collective labor agreement in 2011, in the workforce and in the costs of training and professional development and contracted technical services;
  - Exploration costs (R\$ 631 million), resulting from the increase in operating activity and higher write-off amount of dry wells in Brazil;
  - Research and Development (R\$ 705 million), reflecting higher costs for the Subsea Oil and Water Separation System (SSAO) and contracting of projects from institutions accredited by the ANP, pursuant to ANP Regulation 5/2005, and
  - Loss on recovery of assets (R\$ 588 million).

These effects were partially offset by the decrease in losses with judicial and administrative proceedings (R\$ 1,164 million) compared to 2010 and lawsuits and arbitration proceedings won in 2011 (R\$ 883 million) for the recovery of COFINS and compensation for the construction of P-48.

- Net financial income of R\$ 122 million, 95% less than 2010 (R \$ 2,620, resulting from:

- Exchange rate depreciation of 12.6% on indebtedness (appreciation of 4.3% in 2010), generating a foreign exchange expense of R\$ 3,999 million (income of R\$ 1,341 million in 2010);
- Increase in revenues from higher financial investments in Brazil (R\$ 2,119 million), as follows:

	Year		Variation	
	2011	2010	2011vs 2010	%
Financial income	6,543	4,424	2,119	48
Financial expenses	(2,422)	(3,145)	723	(23)
Monetary and exchange variations	(3,999)	1,341	(5,340)	(398)
Net financial income	<u>122</u>	<u>2,620</u>	<u>(2,498)</u>	<u>(95)</u>

**In 2011: foreign exchange depreciation of 12.6% on indebtedness.**

**In 2010: foreign exchange appreciation of 4.3% on indebtedness.**

- Positive effect on minority interests (R\$ 895 million), due to foreign exchange effects on the indebtedness of Special Purpose Entities (SPE).
- Decrease in expenses for income tax and social contribution (R\$ 786 million), due to a lower profit compared to 2010.

#### 4. Results by business segment

Petrobras is an operationally integrated Company and the major part of the production of oil and gas from the Exploration and Production Department is transferred to other departments of the Company.

In the computation of the results by business segment, transactions carried out with third parties and the transfers between the business segments are considered and they are valued by internal transfer prices defined between the segments using calculation methodologies based on market parameters.

Results by business segment - R\$ million			
	Year		▲ %
	2011	2010	
Exploration & Production	40,594	29,691	37
Refining, Transportation and Marketing	(9,955)	3,729	(367)
Gas & Power	3,109	1,285	142
Biofuel	(157)	(92)	71
Distribution	1,175	1,276	(8)
International	1,949	1,277	53
Corporate	(1,237)	(1,023)	21
Eliminations	(2,165)	(954)	127
<b>Net income attributable to shareholders of Petrobras</b>	<b><u>33,313</u></b>	<b><u>35,189</u></b>	<b>(5)</b>

## • Exploration and Production

The increase in net income resulted from the higher prices for sale / transfer of domestic oil and the increase in production volume of oil and LNG, partially offset by increased costs with government holdings.

The spread between the average price of Brazilian oil sold/transferred and the average quotation for Brent increased from US\$ 4.81/bbl in 2010, to US\$ 9.03/bbl in 2011.

## • Refining, Transportation & Marketing

The negative result was due to higher costs for acquisition / transfer of oil and importing of oil products (Brent - 40% increase in US\$/bbl), partially offset by higher selling prices of oil products on the domestic and foreign markets.

## • Gas and Power

The higher net income occurred due to the following factors:

- an increase in average realization price of natural gas, due to higher participation in the industrial segment in the mix of the sales;
- a decrease in the costs for purchase/transfer of Brazilian natural gas, accompanying the behavior of the international references and the foreign exchange appreciation;
- an increase in fixed revenues resulting from the auctions for electricity (regulated contracting environment), with the entry of two more thermoelectric power plants;
- an increase in fertilizer sales margins, reflecting the growth in demand for and prices of agricultural commodities;
- recognition of tax credits.

## • Biofuel

The profitability of the ethanol industry was not sufficient to support the results of the biodiesel sector, whose margins were pressured by unfavorable sales prices, due to the high level of competition, in addition to the costs of acquisition and transport of raw materials and operating expenses.

## • Distribution

The result obtained with the 6% growth in sales volume was exceeded by the increase in selling expenses, including the allowance for doubtful accounts, outsourced services and personnel.

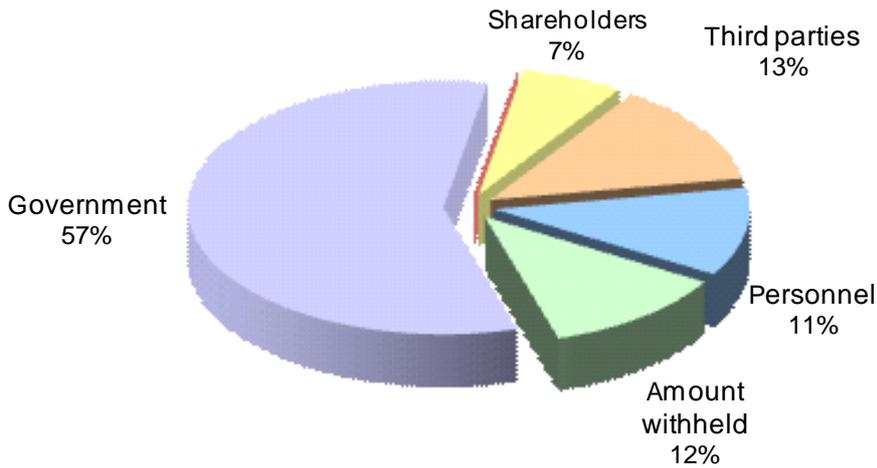
- **International**

The increase in the result originated from the higher prices of commodities on the international market in 2011 (R\$ 1,492 million), as well as the decrease in exploration expenses and write-off of wells (R\$ 442 million), partially offset by charging of the "Oil Tax" in Nigeria (R\$ 684 million) and a larger provision for impairment of inventories in Japan, USA and Argentina (R\$ 251 million).

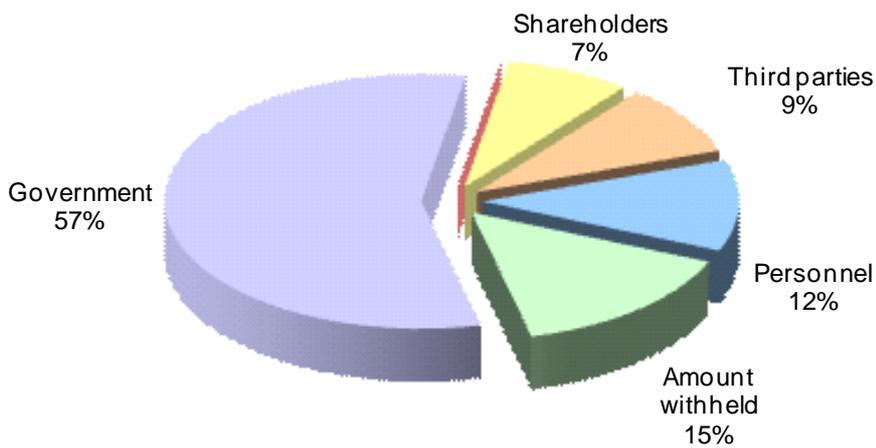
## 5. Statement of Added Value

In 2011 the distribution of Petrobras's added value was R\$ 181,081 million, presenting an increase of 15% in relation to the previous year, when it distributed R\$ 157,053 million. The distribution of added value may be observed in the graphs below:

**Amount distributed in 2011**



**Amount distributed in 2010**



## 6. Consolidated debt

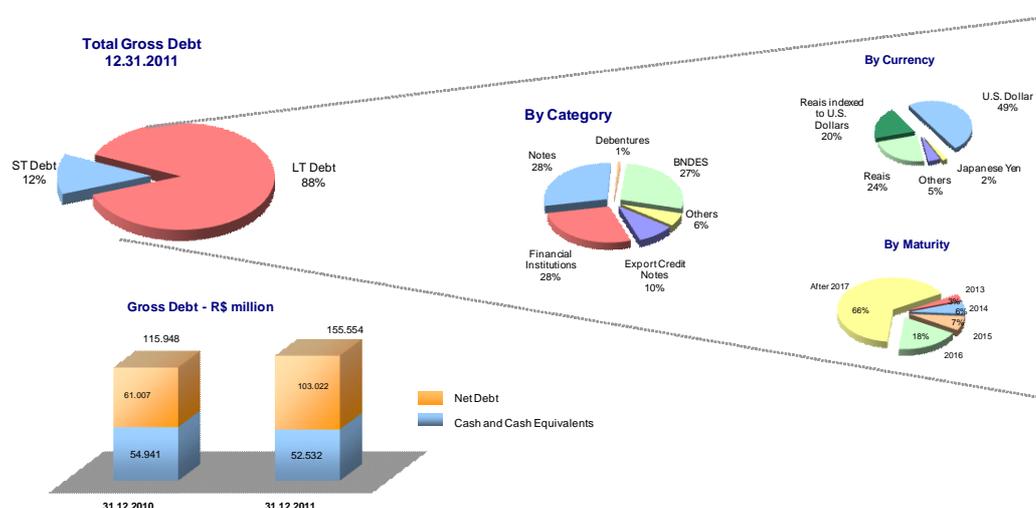
Indebtedness related to loans and financing in Brazil and abroad was R\$ 155,554 million, as presented below:

	R\$ million		
	2011	2010	Δ %
Current debt	18,966	15,090	26
Long-term debt	136,588	100,858	35
<b>Total <sup>7</sup></b>	<b>155,554</b>	<b>115,948</b>	<b>34</b>
Cash and cash equivalents	35,747	29,416	22
Government securities (maturity of more than 90 days)	16,785	25,525	(34)
<b>Adjusted cash and cash equivalents</b>	<b>52,532</b>	<b>54,941</b>	<b>(4)</b>
<b>Net debt <sup>8</sup></b>	<b>103,022</b>	<b>61,007</b>	<b>69</b>
<b>Net debt/(Net debt+Shareholders' equity)</b>	<b>24%</b>	<b>16%</b>	<b>8</b>
<b>Total liabilities, net <sup>9</sup></b>	<b>546,618</b>	<b>461,905</b>	<b>18</b>
<b>Capital structure</b>			
(Net third-party capital / total liabilities)	39%	33%	6
Net debt/EBITDA ratio	1.66	1.03	61

	US\$ million		
	2011	2010	Δ %
Current debt	10,111	9,057	12
Long-term debt	72,816	60,532	20
<b>Total</b>	<b>82,927</b>	<b>69,588</b>	<b>19</b>
<b>Net debt</b>	<b>54,922</b>	<b>36,614</b>	<b>50</b>

The net debt of Petrobras System in Reais increased 69% compared to December 31, 2010, as a result of long-term raising of capital and the impact of exchange of 12.6% depreciation

The level of debt, measured by the net debt / EBITDA ratio increased from 1.03 at December 31, 2010 to 1.66 at December 31, 2011, as a result of long-term raising of funds made through offering of securities, as well as the impact of the exchange rate on financing. The capital structure is represented by a 39% interest of third-party capital.



<sup>7</sup> It includes financial leases (R\$ 265 million at December 31, 2011 and R\$ 366 million at December 31, 2010).

<sup>8</sup> Total debt - Cash and cash equivalents.

<sup>9</sup> Total liabilities net of cash and cash equivalents/financial investments.

## 7. Contractual liabilities

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

	Payments with maturity per Period			
	Total	2012	2013-2016	2017 onwards
<b>Contractual liabilities</b>				
<b>Items of net equity: <sup>10</sup></b>				
Debt liabilities	143,327	6,921	47,730	88,676
With transfer of benefits, risks and control of assets	265	39	74	152
Total items of net equity:	143,592	6,960	47,804	88,828
<b>Other long-term contractual commitments</b>				
Natural gas - ship or pay	9,054	1,199	3,980	3,875
Contract service	161,901	69,111	70,184	22,606
Contracts for supply of natural gas	21,316	3,002	10,838	7,476
Without transfer of benefits, risks and control of assets	104,132	24,044	55,156	24,932
Purchase commitments	38,975	15,135	14,905	8,935
International purchase commitments	29,599	11,443	9,713	8,443
Total other long-term commitments	364,977	123,934	164,776	76,267
<b>Total</b>	<b>508,569</b>	<b>130,894</b>	<b>212,580</b>	<b>165,095</b>

## 8. Taxes and Production Taxes

### Consolidated Taxes and Contributions

The economic contribution of Petrobras, measured through the generation of current taxes and social contributions amounted to R\$76,777 million in 2011.

	R\$ million		
	Year ended		2011 X 2011 (%)
	December 31,		
	2011	2010	
<b>Economic Contribution - Brazil</b>			
Domestic Value-Added Tax (ICMS)	36.763	28.235	30
CIDE	7.488	6.852	9
PIS/COFINS	14.685	14.554	1
Income Tax and Social Contribution	9.822	11.341	(13)
Others	2.369	3.049	(22)
<b>Subtotal - Brazil</b>	<b>71.127</b>	<b>64.031</b>	11
<b>Economic Contribution - International</b>	<b>5.650</b>	<b>4.411</b>	28
<b>Total</b>	<b>76.777</b>	<b>68.442</b>	12

<sup>10</sup> It does not include liabilities from post-employment benefits. Consult note 22 in the Financial Statements.

## Production Taxes

R\$ million			
	Year ended		2011 X 2010 (%)
	December 31,		
	2011	2010	
<b>Brazil</b>			
Royalties	12,533	9,505	32
Special participation charges	13,837	10,165	36
Rental of areas	137	140	(2)
<b>Subtotal - Brazil</b>	<b><u>26,507</u></b>	<b><u>19,810</u></b>	34
<b>International</b>	699	504	39
<b>Total</b>	<b><u>27,206</u></b>	<b><u>20,314</u></b>	34

Brazilian production taxes increased by 34% in 2011 compared to 2010 due to the 33% increase in the reference price for domestic oil, which averaged R\$168.07/bbl (US\$100.39/bbl) in 2011 compared to R\$125.93/bbl (US\$71.58/bbl) in 2010, reflecting the changes occurred in the international oil prices in the period.

## 9. Assets and liabilities subject to exchange variation

Virtually all of our revenues and expenses for our Brazilian activities are denominated and payable in Reais. When the Real weakens relative to the U.S. dollar, as it did in 2011 (a depreciation of 12.6%), the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. However, the depreciation of the Real against the U.S. dollar affects the line items discussed below in different ways.

ASSETS	R\$ million	
	31.12.2011	31.12.2010
<b>Current assets</b>	<b>8,041</b>	<b>12,752</b>
Cash and cash equivalents	6,284	10,708
Other current assets	1,757	2,044
<b>Non-current assets</b>	<b>10,485</b>	<b>18,749</b>
Amounts invested abroad through international subsidiaries, in E&P equipment to be used in Brazil and in commercial activities	8,759	17,348
Other non-current assets	1,726	1,401
<b>Total assets</b>	<b>18,526</b>	<b>31,501</b>
LIABILITIES	R\$ million	
	31.12.2011	31.12.2010
<b>Current liabilities</b>	<b>(12,390)</b>	<b>(11,220)</b>
Current debt	(6,277)	(7,670)
Trade accounts payable	(5,882)	(3,228)
Other current liabilities	(231)	(322)
<b>Non-current liabilities</b>	<b>(36,003)</b>	<b>(25,867)</b>
Long-term debt	(35,746)	(25,827)
Other non-current liabilities	(257)	(40)
<b>Total liabilities</b>	<b>(48,393)</b>	<b>(37,087)</b>
Net assets (liabilities) in reais	<b>(29,867)</b>	<b>(5,586)</b>
(-) FINAME loans – in Reais indexed to US dollar	(12)	(103)
(-) BNDES loans – in Reais indexed to US dollar	(26,621)	(23,872)
<b>Net assets (liabilities) in reais</b>	<b>(56,500)</b>	<b>(29,561)</b>

## 10. Equity

At December 31, 2011, the shareholders' equity of Petrobras (Parent company) was R\$ 330,475 million, corresponding to R\$ 25.33 per share.

The Company's market value was R\$ 291,564 million.

### a) Capital increase

The incorporation into the capital of part of the tax incentive reserves, referring to the incentive for a subsidy of investments in the ambit of SUDAM (Superintendency for the Development of the Amazon) and SUDENE (Superintendency for the Development of the Northeast), in the amount of R\$ 12 million, in compliance with article 35, paragraph 1, of Ordinance 2091/07 of the State Minister of National Integration, without issuing new shares, is being proposed to the Special General Shareholders' Meeting.

## 11. Shareholders' remuneration

The shareholders are assured a minimum dividend and/or interest on shareholders' equity of at least 25% of the adjusted net income for the year, calculated in accordance with article 202 of the Brazilian Corporation Law.

Preferred shares have priority in the event of reimbursement of capital and receipt of dividends, of at least 3% of the amount of the net equity of the share, or 5% calculated on the portion of capital represented by this kind of shares, where the highest amount always prevails.

The proposal for a dividend related to 2011, which is being sent by the Management of Petrobras for approval by the shareholders in the Annual General Meeting of 2012, in the amount R\$ 12,001, meets the statutory rights granted to preferred shares and is being offered equally for both common and preferred shares. This proposed dividend reached 38.25% of the basic profit because the rights of the holders of the preferred shares for a 3% priority in the portion of the net equity representing the preferred shares, was higher than the minimum dividend equivalent to 25% of the basic profit.

	2011		R\$ million
	Date of approval	Date of payment	
1st payment of ISE	29/04/2011	31/05/2011	2,609
2nd payment of ISE	22/07/2011	31/08/2011	2,609
3rd payment of ISE	28/10/2011	30/11/2011	2,609
4th payment of ISE	22/12/2011	(11)	2,609
Dividends	09/02/2012	(12)	1,565
			<b>12,001</b>

<sup>11</sup> Will be paid up to March 30, 2012.

<sup>12</sup> Date to be set in the General Shareholders' Meeting.

The dividends proposed for 2011, in the amount of R\$ 12,001 million (equivalent to R\$ 0.92 per common and preferred share), includes the portion of interest on shareholders' equity, in the amount of R\$ 10,436 million (equivalent to R\$ 0.80 per common and preferred share), from which will be discounted the interest on shareholders' equity paid in advance in the amount of R\$ 7,827 million, subject to the withholding of income tax at source of 15%, except for shareholders that are immune or exempt, and restated by the SELIC rate from the dates of the payments until December 31, 2011. The final portion of interest on shareholders' equity together with the dividends, in the amount of R\$ 3,878 million, net of monetary restatement of the advance payments of interest on shareholders' equity, will be monetarily restated as from December 31, 2011 until the initial date for the payment, in accordance with the variation of the SELIC rate.

In 2010, in the proposed dividend, equally between common and preferred shares, representing 35.50% of the basic profit, the criteria of 5% of the portion of the capital representing the preferred shares prevailed, which is also in compliance with the statutory rights of the holders of preferred shares.