

PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
July 29, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of July, 2010

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

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

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

Form 20-F Form 40-F

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

Yes No

EXTRAORDINARY SHAREHOLDERS' MEETING

STATEMENT TO SHAREHOLDERS

APPROVAL OF APPRAISER, APPROVAL OF VALUATION CRITERIA, DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS OF THE COMPANY

Dear shareholders,

The Board of Directors of Petróleo Brasileiro S.A. - Petrobras, (the Company) hereby presents, by means of this report, the following proposals to the Shareholders:

(a) Ratify the engagement of PricewaterhouseCoopers Corporate Finance & Recovery Ltds. (PwC) to prepare a valuation report (the Valuation Report) of 4 (four) series of *Letras Financeiras do Tesouro* (federal treasury bills) maturing on September 7, 2014; March 7, 2015; September 7, 2015 and September 7, 2016 (the LFTs), to be optionally used by the Company's shareholders to pay for the shares subscribed in the Company's primary public offering, to be held in accordance with Article 62 of the Company's bylaws and in accordance with regulation N° 400 of the *Brazilian Securities and Exchange Commission (CVM) of December 29, 2003 (Instrução CVM N° 100), as amended;*

(b) Approve the criteria and the methodology to establish the value of the LFTs, as proposed by PwC in the Valuation Report (the Valuation Criteria); and

(c) Delegate authority to the board of directors of the Company to ratify the final value of each series of the LFTs, in accordance with the Valuation Report and pursuant to the Valuation Criteria.

HISTORY

On June 30, 2010, Bill 12.276 was written into law, which among other powers authorizes the Brazilian Federal Government to:

(i) transfer with compensation to Petrobras, dispensing with a bid process, the right to explore and produce from areas not yet under concession within the pre salt area, with payment being effected by means of federal public debt securities, priced at market value.

(ii) subscribe and pay for new shares of Petrobras stock with federal public debt securities and to issue said securities, priced at market value and under private placement.

Afterwhich, the National Treasury indicated to Petrobras that in the event of the issuance of shares by the Company in the planned public offering, LFTs with the following expiration dates would be used in the underwriting of their issuance: September 7, 2014, March 7, 2015, September 7, 2017 and September 7, 2016. (the Selected Series)

In light of the foregoing, we must emphasize that the Extraordinary General Meeting convened on this day and in this statement to shareholders has, as its sole objective, to deliberate with respect to the ratification of the contracting of PwC, approval of the Valuation Criteria of the LFTs of the Selected Series which maybe utilized to pay for shares in the capital increase that the Company intends to implement by means of a public offering, and the delegation of authority to the board of directors of the Company to approve the defined value of the LFTs of the Selected Series used in the aforementioned capital increase, as contained in the Valuation Report and pursuant to the Valuation Criteria.

VALUATION OF A CONTRIBUTION IN KIND

As determined by Law no. 6,404, of December 15, 2010 and as amended by articles 7 and 8 of the Brazilian Corporate Law, the capital of a corporation may be formed with contribution in cash or in assets with a defined cash value. In the case of the utilization of assets, the appraisal and evaluation of these assets should be done by three appraisers or by a company specialized in such type of valuation, named in the general shareholders meeting.

The appraisers or the specialized company should present a detailed report including the criteria used in the valuation, the methodology of comparison used and should also include supporting documents relating to the assets appraised, and should furthermore be present at any meetings relating to valuation report, in order to present any information which might be requested.

THE LFTs

LFTs are federal public securities that are post fixed, whose return varies according to the rate referred to as Sistema Especial de Liquidação e Custódia, more commonly referred to as the SELIC, a basic interest rate of the economy. The return on LFTs depends on the SELIC rate,¹ registered daily from the date of purchase until the expiration date of the note, plus premium or discount at the time of purchase, if any. Additionally LFTs are registered with CETIP (Central de Custódia e de Liquidação Financeira), a principle depository of fixed rate notes, and enjoy a high degree of liquidity.² In other words, an LFT is a type of demand deposit with interest paid daily at the Brazilian Central Bank (BACEN), a quasi currency that earns daily interest.

¹ According to the Central Bank of Brazil, the SELIC rate is determined by calculating the average rate weighted by the volume of one-day operations guaranteed by federal government securities, carried out at SELIC through committed operations .
(<http://www.bcb.gov.br/?SELICDESCRICA0>)

² According to the Central Bank of Brazil, on June 30, 2010, the total amount of public federal debt securities was R\$1,488 billion, of which R\$509 billion or 34.2% are LFTs and R\$122 billion are LFTs of the Selected Series. LFTs are issued through auctions conducted by the National Treasury and also traded daily in the secondary market. According to the National Treasury, between January 1, 2010 and July 30, 2010, the National Treasury auctioned LFTs in the amount of R\$51.8 billion, of which R\$28.1 billion were LFTs of the Selected Series. In the secondary market, according to ANBIMA and considering the total amount of LFTs negotiated in June 2010, the average daily liquidity was approximately 0.7% and trading volumes reached approximately R\$3.5 billion daily. Average daily trading volume of LFTs of the Selected Series in the secondary market for June 2010 reached approximately R\$1.2 billion, according to ANBIMA.

In this sense, in light of their high liquidity and low credit risk (i.e. assets with the sovereign risk of the Brazilian federal government), the LFTs can be considered a virtual currency that could, theoretically, relieve an LFT from being classified as an asset in the strict sense of the word and, therefore, exempt from the valuation requirement of Article 8 of the Brazilian Corporate Law. Nevertheless, the Company intends to observe the applicable requirements of this provision in order to protect the interest of its minority shareholders.

Given the aforementioned, in order to comply with applicable determinations of the Brazilian Corporate Law, the Company has proceeded to hire PwC, a company with considerable knowledge of asset evaluation. The contractual terms are available in the contract signed between the company and PwC (Annex I). Additionally, the Company is disclosing the draft of the report to be issued by PwC, which explains the Valuation Criteria for the Selected Series of the LFTs (Annex II). Annexes III and IV present, respectively, the expertise of PwC and the transactions with related parties of the Company in the last three years.

ANALYSIS OF THE LFT VALUATION CRITERIA AND METHODOLOGY

The average unit price of the market value of the LFTs (UP) is posted daily by BACEN and by ANBIMA *Associação Brasileira das Entidades de Mercado Financeiro e de Capital* (ANBIMA).

Average prices and rates are posted on a specified business day by BACEN, with preliminary values, one day after transactions and definitive values are posted two days after transactions.

The data posted by BACEN, according to their methods, result from operations registered by SELIC and from the Camara de Ativos da BM&F Bovespa using federal public notes as a basis. The average market price of a determined note is obtained by way of weighing the various quantities of the diverse operations.

The posting of prices and indicative rates for a specified date is done by ANBIMA at 8:00 pm of the same date.

The data posted by ANBIMA, as published on Annex IV of its COM *Código Operacional do Mercado* (COM) (operational market code), is obtained by the institution based on information presented daily by its most active secondary market participants. In the case of LFTs, the values posted are the indicated rates (taxas Indicativas), that result from the Unit Price of the day. The indicative rates refer to rates establishing fair market value as evaluated by financial institutions. Additionally the data is also treated statistically by ANBIMA to eliminate outliers.

At the COM, ANBIMA has also established that the Unit Prices, which when posted, should be truncated (without rounding) at the sixth decimal place, and percentages should be truncated at the fourth decimal place, in accordance with SELIC regulations.

The National Treasury posts the results from the initial auctions. The prices obtained in the initial auctions are an important reference of market price because they are the same type of securities being analyzed and also due to the volume involved (auctions represent the biggest volume of securities transactions). However, there are no daily auctions of the securities in order to be able to use its price for the definition of market value at a specified date.

Considering the explanations provided by PwC, the Company understands that the value that best portrays the daily price of marketable securities for the purpose of this note is the UP published by the ANBIMA, with values from auctions conducted by the National Treasury serving as a reference for this unique market.

Thus, the indicative quotations from ANBIMA are referenced to values from auctions conducted by the National Treasury for a specific date, establishing a range for the indicative rate, and accepting as reasonable compared to other forms of pricing of securities, as follows:

Maximum Rate: the highest verified rate in auctions of LFTs of Selected Series that occurred from January 1, 2010 until June 30, 2010, or 0.000%.

Minimum Rate: Lowest verified rate in auctions of LFTs of Selected Series that occurred from January 1, 2010 until June 30, 2010, or 0.0010%.

It should be noted that the relative difference between the prices posted by BACEN and by ANBIMA is minimal (0.0061% during the month of June 2010). Additionally, the indicative price of ANBIMA was exactly the final verified price (in 29 of the 32 auctions of LFTs of Selected Series held by The National Treasury in the first half of 2010).

As a complement to the procedures used for determining the market value of securities on a particular date described above, two more procedures have been added as an alternative as outlined below:

The direct use of the UP published referencing that date, or

The use of Par Value to date, adjusted by an average of rates observed in past periods, applied to those values.

In the analysis of these options presented by PwC, the Company understands that given the characteristics of returns on these securities that minimize the possibility of financial arbitrage, the best indicator of market price is the daily UP (unit price) without any adjustments for average rates observed in past periods, applied to those values.

ANTICIPATED ADJUSTMENT OF THE PU OF THE SELECTED SERIES OF LFTs CONSIDERING THE SETTLEMENT DATE OF THE CAPITALIZATION

The settlement date of the capitalization of Petrobras is herein defined for the purpose of this explanation as (D0).

So that the LFTs will be available to be utilized on D0, they should be deposited in the escrow account of the BM&F Bovespa one business day before (D-1) and priced the day before submission (D-2), in accordance with ANBIMA's methodology for reporting the PU.

In order to determine market value on D0, the settlement date of the operation, adjustments will be made pro rated to the UP for D-3, so as to find the best price estimate on D0. As clarified by PwC, the manner that most closely matches the expected change to the market price of the LFTs in the three day period (between D-3 and D-D0) is the application of the UP on D-3, the last SELIC rate effectively published by the BACEN (Selic rate D-3) during the three (3) day period.

This is because (i) the SELIC rate is a rate of return of the Par Value of securities; (ii) the behavior of rates of securities between D-3 and D0 is not predictable; (iii) on the overwhelming majority of the dates before this pricing, the indicative rates observed in the LFTs of the Selected Series were zero, occasions in which the market value of the securities followed the rate of return given by the SELIC; (iv) the last published SELIC rate is the best indicator of the future SELIC rate in the very short term, since there are no estimates of change in the base rate announced by COPOM - Monetary Policy Committee of the BACEN within this period.

PRICING DEMONSTRATION

The table below illustrates the unit market value of the LFTs of the Selected Series on a designated date (for illustrative purposes only, when D0 is July 29, 2010, and D-3 is July 26, 2010):

| SELIC Factor | | |
|------------------------|-------------------|-----------------|
| Selic on D-3 | (annual %) | 10.160 % |
| Daily SELIC factor | (base D-3) | 1.000402030 |
| Estimated SELIC factor | (from D-3 to D0) | 1.001206575 |

Values to be updated on the LFT pricing date

| Maturity | UP on D-3 (1) | Selic Factor estimated for the period (2) | Estimated UP on D0 = (1)*(2) |
|-----------------|----------------------|--|-------------------------------------|
| Sep-17-2014 | 4,303.277498 | 1.001206575 | 4,308.469725 |
| Mar-07-2015 | 4,303.277498 | 1.001206575 | 4,308.469725 |
| Sep-07-2015 | 4,303.277498 | 1.001206575 | 4,308.469725 |
| Sep-07-2016 | 4,303.277498 | 1.001206575 | 4,308.469725 |

Values to be updated on the LFT pricing date

Where:

The UP on D-3 defined by the Indicative Unit Price on a determined date, published by ANBIMA (or in the event the indicative price is outside the established limits: the value at par plus the limit rate);

The SELIC on D-3 defined by the SELIC rate, effective on the same date, published by BACEN,

The estimated SELIC factor between D-3 and D0 given by the formula $(1 + \text{SELIC D-3} \% \text{a.a.})^{(3/252)}$

The liquidation value given by PU on D-3 multiplied by the SELIC factor estimated between D-3 and D0

CONCLUSION

In view of the foregoing and taking into consideration the explanations provided by PwC regarding the proposed criteria and methodology of the valuation of the LFTs of the Selected Series, as well as the eventual necessity of adjusting the valuation of the LFTs of the Selected Series that are to be used as payment in the proposed primary offering, the members of the board of directors of the Company who have come together on this date, before the Fiscal Council, understood that:

(a) the value that best reflects the market price of the LFTs is the PU posted by ANBIMA on a specified date, adjusted on a pro-rata SELIC basis until the date on which the Selected Series of the LFTS are used by investors in the proposed offering to pay for shares of the Company; and

(b) where D0 is the settlement date, and taking into account the fact that investors are required to deposit LFTs of the Selected Series that are to be used to pay for the Company's shares with the BM&F Bovespa at least one business day in advance of the settlement date (D - 1), we find that it would be reasonable to use the PU of D-3 adjusted by the last SELIC rate published by BACEN (SELIC rate of D-3) during a period of three business days.

Rio de Janeiro, July 27,2010

Guido Mantega

Chairman of the Board of Directors

**ANNEX I CONTRACT SIGNED BETWEEN THE
PETROBRAS AND PWC**

ANNEX II DRAFT OF THE VALUATION REPORT

ANNEX III PwC CREDENTIALS

ANNEX IV TRANSACTION WITH RELATED PARTIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 28, 2010

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By: /s/ Almir Guilherme Barbassa

Almir Guilherme Barbassa
Chief Financial Officer and
Investor Relations Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act) that are not based on historical facts and are not assurances of future results. These forward-looking statements are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

All forward-looking statements are expressly qualified in their entirety by this cautionary statement, and you should not place reliance on any forward-looking statement contained in this press release. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.
