

PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
April 23, 2015

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 April, 2015

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

Petróleo Brasileiro S.A. – Petrobras

Consolidated financial statements as of

December 31, 2014, 2013 and 2012 with report of independent registered public accounting firm

Petróleo Brasileiro S.A. – Petrobras

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(Expressed in millions of US Dollars, unless otherwise indicated)

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Petróleo Brasileiro S.A. – Petrobras

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Petróleo Brasileiro S.A. – Petrobras

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity present fairly, in all material respects, the financial position of Petróleo Brasileiro S.A. – Petrobras and its subsidiaries (the "Company") at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the financial statements, the Company wrote off US\$ 2,527 million of overpayments on the acquisition of property plant and equipment incorrectly capitalized according to testimony obtained from Brazilian criminal investigations.

/s/

PricewaterhouseCoopers

Auditores Independentes

Rio de Janeiro, Brazil

April 22, 2015

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Financial Position

December 31, 2014 and 2013 (In millions of US Dollars)

Assets	Note	12.31.2014	12.31.2013	Liabilities	Note	12.31.2014	12.31.2013
Current assets				Current liabilities			
Cash and cash equivalents	7	16,655	15,868	Trade payables	16	9,760	11,919
Marketable securities	7	9,323	3,885	Finance debt	17	11,868	8,001
Trade and other receivables, net	8	7,969	9,670	Finance lease obligations	18	16	16
Inventories	9	11,466	14,225	Income taxes payable	21.1	247	281
Recoverable income taxes	21.1	1,063	1,060	Other taxes payable	21.1	4,064	4,669
Other recoverable taxes	21.1	2,748	3,911	Dividends payable	23.5	–	3,970
Advances to suppliers		423	683	Payroll, profit sharing and related charges		2,066	2,052
Other current assets		1,180	946	Pension and medical benefits	22	796	816
		50,827	50,248	Others		2,301	2,429
						31,118	34,153
Assets classified as held for sale	10.2	5	2,407	Liabilities on assets classified as held for sale	10.2	–	1,073
		50,832	52,655			31,118	35,226
Non-current assets				Non-current liabilities			
Long-term receivables				Finance debt	17	120,218	106,235
Trade and other receivables,	8	5,437	4,532	Finance lease obligations	18	56	73

net							
Marketable securities	7	109	131	Deferred income taxes	21.2	3,031	9,906
Judicial deposits	30.1	2,682	2,504	Pension and medical benefits	22	16,491	11,757
Deferred income taxes	21.2	1,006	1,130	Provisions for legal proceedings	30.1	1,540	1,246
Other tax assets	21.1	4,008	5,380	Provision for decommissioning costs	20	8,267	7,133
Advances to suppliers		2,409	3,230	Others		988	724
Others		3,212	1,875			150,591	137,074
		18,863	18,782	Total liabilities		181,709	172,300
				Shareholders' equity	23.1		
Investments	11	5,753	6,666	Share capital (net of share issuance costs)		107,101	107,092
Property, plant and equipment	12	218,730	227,901	Change in interest in subsidiaries		148	674
Intangible assets	13	4,509	15,419	Profit reserves		66,423	73,795
		247,855	268,768	Accumulated other comprehensive (deficit)		(57,400)	(33,034)
				Attributable to the shareholders of Petrobras		116,272	148,527
				Non-controlling interests		706	596
				Total equity		116,978	149,123
Total assets		298,687	321,423	Total liabilities and shareholder's equity		298,687	321,423

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Income

December 31, 2014, 2013 and 2012 (In millions of US Dollars, unless otherwise indicated)

	Note	2014	2013	2012
Sales revenues	24	143,657	141,462	144,103
Cost of sales		(109,477)	(108,834)	(108,276)
Gross profit		34,180	32,628	35,827
Income (expenses)				
Selling expenses		(6,827)	(4,904)	(4,927)
General and administrative expenses		(4,756)	(4,982)	(5,034)
Exploration costs	15	(3,058)	(2,959)	(3,994)
Research and development expenses		(1,099)	(1,132)	(1,143)
Other taxes		(760)	(780)	(386)
Impairment of assets	14	(16,823)	(544)	(137)
Write-off - overpayments incorrectly capitalized	3	(2,527)	–	–
Other expenses, net	25	(5,293)	(1,113)	(3,306)
		(41,143)	(16,414)	(18,927)
Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes		(6,963)	16,214	16,900
Finance income		1,949	1,815	3,659
Finance expenses		(3,923)	(2,673)	(2,016)
Foreign exchange and inflation indexation charges		339	(1,933)	(3,569)
Net finance income (expense)	27	(1,635)	(2,791)	(1,926)
Share of earnings in equity-accounted investments	11.2	218	507	43
Profit sharing	22.7	(444)	(520)	(524)
Net income (loss) before income taxes		(8,824)	13,410	14,493
Income taxes	21.3	1,321	(2,578)	(3,562)
Net income (loss)		(7,503)	10,832	10,931

Net income (loss) attributable to:				
Shareholders of Petrobras		(7,367)	11,094	11,034
Non-controlling interests		(136)	(262)	(103)
		(7,503)	10,832	10,931
Basic and diluted earnings (loss) per weighted-average of common and preferred share - in U.S. dollars				
	23.6	(0.56)	0.85	0.85

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Comprehensive Income

December 31, 2014, 2013 and 2012 (In millions of US Dollars)

	2014	2013	2012
Net income (loss)	(7,503)	10,832	10,931
Items that will not be reclassified to the statement of income:			
Actuarial gains (losses) on defined benefit pension plans	(5,947)	7,248	(4,693)
Deferred income tax	1,157	(2,153)	1,533
Cumulative translation adjustments	(15,606)	(20,397)	(14,049)
	(20,396)	(15,302)	(17,209)
Items that may be reclassified subsequently to the statement of income:			
Unrealized gains / (losses) on available-for-sale securities			
Recognized in shareholders' equity	–	1	498
Reclassified to the statement of income	–	(44)	(714)
Deferred income tax	–	15	72
	–	(28)	(144)
Unrealized gains / (losses) on cash flow hedge - highly probable future exports			
Recognized in shareholders' equity	(6,443)	(6,226)	–
Reclassified to the statement of income	702	303	–
Deferred income tax	1,953	2,012	–
	(3,788)	(3,911)	–
Unrealized gains / (losses) on cash flow hedge - others			
Recognized in shareholders' equity	6	9	(3)
Reclassified to the statement of income	1	9	7
Deferred income tax	–	–	1
	7	18	5
Share of other comprehensive income (losses) in equity-accounted investments			
	(263)	(265)	–
Total other comprehensive income (loss):	(24,440)	(19,488)	(17,348)

Total comprehensive income (loss)	(31,943)	(8,656)	(6,417)
Comprehensive income (loss) attributable to:			
Shareholders of Petrobras	(31,729)	(8,263)	(6,136)
Non-controlling interests	(214)	(393)	(281)
Total comprehensive income (loss)	(31,943)	(8,656)	(6,417)

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Cash Flows

December 31, 2014, 2013 and 2012 (In millions of US Dollars)

	2014	2013	2012
Cash flows from Operating activities			
Net income (loss) attributable to the shareholders of Petrobras	(7,367)	11,094	11,034
Adjustments for:			
Non-controlling interests	(136)	(262)	(103)
Share of earnings in equity-accounted investments	(218)	(507)	(43)
Depreciation, depletion and amortization	13,023	13,188	11,119
Impairment of assets	16,823	544	137
Inventory write-down to net realizable value	1,015	580	742
Exploration expenditures written off	2,178	1,892	2,847
Write-off - overpayments incorrectly capitalized	2,527	–	–
Allowance for impairment of trade receivables	2,378	73	39
(Gains) losses on disposal of assets / write-offs of non-current assets, E&P areas returned and cancelled projects	481	(1,745)	2
Foreign exchange variation, indexation and finance charges	3,571	3,167	4,308
Deferred income taxes, net	(3,045)	402	1,266
Pension and medical benefits (actuarial expense)	2,022	2,566	2,091
Decrease (Increase) in assets			
Trade and other receivables, net	(2,507)	(1,142)	(1,522)
Inventories	570	(2,128)	(1,864)
Other assets	(2,803)	(303)	(2,028)
Increase (Decrease) in liabilities			
Trade payables	(1,211)	1,108	1,039
Taxes payable	(1,245)	(1,517)	(151)
Pension and medical benefits	(834)	(796)	(735)
Other liabilities	1,410	75	(290)
Net cash provided by operating activities	26,632	26,289	27,888
Cash flows from Investing activities			
Capital expenditures	(34,808)	(45,110)	(40,802)
Investments in investees	(329)	(199)	(146)
	3,744	3,820	276

Proceeds from disposal of assets (divestment)			
Divestment (investment) in marketable securities	(5,469)	5,718	2,051
Dividends received	387	146	241
Net cash (used in) investing activities	(36,475)	(35,625)	(38,379)
Cash flows from Financing activities			
Acquisition of Non-controlling interest	(98)	(70)	255
Financing and loans, net:			
Proceeds from long-term financing	31,050	39,542	25,205
Repayment of principal	(10,031)	(18,455)	(11,347)
Repayment of interest	(5,995)	(5,066)	(4,772)
Dividends paid	(3,918)	(2,656)	(3,272)
Net cash provided by financing activities	11,008	13,295	6,069
Effect of exchange rate changes on cash and cash equivalents	(378)	(1,611)	(1,115)
Net increase (decrease) in cash and cash equivalents	787	2,348	(5,537)
Cash and cash equivalents at the beginning of the year	15,868	13,520	19,057
Cash and cash equivalents at the end of the year	16,655	15,868	13,520
The Notes form an integral part of these Financial Statements.			

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Changes in Shareholders' Equity

December 31, 2014, 2013 and 2012 (In millions of US Dollars)

	Share capital (net of share issuance costs)		Accumulated other comprehensive income (deficit)				
	Share Capital	Share issuance costs	Change in interest in subsidiaries	Cumulative translation adjustment	Cash flow hedge - highly probable future exports	Actuarial gains (losses) on defined benefit pension plans	Other comprehensive income (loss)
Balance at December 31, 2011	107,355	(279)	595	7,697	—	(4,440)	246
Capital increase with reserves	7						
Realization of deemed cost							(5)
Change in interest in subsidiaries			33				
Net income							
Other comprehensive income				(13,871)		(3,160)	(139)
Appropriations: Allocation of net income							
Dividends							
	107,362	(279)	628	(6,174)	—	(7,600)	102
Balance at December 31, 2012		107,083	628				(13,672)
Capital increase with reserves	9						
Realization of deemed cost							(5)

Change in interest in subsidiaries		46				
Net income						
Other comprehensive income			(20,266)	(3,911)	5,095	(275)
Appropriations:						
Allocation of net income						
Dividends						
	107,371	(279)	674	(26,440)	(3,911)	(2,505)
Balance at December 31, 2013		107,092	674			(33,034)
Capital increase with reserves	9					
Realization of deemed cost						(4)
Change in interest in subsidiaries			(526)			
Net income (loss)						
Other comprehensive income (loss)			(15,528)	(3,788)	(4,790)	(256)
Appropriations:						
Transfer from reserves						
Dividends						
	107,380	(279)	148	(41,968)	(7,699)	(7,295)
Balance at December 31, 2014		107,101	148			(57,400)

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

1. The Company and its operations

Petróleo Brasileiro S.A. - Petrobras is dedicated, directly or through its subsidiaries (referred to jointly as “Petrobras” or “the Company”) to prospecting, drilling, refining, processing, trading and transporting crude oil from producing onshore and offshore oil fields and from shale or other rocks, as well as oil products, natural gas and other liquid hydrocarbons. In addition, Petrobras carries out energy related activities, such as research, development, production, transport, distribution and trading of all forms of energy, as well as other related or similar activities. The Company’s head office is located in Rio de Janeiro – RJ, Brazil.

2. Basis of preparation

2.1. Statement of compliance and authorization of financial statements

These consolidated financial statements have been prepared and are being presented in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The information is presented in U.S. dollars.

These financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets, financial assets and financial liabilities measured at fair value and certain current and non-current assets and liabilities, as set out in the summary of significant accounting policies.

The annual consolidated financial statements were approved and authorized for issue by the Company’s Board of Directors in a meeting held on April 22, 2015.

2.2. Functional and presentation currency

The functional currency of Petrobras and all of its Brazilian subsidiaries is the Brazilian Real. The functional currency of most of the Petrobras entities that operate outside Brazil is the U.S. dollar. The functional currency of Petrobras Argentina is the Argentine Peso.

Petrobras has selected the U.S. Dollar as its presentation currency. The financial statements have been translated from the functional currency (Brazilian Real) into the presentation currency (U.S. Dollar) in accordance with IAS 21 – “The effects of changes in foreign exchange rates”. All assets and liabilities are translated into U.S. dollars at the closing exchange rate at the date of the financial statements; income and expenses, as well as the cash flows are translated into U.S. dollars using the average exchange rates prevailing during the year. Equity items are translated using the exchange rates prevailing at the dates of the

transactions. All exchange differences arising from the translation of the consolidated financial statements from the functional currency into the presentation currency are recognized as cumulative translation adjustments (CTA) within accumulated other comprehensive income (loss) in the consolidated statements of changes in shareholders' equity.

Brazilian Real x U.S. Dollar	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2013	Jun 2013	Sep 2013	Dec 2013
Quarterly average exchange rate	2.36	2.23	2.28	2.55	2.00	2.07	2.29	2.28
Period-end exchange rate	2.26	2.20	2.45	2.66	2.01	2.22	2.23	2.34

The Brazilian *real* x U.S. dollar exchange rate at April 15, 2015 was R\$ 3.07 per U.S. dollar.

3. The “Lava Jato (Car Wash) Operation” and its effects on the Company

In the third quarter of 2014, the Company wrote off US\$2,527 of capitalized costs representing amounts that Petrobras overpaid for the acquisition of property, plant and equipment in prior years.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

According to testimony from Brazilian criminal investigations that became available beginning October 2014, senior Petrobras personnel conspired with contractors, suppliers and others from 2004 through April 2012 to establish and implement an illegal cartel that systematically overcharged the Company in connection with the acquisition of property, plant and equipment. Two Petrobras executive officers (*diretores*) and one executive manager were involved in this payment scheme, none of whom has been affiliated with the Company since April 2012; they are referred to below as the “former Petrobras personnel.” The overpayments were used to fund improper payments to political parties, elected officials or other public officials, individual contractor personnel, the former Petrobras personnel and other individuals involved in the payment scheme. The Company itself did not make the improper payments, which were made by the contractors and suppliers and by intermediaries acting on behalf of the contractors and suppliers.

Petrobras believes that under IAS 16, the amounts it overpaid pursuant to this payment scheme should not have been included in historical costs of its property, plant and equipment. However, Petrobras cannot specifically identify either the individual contractual payments that include overcharges or the reporting periods in which overpayments occurred. As a result, Petrobras developed a methodology to estimate the aggregate amount that it overpaid under the payment scheme, in order to determine the amount of the write-off representing the overstatement of its assets resulting from overpayments used to fund improper payments. The circumstances and the methodology are described below.

Background

In 2009, the Brazilian federal police began an investigation called “Lava Jato” (Car Wash) aimed at criminal organizations engaged in money laundering in several Brazilian states. The Lava Jato Operation is extremely broad and involves numerous investigations into several criminal practices focusing on crimes committed by individuals in different parts of the country and sectors of the Brazilian economy.

Over the course of 2014, the Brazilian Federal Prosecutor’s Office focused part of its investigation on irregularities involving Petrobras’s contractors and suppliers and uncovered a broad payment scheme that involved a wide range of participants, including the former Petrobras personnel. Based on the information available to Petrobras, the payment scheme involved a group of 27 companies that, between 2004 and April 2012, colluded to obtain contracts with Petrobras, overcharge the Company under those contracts and use the overpayment received under the contracts to fund improper payments to political parties, elected officials or other public officials, individual contractor personnel, the former Petrobras personnel and other individuals involved in the scheme. Petrobras refers to this scheme as the “payment scheme” and to the companies involved in the scheme as “cartel members.”

In addition to the payment scheme, the investigations identified several specific instances of other contractors and suppliers that allegedly overcharged Petrobras and used the overpayment received from their contracts with the Company to fund improper payments, unrelated to the payment scheme, to certain Petrobras employees, including the former Petrobras personnel and a former Chief International Officer. Those contractors and suppliers are not cartel members and acted individually. Petrobras refers to these specific cases as the “unrelated payments.”

In connection with the investigation of the payment scheme, Paulo Roberto Costa, a former Chief Downstream Officer of Petrobras, was arrested in March 2014 and subsequently charged for money-laundering and passive corruption. Other former executives of Petrobras, including Renato de Souza Duque (a former Chief Services Officer), Nestor Cerveró (a former Chief International Officer) and Pedro José Barusco Filho (a former executive manager of the Services area), as well as former executives of Petrobras contractors and suppliers, have been or are expected to be charged as a result of the investigation.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

When the Company issued its 2013 audited financial statements on February 27, 2014, when it filed its 2013 Form 20-F on April 30, 2014, and when it issued its interim financial statements for the six months ended June 30, 2014 on August 8, 2014, there was no evidence available to Petrobras related to the Lava Jato investigation that would have affected the conclusions of the Company regarding the fact that its financial statements fairly presented its financial position, and the extent of the payment scheme had not been made public.

Information and sources available to Petrobras

On October 8, 2014, Costa and Alberto Youssef testified in the 13th Criminal District Court of Curitiba (Vara Federal Criminal de Curitiba) (“Paraná Court”), publicly describing the payment scheme. Since then, extensive testimony of participants in the payment scheme who have entered into plea agreements has been made public. The Company’s understanding of the payment scheme, and its methodology for measuring its impact on the Company, are based on this testimony, which includes the complete testimony of two of the former Petrobras personnel (Costa and Barusco), the complete testimony of two individuals who acted as intermediaries in the payment scheme (Youssef and Julio Gerin de Almeida Camargo), partial testimony of another individual who acted as an intermediary in the payment scheme (Shinko Nakandakari), and the complete testimony of one representative of a construction company (Augusto Ribeiro de Mendonça Neto).

The Brazilian Federal Prosecutor’s Office, which is in possession of the full record of the investigation to date, filed administrative misconduct complaints (ações de improbidade administrativa) on February 20, 2015 against five cartel members based on the payment scheme and relied on the same approach used by the Company to measure the actual damages attributable to the payment scheme, as set out below.

A significant portion of the information mentioned above was made public after January 28, 2015, when the Company issued its interim financial statements as of and for the nine months ended September 30, 2014 not reviewed by independent auditors, amplifying and corroborating the information that was previously available, namely the testimony of Barusco, Costa, Youssef and Nakandakari.

The information available to the Company is generally consistent with respect to the existence of the payment scheme, the companies involved in the payment scheme, the former Petrobras personnel involved in the payment scheme, the period during which the payment scheme was in effect, and the maximum amounts involved in the payment scheme relative to the contract values of affected contracts.

Petrobras will monitor the results of the investigations and the availability of other information concerning the payment scheme. If information becomes available that indicates with

sufficient precision that the estimate described above should be adjusted, Petrobras will evaluate whether the adjustment is material and, if so, recognize it. However, the Company has no expectation that additional information bearing on these matters is or will be available from internal sources.

Other information obtained in the course of the Lava Jato investigation, including portions of Nakandakari's testimony, has not been made public. However, the Company believes that, at this point, the risk that new information emerges causing material changes to the known facts and materially affecting the adjustment described below is low. This belief is largely based on the fact that a significant amount of information has become public, it is unlikely that the Brazilian authorities (in possession of the full record of the investigation to date) would withhold information that is inconsistent with what they have publicly released (they have relied on the same approach to measure the actual damages attributable to the payment scheme in the civil and criminal proceedings they have already filed) and the public information is consistent even though it comes from a range of individuals with different positions and motivations, including two of the former Petrobras personnel, alleged intermediaries in the payment scheme and representatives of contractors and suppliers.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

The Company's response to the facts uncovered in the Lava Jato investigation, a description of the payment scheme and the accounting issue regarding the payment scheme, as well as the approach adopted by the Company to account for the impact of the payment scheme are set out below.

3.1. The Company's response to the facts uncovered in the investigation

While the internal and external investigations are ongoing, the Company is taking the necessary procedural steps with Brazilian authorities to seek compensation for the damages it has suffered, including those related to its reputation. To the extent that any of the proceedings resulting from the Lava Jato investigation involve leniency agreements with cartel members or plea agreements with individuals pursuant to which they agree to return funds, Petrobras may be entitled to receive a portion of such funds.

The proceedings will also include civil proceedings against cartel members, which Petrobras would have the right to join as a plaintiff, and it expects to do so. The civil proceedings typically result in three types of relief: effective damages, civil fines and moral damages. Petrobras would be entitled to any effective damages and possibly civil fines. Moral damages would typically be contributed to a federal fund, although Petrobras may seek to obtain moral damages once it joins the proceedings as a plaintiff.

Petrobras does not tolerate corruption or any illegal business practices of its contractors or suppliers or the involvement of its employees in such practices, and it has therefore undertaken the following initiatives in furtherance of the investigation of irregularities involving its business activities and to improve its corporate governance system:

- The Company has established several Internal Investigative Committees (Comissões Internas de Apuração – CIA) to investigate instances of non-compliance with corporate rules, procedures or regulations. We have provided the findings of the internal commissions that have been concluded to Brazilian authorities.
- On October 24 and 25, 2014, the Company engaged two independent law firms, U.S. firm Gibson, Dunn & Crutcher LLP and Brazilian firm Trench, Rossi e Watanabe Advogados, to conduct an independent internal investigation.
- The Company has been cooperating fully with the Brazilian Federal Police (Polícia Federal), the Brazilian Public Prosecutor's Office (Ministério Público Federal), the Brazilian Judiciary, and other Brazilian authorities (the Federal Audit Court – Tribunal de Contas da União – TCU, and the Federal General Controller – Controladoria Geral da União – CGU).

- The Company has established committees to analyze the application of sanctions against contractors and suppliers, and imposed a provisional ban on contracting with the cartel members (and entities related to them) mentioned in the testimony that has been made public.
- The Company has developed and implemented measures to improve corporate governance, risk management and control, which are documented in standards and minutes of management meetings that establish procedures, methods, responsibilities and other guidelines to integrate such measures into the Company's practices.
- The Company has created a position of Governance, Risk and Compliance Officer, with the aim of supporting the Company's compliance programs and mitigating risks in its activities, including fraud and corruption. The new Officer participates in the decisions of the Executive Board, and any matter submitted to the Executive Board for approval must previously be approved by this Officer as they relate to governance, risk and compliance.

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- On January 13, 2015 the Board of Directors appointed Mr. João Adalberto Elek Junior to the position of Governance, Risk and Compliance Officer. Mr. João Adalberto Elek Junior took office on January 19, 2015. He will serve a three-year term, which may be renewable, and may only be removed by a vote of the Board of Directors, including the vote of at least one Board Member elected by the non-controlling shareholders or by the preferred shareholders.
- A Special Committee was formed to act independently and to serve as a reporting line to the Board of Directors for the firms conducting the independent internal investigation. The Special Committee is composed of Ellen Gracie Northfleet, retired Chief Justice of the Brazilian Supreme Court (as chair of the Committee), Andreas Pohlmann, Chief Compliance Officer of Siemens AG from 2007 to 2010, and the executive officer of Governance, Risk and Compliance, João Adalberto Elek Junior.

3.2. Description of the payment scheme and its impact on the Company's financial statements

The following items discuss the need to correct the carrying amount of specified property, plant and equipment due to the impact of the payment scheme, as well as the impracticability of identifying actual improper payments, tying the overpayments to specific contract payments, or measuring the exact amount of the overpayments to be corrected. They also discuss the approach adopted by the Company to write off capitalized costs representing amounts that Petrobras overpaid for property, plant and equipment. Note 5.8 below discusses the two alternative approaches considered and rejected by the Company as surrogates for measuring the exact amounts.

3.2.1. The payment scheme and the need to correct the carrying amount of specified property, plant and equipment

According to the information available to the Company described above, under the payment scheme, a large number of contractors and suppliers colluded with the former Petrobras personnel to overcharge Petrobras under construction contracts and contracts to provide Petrobras with goods and services, and used the overpayments to make improper payments to political parties, elected officials or public officials, individual contractor personnel, or the former Petrobras personnel.

In particular, the former Chief Downstream Officer, the former Chief Services Officer and the former executive manager of the Services area of Petrobras were involved in the payment scheme. Those individuals, who were all in positions of authority at Petrobras, not only failed to report the existence of the cartel, but they also used their influence to further the objectives of the payment scheme, primarily by ensuring that the cartel members would be selected to participate in bidding rounds for goods and services contracts with Petrobras so

that the cartel members would secure contracts with the Company. However, there is no available information indicating that these individuals controlled or directed the use of the overpayments once the funds left Petrobras.

In addition to the payment scheme, the investigations identified several other specific instances in which Petrobras was overcharged in connection with the acquisition of property, plant and equipment. The amount that Petrobras was overcharged was used to make unrelated payments to Petrobras personnel.

3.2.2. Impracticability of determining the actual amount of overpayment and the periods to be corrected

It is impracticable to identify the exact date and amount of each overpayment by the Company to the contractors and suppliers because of the limitations described below:

The information available to the Company in the testimony identifies the companies involved in the payment scheme and the period of time it was in effect, but the testimony does not identify all the affected contracts, the individual contractual payments that include overcharges or the reporting periods in which overpayments occurred.

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Petrobras itself did not make or receive any improper payments. They were made by outside contractors and suppliers, so the exact amounts that the Company overpaid to fund these payments cannot be identified. The information to determine the amount by which the Company was overcharged by the cartel members is not contained within the Company's accounting records. These records reflect the terms of the contract entered into by the Company, which entailed payments that were inflated because of the conspiracy among the cartel members and the former Petrobras personnel to overcharge Petrobras. Since the Company cannot identify the amount of overpayments for specific contractual payments or in specific accounting periods, it cannot determine the period in which to adjust property, plant and equipment.

Two independent law firms are conducting an independent internal investigation, under the direction of the Special Committee mentioned above. The independent internal investigation is not expected to provide additional quantitative information of a kind to support an adjustment to the Company's financial statements. The information available to the investigators is limited to internal information of Petrobras, so it will not be able to produce specific identified information on the amount by which the Company was overcharged. The money-laundering activities alleged to have occurred were designed to hide the origins and amounts of the funds involved, so a specific accounting should not be expected.

The ongoing investigations by Brazilian authorities will focus on the criminal liability of individuals, and not on establishing a full accounting of the amounts that Petrobras was overcharged by the cartel members or all improper payments made by contractors and suppliers from the Company's contract payments. These investigations may take several years before all the evidence and allegations are evaluated.

The Brazilian authorities have filed actions against contractors and suppliers and their respective representatives. In these actions, the prosecutors have sought judicial remedies for administrative misconduct (*ação de improbidade administrativa*) using 3% of the contract prices paid to the contractors and suppliers to measure the actual damages attributable to the payment scheme, which is consistent with the methodology used by the Company to account for the effects of the payment scheme. The scope of this process is not expected to produce a full accounting of all improper payments, even after the significant amount of time the investigations by Brazilian authorities may take. Brazilian law does not provide for discovery in civil proceedings, so the information that is produced in these proceedings would not be expected to exceed the information produced in the investigation and the criminal proceedings.

As previously discussed, despite the limitations described above, the information available to the Company is, in general, consistent in terms of the individuals and companies involved in the payment scheme, the period during which the payment scheme was in effect, and the

percentage of overcharging applied over the total contract values under affected contracts and used to fund the improper payments made by contractors and suppliers.

3.2.3. Approach adopted by the Company to adjust its property, plant and equipment for overpayments

As it is impracticable to identify specific periods and amounts for the overpayments by the Company, the Company considered all the information available (as described above) to quantify the impact of the payment scheme.

The Company included in its historical cost for property, plant and equipment all of the amounts paid under the affected contracts. However, the Company believes that the amount of its contract payments representing overpayments to contractors and suppliers pursuant to the payment scheme should not have been capitalized as property, plant and equipment.

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The testimony identified 27 cartel members (Brazilian contractors and suppliers involved in the payment scheme) and several additional instances where a contractor or supplier acting individually overcharged to make improper payments unrelated to the payment scheme.

The testimony states that the cartel and the payment scheme were active from 2004 through April 2012. The Company also evaluated whether the payment scheme affected periods before 2004. However, the testimony does not indicate that the payment scheme was in effect before 2004 and even if it were, the impact of contractors and suppliers overcharging the Company prior to 2004 is not material, as most of the Company's property, plant and equipment assets were built between 2004 and 2014 (the balance of property, plant and equipment was US\$30.8 billion as of December 31, 2003) and the assets existing as of December 31, 2003 were substantially depreciated by 2014.

Based on the available information described above, the Company concluded that the portion of the costs incurred to build its property, plant and equipment that resulted from contractors and suppliers in the cartel overcharging the Company to make improper payments should not have been capitalized. In order to account for the impact of overpayments, the Company developed an estimation methodology to serve as a proxy for the adjustment that should be made to property plant and equipment using the five steps described below:

- (1) Identify contractual counterparties: the Company listed all the companies identified in public testimony, and using that information the Company identified all of the contractors and suppliers that were either so identified or were consortia including entities so identified.
- (2) Identify the period: the Company concluded from the testimony that the payment scheme was operating from 2004 through April 2012.
- (3) Identify contracts: the Company identified all contracts entered into with the counterparties identified in step 1 during the period identified in step 2, which included supplemental contracts when the original contract was entered into between 2004 and April 2012. It has identified all of the property, plant and equipment related to those contracts.
- (4) Identify payments: the Company calculated the total contract values under the contracts identified in step 3.
- (5) Apply a fixed percentage to the amount determined in Step 4: the Company estimated the aggregate overpayment by applying a percentage indicated in the depositions (3%) to the total amounts for identified contracts.

The calculation considered all the recorded amounts in the Company's books and records from 2004 through September 2014 with respect to contracts initially entered into between 2004

and April 2012, and any related supplemental contracts, between the companies of the Petrobras group and the cartel members (individually or in a consortium). This broad scope was used to produce the best estimate for quantifying the aggregate amount of the overpayment, even if there was no specific evidence of overcharging or improper payments under every affected contract. The Company also identified amounts recorded in its books and records concerning specific contracts and projects with the non-cartel members to account for the amounts those companies overcharged Petrobras to fund improper payments they made, unrelated to the payment scheme and the cartel.

For overpayments attributable to non-cartel members, unrelated to the payment scheme, the Company included in the write-off for incorrectly capitalized overpayments the specific amounts of improper payments or percentages of contract values, as described in the testimony, which were used by those suppliers and contractors to fund improper payments.

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The Company has a number of ongoing projects in which the original contract was entered into between 2004 and April 2012. The approach adopted by the Company considers that the overcharge was applied over total contract values. These include contract payments to be incurred by Petrobras in future periods, because it is impracticable to allocate the aggregate overpayments to specific periods and the portion of the overcharge that relates to future contract payments may have been charged to the Company in prior periods. Therefore, the write-off of overpayments incorrectly capitalized takes into account the total contract values and not only contract payments already incurred. However, as mentioned above, based on the available information, the Company believes that the cartel and the payment scheme were dismantled after April 2012 and that, considering all the developments in the ongoing criminal investigation, the improper payments related to the payment scheme have stopped.

Petrobras believes that this methodology produces the best estimate for the aggregate overstatement of its property, plant and equipment resulting from the payment scheme, in the sense that it represents the upper bound of the range of reasonable estimates. The estimate assumes that all contracts with the identified counterparties were affected and that 3% represents the amount by which the Company overpaid on those contracts. Both assumptions are supported by the testimony, even though some testimony indicated lower percentages with respect to certain contracts, a shorter period (2006 to 2011), or fewer contractors involved.

Along with the write-off to reduce the carrying amount of specified property, plant and equipment, the impact in the current period includes write-offs of tax credits (VAT and correlated taxes) and a provision for credits applied in prior periods with respect to property, plant and equipment that has been written-down, as well as the reversal of depreciation of affected assets beginning on the date they started operating.

As previously discussed, the testimony does not provide sufficient information to allow the Company to determine the specific period during which the Company made specific overpayments. Accordingly, the write-off of overpayments incorrectly capitalized was recognized in the third quarter of 2014, because it is impracticable to determine the period-specific effect in each prior period. The Company believes this approach is the most appropriate pursuant to the requirements of IFRS for the correction of an error.

In addition, the Company has evaluated the materiality of the impact of the payment scheme on prior periods presented in its financial statements for comparative purposes using two different analyses: it estimated the allocation of the overpayments to specific prior periods if all overpayments were made on a pro rata basis out of each of the actual contract payments and capitalized correspondingly; and it also estimated the materiality of improper payments to prior periods if the improper payments had been made at inception (on the date the contracts were entered into). Both allocation exercises indicated writing off the overpayment

that was improperly capitalized would not have been material to any of the prior periods presented for comparative purposes.

The Company has not recovered and cannot reliably estimate any recoverable amounts at this point. Any amounts ultimately recovered would be recorded as income when received (or when their realization becomes virtually certain).

As previously mentioned, Petrobras believes that under IAS 16, the amounts it overpaid pursuant to the payment scheme should not have been included in the historical cost of the property, plant and equipment. Therefore, under Brazilian tax legislation, this write-off is considered a loss resulting from unlawful activity and subject to the evolution of the investigations in order to establish the actual extent of the losses before they can be deducted from an income tax perspective.

As a result, at September 30, 2014, it is not possible for the Company to estimate the amounts that will ultimately be considered deductible or the timing for the deduction. Accordingly no deferred tax assets were recognized for the write-off of overpayments incorrectly capitalized.

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The Company carefully considered all available information and, as discussed above, does not expect that new developments in the investigations by the Brazilian authorities, by the independent law firms conducting an internal investigation, or by new internal commissions set up (or a review of the results of previous internal investigations) could materially impact or change the methodology described above. Notwithstanding this expectation, the Company will continuously monitor the investigations for additional information and will review its potential impact on the adjustment.

The total impact of the adjustments described above by business area is set out below.

“Write-off – overpayments incorrectly capitalized E&P	RTM	GAS & POWER	DISTRIB.	INTER.	CORP.	TOTAL	
Payment scheme:							
Total contract amounts (*)	25,573	45,233	8,663	309	307	1,355	81,440
Estimated aggregate overpayments (3%)	767	1,358	260	9	9	41	2,444
Unrelated payments (outside the cartel)	57	–	4	–	–	–	61
	824	1,358	264	9	9	41	2,505
Reversal of depreciation of the affected assets	(35)	(81)	(21)	–	–	(4)	(141)
Impact on property, plant and equipment	789	1,277	243	9	9	37	2,364
Write-down of tax credits related to affected assets (**)	15	121	23	–	–	4	163
Write-off – overpayments incorrectly capitalized	804	1,398	266	9	9	41	2,527

(*) Of this amount, US\$ 17,999 represents amounts scheduled to be paid after September 30, 2014.

(**) Write-down of tax credits that will not be applicable in the future.

The Company has conducted a sensitivity analysis taking into account that approximately 26% of the write-off of overpayments incorrectly capitalized relates to assets that were charged for impairment in the fourth quarter of 2014. Excluding these assets, an increase or decrease of 1% in the applicable percentage of the overcharge applied over total contract values would result in an increase or decrease of US\$ 603 in the write-off of overpayments incorrectly capitalized. However, as discussed above, the Company believes it has used the most appropriate methodology and assumptions to determine the impact of the payment scheme and there is no evidence that would indicate the possibility of a material change in the amounts that were written off.

3.3. Changes in the current business context

Changes in the Company's business context and the impact of the Lava Jato investigation prompted a review of the Company's future prospects and ultimately led to the reduction in the pace of the Company's capital expenditures.

Petrobras's ability to invest its available funds has been limited as a result of a decrease in expected future operating revenues following the decline of oil prices, along with the devaluation of the Brazilian real, which has increased the Company's cash outflows to service debt in the near term, most of which is denominated in foreign currencies. For a variety of reasons, including the economic and political environment in Brazil, Petrobras is currently unable to access the capital markets. Other sources of available financing are limited, and in any event would be insufficient to meet Petrobras's investment needs. Petrobras also faces a shortage of qualified contractors and suppliers as a result of the difficulties created for suppliers by the Lava Jato investigation.

As a result, Petrobras has recently determined to delay or suspend the completion of some of the assets and projects included in Petrobras's capital expenditure plan that are expected to contribute little to its cash generation from its operations or that present complications due to contractor insolvency or to a lack of availability of qualified suppliers (as a result of the Lava Jato investigation or otherwise). Those changes had a material impact in the Company's impairment tests, as described in note 14.

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3.4. Investigations involving the Company

Petrobras is not a target of the Lava Jato investigation. On November 21, 2014, Petrobras received a subpoena from the U.S. Securities and Exchange Commission (SEC) requesting certain documents and information about the Company. The Company has been complying with the subpoena and intends to continue to do so, working with the independent Brazilian and U.S. law firms that were hired to conduct an independent internal investigation.

3.5. Legal proceedings involving the Company

See note 30 for information about class actions and the Company's other material legal proceedings.

4. Summary of significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these consolidated financial statements.

4.1. Basis of consolidation

The consolidated financial statements include the financial information of Petrobras and the entities it controls (its subsidiaries), joint operations and consolidated structured entities.

Control is achieved when Petrobras: i) has power over the investee; ii) is exposed, or has rights, to variable returns from involvement with the investee; and iii) has the ability to use its power to affect its returns.

Subsidiaries are consolidated from the date on which control is obtained until the date that such control no longer exists. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by Petrobras.

Note 11 sets out the consolidated entities and other direct investees.

Petrobras has no equity interest in its consolidated structured entities and control is not determined by voting rights, but by the power the Company has over the relevant operating activities of such entities. Consolidated structured entities are set out below:

Consolidated structured entities	Country	Main segment
Charter Development LLC – CDC (i)	U.S.A	E&P
Companhia de Desenvolvimento e Modernização de Plantas Industriais – CDMPI	Brazil	RT&M

PDET Offshore S.A.	Brazil	E&P
Fundo de Investimento em Direitos Creditórios Não-padronizados do Sistema Petrobras	Brazil	Corporate
Fundo de Investimento em Direitos Creditórios Padronizados do Sistema Petrobras	Brazil	Corporate

(i) Companies abroad with financial statements prepared in foreign currencies.

The consolidation procedures involve combining assets, liabilities, income and expenses, according to their function and eliminating all intragroup balances and transactions, including unrealized profits arising from intragroup transactions.

4.2. Business segment reporting

The information related to the Company's operating segments (business areas) is prepared based on items directly attributable to each segment, as well as items that can be allocated to each segment on a reasonable basis.

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The measurement of segment results includes transactions carried out with third parties and transactions between business areas, which are charged at internal transfer prices defined by the relevant areas using methods based on market parameters.

The Company operates under the following business areas:

a) Exploration and Production (E&P): this segment covers the activities of exploration, development and production of crude oil, NGL (natural gas liquid) and natural gas in Brazil for the purpose of supplying, primarily, its domestic refineries; and also selling the crude oil surplus and oil products produced in the natural gas processing plants to the domestic and foreign markets. The exploration and production segment also operates through partnerships with other companies.

b) Refining, Transportation and Marketing (RTM): this segment covers the refining, logistics, transport and trading of crude oil and oil products activities, exporting of ethanol, extraction and processing of shale, as well as holding interests in petrochemical companies in Brazil.

c) Gas and Power: this segment covers the activities of transportation and trading of natural gas produced in Brazil and imported natural gas, transportation and trading of LNG (liquid natural gas), generation and trading of electricity, as well as holding interests in transporters and distributors of natural gas and in thermoelectric power plants in Brazil, in addition to being responsible for the fertilizer business.

d) Biofuels: this segment covers the activities of production of biodiesel and its co-products, as well as the ethanol-related activities: equity investments, production and trading of ethanol, sugar and the surplus electric power generated from sugarcane bagasse.

e) Distribution: this segment includes the activities of Petrobras Distribuidora S.A., which operates through its own retail network and wholesale channels to sell oil products, ethanol and vehicle natural gas in Brazil to retail, commercial and industrial customers, as well as other fuel wholesalers.

f) International: this segment covers the activities of exploration and production of oil and gas, refining, transportation and marketing, gas and power, and distribution, carried out outside of Brazil in a number of countries in the Americas, Africa, Europe and Asia.

The corporate segment comprises the items that cannot be attributed to the other segments, notably those related to corporate financial management, corporate overhead and other expenses, including actuarial expenses related to the pension and medical benefits for retired employees and their dependents.

4.3. Financial instruments

4.3.1. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, term deposits with banks and short-term highly liquid financial investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

4.3.2. Marketable securities

Marketable securities comprise investments in debt or equity securities. These instruments are initially measured at fair value, are classified according to the Company's intention and are subsequently measured as set out below:

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- Fair value through profit or loss – includes financial instruments purchased and held for trading in the short term. These instruments are subsequently measured at fair value with changes recognized in the statement of income in finance income (expenses).
- Held-to-maturity – includes non-derivative financial instruments with fixed or determinable payments and fixed maturity, for which Management has the positive intention and ability to hold to maturity. These instruments are subsequently measured at amortized cost using the effective interest rate method.
- Available-for-sale – includes non-derivative financial instruments that are either designated as available for sale or are not classified as financial assets at fair value through profit or loss or held-to-maturity investments. These instruments are subsequently measured at fair value. Subsequent changes in fair value are recognized in other comprehensive income, in the shareholders' equity and recycled to the statement of income when the instruments are derecognized.

Subsequent value changes attributable to interest income or changes in foreign exchange rates or inflation indexation (price indices) are recognized in the statement of income for all categories, when applicable.

4.3.3. Trade receivables

Trade receivables are initially measured at the fair value of the consideration to be received and, subsequently, at amortized cost using the effective interest rate method and adjusted for allowances for impairment or uncollectibility.

The Company recognizes an allowance for impairment of trade receivables when there is objective evidence that a loss event occurred after the initial recognition of the receivable and has an impact on the estimated future cash flows, which can be reliably estimated. Impairment losses on trade receivables are recognized in the statement of income in selling expenses.

4.3.4. Loans and financing (Debt)

Loans and financing are initially recognized at fair value less transaction costs incurred and, after initial recognition, are measured at amortized cost using the effective interest rate method.

4.3.5. Derivative financial instruments

Derivative financial instruments are recognized in the statement of financial position as assets or liabilities and are initially and subsequently measured at fair value.

Gains or losses arising from changes in fair value are recognized in the statement of income in finance income (finance expense), unless the derivative is qualified and designated for hedge accounting.

4.3.6. Hedge accounting

Hedge accounting is formally documented at inception in terms of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge.

Hedging relationships that qualify for hedge accounting are classified as: (i) fair value hedge, when they involve a hedge of the exposure to changes in fair value of a recognized asset or liability, unrecognized firm commitments, or an identifiable portion of such assets, liabilities or firm commitments; and (ii) cash flow hedges when they involve a hedging of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

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In hedging relationships that qualify for fair value hedge accounting, the gain or loss from remeasuring the hedging instrument and the hedged item at fair value is recognized in the statement of income.

In hedging relationships that qualify for cash flow hedge accounting, the Company designates derivative financial instruments and long-term debt (non-derivative financial instruments) as hedging instruments. Gains or losses relating to the effective portion of the hedge are recognized in other comprehensive income, in the shareholders' equity and recycled to the statement of income in finance income (expense) in the periods when the hedged item affects the statement of income. The gains or losses relating to the ineffective portion are recognized in the statement of income.

When, the hedging instrument expires or is sold, terminated or exercised or no longer meets the criteria for hedge accounting or the Company revokes the designation, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective remains separate in equity until the forecast transaction occurs. When, the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is immediately reclassified from equity to the statement of income.

4.4. Inventories

Inventories are determined by the weighted average cost flow method and mainly comprise crude oil, intermediate products and oil products, as well as natural gas, LNG, fertilizers and biofuels, stated at the lower of the average cost, and their net realizable value.

Crude oil and LNG inventories can be traded or used for production of oil products and/or electricity generation, respectively.

Intermediate products are those product streams that have been through at least one of the refining processes, but still need further treatment, processing or converting to be available for sale.

Biofuels mainly include ethanol and biodiesel inventories.

Maintenance materials, supplies, and others are mainly comprised of production supplies and operating and consumption materials used in the operations of the Company, stated at the average purchase cost, not exceeding replacement cost.

Net realizable value is the estimated selling price of inventory in the ordinary course of business, less estimated cost of completion and estimated expenses to complete its sale.

The amounts presented in the categories above include imports in transit, which are stated at the identified cost.

4.5. Investments in other companies

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not the ability to exercise control or joint control over those policies. The definition of control is set out in note 4.1.

A joint arrangement is an arrangement over which two or more parties have joint control (pursuant to contractual provisions). A joint arrangement is classified either as a joint operation or as a joint venture depending on the rights and obligations of the parties to the arrangement.

In a joint operation the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement and in a joint venture, the parties have rights to the net assets of the arrangement.

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Profit or loss, assets and liabilities related to joint ventures and associates are accounted for by the equity method. In a joint operation the Company recognizes the amount of its share of assets, liabilities and related income and expenses.

Accounting policies of joint ventures and associates have been modified, where necessary, to ensure consistency with the policies adopted by Petrobras.

Distributions received from an investee reduce the carrying amount of the investment.

4.6. Business combinations and goodwill

Acquisitions of businesses are accounted for using the acquisition method when control is obtained. Combinations of entities under common control are not accounted for as business combinations.

The acquisition method requires that the identifiable assets acquired and the liabilities assumed be measured at the acquisition-date fair value. Amounts paid in excess of the fair value are recognized as goodwill. In the case of a bargain purchase, a gain is recognized in the statement of income when the acquisition cost is lower than the acquisition-date fair value of the net assets acquired.

Changes in ownership interest in subsidiaries that do not result in loss of control of the subsidiary are equity transactions. Any excess of the amounts paid/received over the carrying value of the ownership interest acquired/disposed is recognized in shareholders' equity as changes in interest in subsidiaries.

4.7. Oil and Gas exploration and development expenditures

The costs incurred in connection with the exploration, appraisal, development and production of crude oil and natural gas are accounted for using the successful efforts method of accounting, as set out below:

- Costs related to geological and geophysical activities are expensed when incurred.
- Amounts paid for obtaining concessions for exploration of crude oil and natural gas (capitalized acquisition costs) are initially capitalized.
- Costs directly attributable to exploratory wells pending determination of proved reserves are capitalized within property, plant and equipment. Unsuccessful exploratory wells are charged to expense when they are considered dry holes, uneconomic (did not encounter potentially economic oil and gas quantities) or were abandoned due to mechanical accidents. Exploratory

wells that have found oil and gas reserves, but those reserves cannot be classified as proved when drilling is completed, continue to be capitalized if the well has found a sufficient quantity of reserves to justify its completion as a producing well and progress on assessing the reserves and the economic and operating viability of the project is under way. An internal commission of technical executives of Petrobras reviews these conditions monthly for each well, by analysis of geoscience and engineering data, existing economic conditions, operating methods and government regulations.

- Costs related to exploratory wells drilled in areas of unproved reserves are charged to expense when determined to be dry or uneconomic.

- Costs related to the construction, installation and completion of infrastructure facilities, such as drilling of development wells, construction of platforms and natural gas processing units, construction of equipment and facilities for the extraction, handling, storing, processing or treating crude oil and natural gas, pipelines, storage facilities, waste disposal facilities and other related costs incurred in connection with the development of proved reserve areas are capitalized within property, plant and equipment.

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4.8. Property, plant and equipment

Property, plant and equipment are measured at the cost to acquire or construct, including all costs necessary to bring the asset to working condition for its intended use, including the present value of the estimated cost of dismantling and removing the asset and restoring the site, reduced by accumulated depreciation and impairment losses.

A condition of continuing to operate certain items of property, plant and equipment, such as industrial plants, offshore plants and vessels is performing regular major inspections and maintenance. Those expenditures are capitalized if the recognition criteria are met or otherwise expensed when incurred. The capitalized costs are depreciated over the period through the next major maintenance.

Spare parts are capitalized when they are expected to be used during more than one period and can only be used in connection with an item of property, plant and equipment. These are depreciated over the useful life of the item of property, plant and equipment to which they relate.

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized as part of the costs of these assets. General borrowing costs are capitalized based on the Company's weighted average of the cost of borrowings outstanding applied over the balance of assets under construction. Borrowing costs are amortized during the useful lives of the assets or by applying the unit-of-production method to the related assets. The Company suspends capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

Except for assets with useful lives shorter than the life of the field, which are depreciated based on the straight line method, depreciation, depletion and amortization of proved oil and gas producing properties are accounted for pursuant to the unit-of-production method.

Assets with useful lives shorter than the life of the field, floating platforms and assets that are unrelated to oil and gas production are depreciated based on the straight line method.

The unit-of-production method of depreciation (amortization) is computed based on a unit-of-production basis (monthly production) over the proved developed oil and gas reserves, applied on a field by field basis.

Amortization of amounts paid for obtaining concessions for exploration of oil and natural gas of producing properties, such as signature bonuses (capitalized acquisition costs) and the acquisition costs with respect to the Assignment Agreement, referring to the right to carry out prospection and drilling activities for oil, natural gas and other liquid hydrocarbons located in

blocks in the pre-salt area (“*Cessão Onerosa*”) is recognized using the unit-of-production method, computed based on the units of production over the total proved oil and gas reserves, applied on a field by field basis.

Except for land, which is not depreciated, other property, plant and equipment are depreciated on a straight line basis. See note 12 for further information about the estimated useful life by class of assets.

4.9. Intangible assets

Intangible assets are measured at the acquisition cost, less accumulated amortization and impairment losses and comprise rights and concessions, including the signature bonus paid for obtaining concessions for exploration of oil and natural gas (capitalized acquisition costs); public service concessions; trademarks; patents; software and goodwill.

Signature bonuses paid for obtaining concessions for exploration of oil and natural gas are initially capitalized within intangible assets and are transferred to property, plant and equipment upon the declaration of commerciality. The acquisition costs with respect to the Assignment Agreement were reclassified to property, plant and equipment during 2013 and 2014. On December 29, 2014 the Company submitted the declaration of commerciality of the last area of the agreement to the Brazilian Agency of Petroleum, Natural Gas and Biofuels (*Agência Nacional de Petróleo, Gás Natural e Biocombustíveis*) - ANP. Signature bonuses are not amortized until they are transferred to property, plant and equipment.

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Intangible assets with a finite useful life, other than amounts paid for obtaining concessions for exploration of oil and natural gas of producing properties, are amortized over the useful life of the asset on a straight-line basis.

Internally-generated intangible assets are not capitalized and are expensed as incurred, except for development costs that meet the recognition criteria related to completion and use of assets, probable future economic benefits, and others.

Intangible assets with an indefinite useful life are not amortized but are tested annually for impairment considering individual assets or cash-generating units. Their useful lives are reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment for those assets. If they do not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

4.10. Impairment

Property, plant and equipment and intangible assets with definite useful lives are tested for impairment when there is an indication that the carrying amount may not be recoverable. Assets related to exploration and development of oil and gas and assets that have indefinite useful lives, such as goodwill acquired in business combinations are tested for impairment annually, irrespective of whether there is any indication of impairment.

The impairment test is performed by a comparison of the carrying amount of an individual asset or a cash-generating unit (CGU) with its recoverable amount. Whenever the recoverable amount is less than the carrying amount, an impairment loss is recognized to reduce the carrying amount to the recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. Considering the specificity of the Company's assets, value in use is generally used by the Company for impairment testing purposes, except when specifically indicated.

Value in use is estimated based on the present value of the risk-adjusted (for specific risks) future cash flows expected to arise from the continuing use of an asset or cash-generating unit (based on assumptions that represent the Company's best estimates), discounted at a pre-tax discount rate. This rate is obtained from the Company's post-tax weighted average cost of capital (WACC). Cash flow projections are mainly based on the following assumptions: prices based on the Company's most recent strategic plan; production curves associated with existing projects in the Company's portfolio, operating costs reflecting current market conditions, and investments required for carrying out the projects.

For purposes of the impairment test, assets are grouped at the smallest identifiable group that generates largely independent cash inflows from other assets or groups of assets (the

cash-generating unit). Assets related to exploration and development of oil and gas are tested annually for impairment or when there is an indication that the carrying amount may not be recoverable, on a field by field basis.

Reversal of previously recognized impairment losses is permitted for assets other than goodwill.

4.11. Leases

Leases that transfer substantially all the risks and rewards incidental to ownership of the leased item are recognized as finance leases.

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For finance leases, when the Company is the lessee, assets and liabilities are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments, both determined at the inception of the lease.

Capitalized lease assets are depreciated on a systematic basis consistent with the depreciation policy the Company adopts for property, plant and equipment that are owned. Where there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, capitalized lease assets are depreciated over the shorter of the lease term or the estimated useful life of the asset.

When the Company is the lessor, a receivable is recognized at the amount of the net investment in the lease.

If a lease does not transfer substantially all the risks and rewards incidental to ownership of the leased item, it is classified as an operating lease. Operating leases are recognized as expenses over the period of the lease.

Contingent rents are recognized as expenses when incurred.

4.12. Assets classified as held for sale

Assets, disposal groups and liabilities directly associated with those assets are classified as held for sale if their carrying amounts will principally be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is approved by the Company's Board of Directors and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

However, events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the Company's control and there is sufficient evidence that it remains committed to its plan to sell the assets (or disposal groups).

Assets (or disposal groups) classified as held for sale and the associated liabilities are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities are presented separately in the statement of financial position.

4.13. Decommissioning costs

Decommissioning costs are future obligations to perform environmental restoration, dismantle and remove a facility when it terminates its operations due to the exhaustion of the area or economic conditions.

Costs related to the abandonment and dismantling of areas are recognized as part of the cost of an asset (with a corresponding liability) based on the present value of the expected future cash outflows, discounted at a risk-adjusted rate when a future legal obligation exists and can be reliably measured. Unwinding of the discount of the corresponding liability is recognized as a finance expense, when incurred. The asset is depreciated similarly to property, plant and equipment, based on the class of the asset.

Future decommissioning costs for oil and natural gas producing properties are initially recognized after a field is declared to be commercially viable, on a field by field basis, and are revised annually. Decommissioning costs related to proved developed oil and gas reserves are depreciated by applying the unit-of-production method, computed based on a unit-of-production basis over the proved developed oil and gas reserves, applied on a field by field basis.

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4.14. Provisions, contingent assets and contingent liabilities

Provisions are recognized when there is a present obligation (legal or constructive) that arises from past events and for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, which must be reasonably estimable.

Contingent assets are not recognized.

Contingent liabilities for which the likelihood of loss is considered to be possible or which are not reasonably estimable are not recognized in the financial statements but are disclosed unless the expected outflow of resources embodying economic benefits is considered remote.

4.15. Income taxes

Income tax expense for the period comprises current and deferred tax.

a) Current income taxes

The Company has adopted the Transition Tax Regime in Brazil (RTT) in order to exclude potential tax impacts from the adoption of IFRS in the determination of taxable profit. RTT is based on Brazilian tax/corporate regulations and accounting principles as of December 31, 2007. Therefore, taxable profit differs from accounting profit due to certain adjustments required by tax regulations.

Law 12,973, dated as of May 13, 2014, terminated the RTT and established a new tax regime. The new tax regime is mandatory for 2015 and optional for 2014. The Company has not adopted the new tax regime for 2014 and, therefore, its taxable profit was determined based on the RTT.

The Company does not expect the adoption of the new tax regime to result in material impacts in its tax expense or in its financial statements.

The tax currently payable is computed based on taxable profit for the year, calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

b) Deferred income taxes

Deferred income taxes are recognized on temporary differences between the tax base of an asset or liability and its carrying amount. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized

for all deductible temporary differences and carryforward of unused tax losses or credits to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current and deferred tax assets and current and deferred tax liabilities are offset when they relate to income taxes levied on the same taxable entity.

4.16. Employee benefits (Post-Employment)

Actuarial commitments related to post-employment defined benefit plans and health-care plans are recognized as liabilities in the statement of financial position based on actuarial calculations which are revised annually by an independent qualified actuary (to update for material changes in actuarial assumptions and estimates of expected future benefits), using the projected unit credit method, net of the fair value of plan assets, when applicable, out of which the obligations are to be directly settled.

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Actuarial assumptions include: demographic assumptions; financial assumptions; medical costs estimates, historical data related to benefits paid and employee contributions.

Under the projected credit unit method, each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to determine the final obligation.

Changes in the net defined benefit liability (asset) are recognized when they occur, as follows: i) service cost and net interest cost in the statement of income; and ii) remeasurements in other comprehensive income.

Service cost comprises: (i) current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; (ii) past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction, modification, or withdrawal of a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and (iii) any gain or loss on settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurement of the net defined benefit liability (asset) is recognized in other comprehensive income and comprises: (i) actuarial gains and losses; (ii) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

The Company also contributes amounts to defined contribution plans, that are expensed when incurred and are computed based on a percentage over salaries.

4.17. Share capital and distributions to shareholders

Share capital comprises common shares and preferred shares. Incremental costs directly attributable to the issue of new shares (share issuance costs) are presented (net of tax) in shareholders' equity as a deduction from the proceeds.

To the extent the Company proposes dividend distributions to shareholders, it comprises dividends and interest on capital determined in accordance with the limits defined in the Brazilian Corporation Law and in the Company's bylaws.

Interest on capital is a form of dividend distribution which is deductible for tax purposes in Brazil to the entity distributing interest on capital. Tax benefits from the deduction of interest on capital are recognized in the statement of income.

4.18. Other comprehensive income

Other comprehensive income includes changes in fair value of available-for-sale financial instruments, effective portion of cash flow hedge, actuarial gains and losses (remeasurement of the net defined benefit liability) and cumulative translation adjustment.

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4.19. Government grants

A government grant is recognized when there is reasonable assurance that the grant will be received and the Company will comply with the conditions attached to the grant.

Government grants related to expenses are recognized as revenue in the statement of income on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Government grants related to assets are initially recognized as deferred income and transferred to the statement of income over the useful life of the asset on a straight-line basis.

4.20. Recognition of revenue, costs and expenses

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue and the costs incurred or to be incurred in the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable for products sold and services provided in the normal course of business, net of returns, discounts and sales taxes.

Revenues from the sale of crude oil and oil products, petrochemical products, natural gas, biofuels and other related products are recognized when the Company retains neither continuing managerial involvement nor effective control over the products sold and the significant risks and rewards of ownership have been transferred to the customer, which is usually when legal title passes to the customer, pursuant to the terms of the sales contract. Sales revenues from freight and other services provided are recognized based on the stage of completion of the transaction.

Finance income and expense mainly comprise interest income on financial investments and government bonds, interest expense on debt, gains or losses on marketable securities measured at fair value, as well as net foreign exchange and inflation indexation charges. Finance expense does not include borrowing costs directly attributable to the construction of assets that necessarily take a substantial period of time to become operational, which are capitalized as part of the costs of these assets.

Revenue, costs and expenses are recognized on the accrual basis.

5. Critical accounting policies: key estimates and judgments

The preparation of the consolidated financial information requires the use of estimates and judgments for certain transactions and their impacts on assets, liabilities, income and expenses. The assumptions are based on past transactions and other relevant information

and are periodically reviewed by Management, although the actual results could differ from these estimates.

Information about those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting practices and that could materially affect the Company's financial condition and results of operations are set out following.

5.1. Oil and gas reserves

Oil and gas reserves are estimated based on economic, geological and engineering information, such as well logs, pressure data and drilling fluid sample data and are used as the basis for calculating unit-of-production depreciation, depletion and amortization rates and for impairment tests.

These estimates require the application of judgment and are reviewed at least annually, or on an interim basis if objective evidence of significant changes becomes available based on a re-evaluation of already available geological, reservoir or production data and new geological, reservoir or production data, as well as changes in prices and costs that are used in the estimation of reserves. Revisions can also result from significant changes in the Company's development strategy or in the production capacity of equipment and facilities.

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The Company determines its oil and gas reserves both pursuant to the SEC criteria and to the ANP/SPE (Brazilian Agency of Petroleum, Natural Gas and Biofuels / Society of Petroleum Engineers) criteria. The main differences between the two criteria are: selling price of crude oil, improved recovery criteria, undrilled acreage limits, fluid contacts limits, definitions for analog reservoir used for reserves estimates and the concession period in Brazil. Only proved reserves are determined pursuant to the SEC criteria, while proved and unproved reserves are determined pursuant to the ANP/SPE criteria.

According to the definitions prescribed by the SEC proved oil and gas reserves are the estimated quantities which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic, operating conditions (i.e., prices and costs as of the date the estimate is made) and government regulations. Proved reserves can be further subdivided into developed and undeveloped reserves.

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Although the Company is reasonably certain that proved reserves will be produced, the timing and amount recovered can be affected by a number of factors including completion of development projects, reservoir performance, regulatory aspects and significant changes in long-term oil and gas price levels.

Other information about reserves is presented as supplementary information.

a) Oil and gas reserves: depreciation, depletion and amortization

Depreciation, depletion and amortization are measured based on estimates of reserves prepared by the Company's technicians in a manner consistent with SEC definitions. Revisions to the Company's proved developed and undeveloped reserves impact prospectively the amounts of depreciation, depletion and amortization recognized in the statement of income and the carrying amounts of oil and gas properties assets.

Therefore all other variables being equal, a decrease in estimated proved reserves would increase, prospectively, depreciation, depletion and amortization expense, while an increase in reserves would reduce depreciation, depletion and amortization.

See notes 4.8 and 12.2 for more detailed information about depreciation, amortization and depletion.

b) Oil and gas reserves: impairment testing

The Company assesses the recoverability of the carrying amounts of oil and gas exploration and development assets based on their value in use, as defined in note 4.10. In general, analyses are based on proved reserves and probable reserves pursuant to the ANP/SPE definitions.

The Company performs asset valuation analyses on an ongoing basis as a part of its management program by reviewing the recoverability of their carrying amounts based on estimated volumes of oil and gas reserves, as well as estimated future oil and natural gas prices.

Oil and gas exploration and production assets are tested annually for impairment, irrespective of whether there is any indication of impairment.

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The markets for crude oil and natural gas have a history of significant price volatility and although prices will occasionally drop precipitously, industry prices over the long term will continue to be driven by market supply and demand fundamentals. The impairment tests that the Company performs make use of its long-term price assumptions used in its planning and budgeting processes and its capital expenditure decisions, which are considered reasonable estimates, given market indicators and experience. When determining the value in use of those assets, short-term price volatility affects the cash flow estimates for the first years.

Lower future oil and gas prices, when considered long-term trends, as well as negative impacts of significant changes in reserve volumes, production curve expectations, lifting costs or discount rates could trigger the need for impairment assessment.

See notes 4.8 and 12 for more detailed information about oil and natural gas exploration and development assets.

5.2. Identifying cash-generating units for impairment testing

Identifying cash-generating units (CGU's) requires management assumptions and judgment, based on the Company's business and management model, and may significantly impact the results of the impairment tests of long-lived assets. The assumptions set out below have been consistently applied by the Company:

- Exploration and Production CGU's: producing properties: oil and natural gas producing properties comprised of a group of exploration and development assets.
- Refining, transportation and marketing CGU's: i) Downstream CGU: a single CGU comprised of all refineries and associated assets, terminals and pipelines, as well as logistics assets operated by Transpetro. This CGU was identified based on the concept of integrated optimization and performance management, which focus on the global performance of the CGU, allowing a shift of margins from one refinery to another. Pipelines and terminals are an integral part and interdependent portion of the refining assets, required to supply the market. Complexo Petroquímico do Rio de Janeiro (Comperj) and the second refining unit of Refinaria Abreu e Lima (RNEST) are both under construction and have been removed from the Downstream CGU in the quarter ended December 31, 2014 and assessed for impairment individually, as set out in note 14; ii) Petrochemical CGU: petrochemical plants from *PetroquímicaSuape* and *Citepe*; and iii) Transportation CGU: the transportation CGU is comprised of the Transpetro's fleet vessels.
- Gas & Power CGU's: i) Natural gas CGU: comprised of natural gas pipelines, natural gas processing plants and fertilizers and nitrogen products plants. A fertilizers plant under construction, *Unidade de Fertilizantes Nitrogenados III* (UFN III), has been excluded from this

CGU, as set out note 14; and ii) Power CGU: thermoelectric power generation plants.

- Distribution CGU: comprised of the distribution assets related to the operations of Petrobras Distribuidora S.A.

- Biofuels CGU's: i) Biodiesel CGU: group of assets that comprise the biodiesel plants. This CGU comprises an integrated unit of the biodiesel plants and is defined based on the production planning and operation process, considering domestic market conditions, the production capacity of each plant, as well as the results of biofuels auctions and raw materials supply; and ii) Ethanol CGU: comprised of investments in associates and joint ventures in the ethanol sector.

- International CGU: i) International exploration and production CGU: this CGU comprises the oil and natural gas producing properties, including exploration and development assets, outside Brazil; ii) other operations of the international business segment: smallest identifiable group of assets that generates largely independent cash inflows.

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Investments in associates and joint ventures including goodwill are individually tested for impairment.

See notes 4.10 and 14 for more detailed information about impairment.

5.3. Pension and other post-retirement benefits

The actuarial obligations and net expenses related to defined benefit pension and health care post-retirement plans are computed based on several financial and demographic assumptions, of which the most significant are:

- Discount rate: comprises the projected future inflation in addition to an equivalent real interest rate that matches the duration of the pension and health care obligations with the future yield curve of long-term Brazilian Government Bonds; and
- Medical costs: comprise several projected annual growth rates based on per capita health care benefits paid over the last five years, which are used as a basis for projections, decreasing gradually over 30 years, to converge with a general price inflation index.

These and other estimates are reviewed at least annually and may differ materially from actual results due to changing market and financial conditions, as well as actual results of actuarial assumptions.

The sensitivity analysis of discount rates and changes in medical costs as well as additional information about actuarial assumptions are set out in note 22.

5.4. Estimates related to contingencies and legal proceedings

The Company is a defendant in numerous legal proceedings involving tax, civil, labor, corporate and environmental issues arising from the normal course of its business for which estimates are made by Petrobras of the amounts of the obligations and the probability that an outflow of resources will be required. Those estimates are based on legal counsel and Management's best estimates.

See note 30 for more detailed information about contingencies and legal proceedings.

5.5. Dismantling of areas and environmental remediation

The Company has legal and constructive obligations to remove equipment and restore onshore and offshore areas at the end of operations at production sites. Its most significant asset removal obligations involve removal and disposal of offshore oil and gas production

facilities in Brazil and abroad. Estimates of costs for future environmental cleanup and remediation activities are based on current information about costs and expected plans for remediation.

These estimates require performing complex calculations that involve significant judgment because the obligations are long-term; the contracts and regulations contain subjective descriptions of what removal and remediation practices and criteria will have to be met when the events actually occur; and asset removal technologies and costs are constantly changing, along with political, environmental, safety and public relations considerations.

The Company is constantly conducting studies to incorporate technologies and procedures seeking to optimize the operations of abandonment, considering industry best practices. However, the timing and amounts of future cash flows are subject to significant uncertainty.

See notes 4.13 and 20 for more detailed information about the decommissioning provisions.

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5.6. Fair value of derivative financial instruments

Derivative financial instruments are measured at fair value in the financial statements. Fair value measurement requires judgment related to the availability of identical or similar assets quoted in active markets or otherwise the use of alternate measurement models that can become increasingly complex and depend on the use of estimates such as future prices, long-term interest rates and price indices (inflation indices).

See notes 4.3.5 and 33 for more detailed information about derivative financial instruments.

5.7. Hedge accounting

Identifying hedging relationships between hedged items and hedging instruments (derivative financial instruments and non-derivative financial instruments, such as long-term debt) requires critical judgments related to the existence of the hedging relationship and its effectiveness. In addition, the Company continuously assesses the alignment between the hedging relationships identified and the objectives and strategy of its risk management policy.

5.8. Accounting approach to the “Lava Jato (Car Wash) Operation”

5.8.1. Estimation Methodology

As set out in note 3, in the third quarter of 2014, the Company wrote off US\$2,527 of capitalized costs representing amounts that Petrobras overpaid for the acquisition of property, plant and equipment in prior years.

To account for these overpayments, the Company developed an estimation methodology described in note 3. Petrobras acknowledges the degree of uncertainty involved in the estimation methodology and has developed a sensitivity analysis (set out in note 3) and will continue to monitor the ongoing investigations and the availability of other information concerning the amounts it may have overpaid in the context of the payment scheme. If reliable information becomes available that indicates with sufficient precision that the Company’s estimate should be adjusted, it will evaluate whether the adjustment is material and, if so, recognize it.

However, as previously discussed, the Company believes it has used the most appropriate methodology and assumptions to determine the amounts of overpayments incorrectly capitalized and there is no evidence that would indicate the possibility of a material change in the amounts written-off.

5.8.2. Possible alternative approaches considered and rejected

IFRS allows the use of a revaluation model under IAS 16 to re-measure the carrying amount of property, plant and equipment, but the use of revaluation models is not permitted by Brazilian Corporation Law. As a result, the Company did not consider that approach as a viable alternative to address the impact of the overpayment on the affected property, plant and equipment.

The Company considered whether it could develop a surrogate or proxy to quantify the errors to be corrected. The proposed proxy would involve determining the fair value of each affected asset (measured on a stand-alone basis), and estimating the amount of overpayments as being the difference between the fair value of each affected asset and its carrying amount.

The proposed approach would be different than a charge for impairment because the assets would be valued on a stand-alone basis and not as a group of assets included in a cash generating unit. The recoverable amount of those assets would also not be determined by the higher amount between their fair value and their value in use, but would be considered to be their fair value.

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The Company engaged two global firms internationally known as independent appraisers to determine the fair value of most of the affected assets based on the valuation technique that was most appropriate to the specificities of each asset and for which relevant data was available.

For 31 individual assets, book value exceeded fair value by an aggregate of US\$36.1 billion, while the book value of the 21 other individual assets was an aggregate of US\$11.1 billion below fair value. As previously discussed, the difference between the fair value and the carrying amount of those assets would conceptually be attributable to improper payments.

However, after the difference was measured, the Company concluded that the shortfall between the fair value and the carrying amount of the assets was significantly larger than any reasonable estimate of the improper payments uncovered in the context of the Lava Jato investigation. Fair value shortfalls originate not primarily from improper payments, but from different sources (both related to the method of measuring the fair value and to changes in the business context), which cannot be individually or separately quantified, such as:

- The fair value of the assets was measured on a stand-alone basis and did not consider value that would be added to the assets when used in an integrated manner, in which value is transferred from one asset to another, depending on how the company operates the assets, because management seeks to achieve the global optimum of the portfolio of assets instead of the individual optimum (especially for the refining assets). Those gains are captured when those assets are evaluated inside cash-generating units (CGU) for impairment testing and many of the affected assets are in a single CGU;
- The discount rate used by the appraisers considered a risk premium related to the acquisition of a single asset by a third party inside a market highly concentrated in a single large-scale player (Petrobras). This would be applicable to evaluate the acquisition of new property, plant and equipment, but not to determine the value in use of assets which already belong to the portfolio of the Company;
- Changes in economic and financial variables (exchange rate, discount rate, risk metrics and cost of capital);
- Changes in estimates of prices and margins of inputs;
- Changes in projections of prices, margins and demand for products sold in light of recent changes in market conditions;
- Changes in equipment and input prices, wages and other correlated costs;

- The impact of local content requirements; and
- Project planning deficiencies (especially in the Engineering and Downstream areas).

Therefore, the Company concluded that using the fair value as a surrogate or proxy to adjust its property, plant and equipment would not have been appropriate, as the adjustment would include elements with no direct relation to the overpayments.

5.9. Allowance for impairment of trade receivables

Management continuously assesses whether there is objective evidence that trade receivables are impaired and recognizes allowances for impairment of trade receivables to cover losses. Such evidence includes insolvency, defaults, judicial recovery claims, a significant probability of a debtor filing for bankruptcy and others.

See note 8 for more detailed information about allowance for impairment of trade receivables.

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6. New standards and interpretations

a) IASB - International Accounting Standards Board

During 2014, the following interpretation issued by the International Accounting Standards Board (IASB) became effective but did not have a significant impact on the Company's financial statements for year ended December 31, 2014:

- IFRIC 21 - "Levies" is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation addresses what the obligating event is (the transaction described in the tax regulations) that gives rise to the payment of a levy and when a liability should be recognized.

The main standards and amendments to standards issued by the IASB and not effective as of December 31, 2014 are set out following. The Company did not early adopt those standards:

Standards	Brief Description	Effective Date
Amendment to IFRS 11 "Joint Arrangements"		

The amendments require an investor to apply the January 1, 2016 principles of business combination accounting when it acquires an interest in a joint operation (as defined under IFRS 11) that constitutes a "business (as defined under IFRS 3)."

Amendment to IFRS 10
"Consolidated Financial
Statements" and IAS 28
"Investments in
Associates and Joint
Ventures"

A full gain or loss is recognized when a transaction involves a business (as defined under IFRS 3). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

January 1, 2016

IFRS 15 – “Revenue from
Contracts with
Customers”

Sets out requirements for revenue recognition, measurement and disclosure. According to IFRS 15, revenue is recognized when a customer obtains control of a good or service. It changes the current model, based on which revenue is recognized when significant risks and rewards of ownership are transferred. In addition IFRS 15 provides guidance for revenue recognition in more complex cases. January 1, 2017

IFRS 9 - "Financial Instruments"

Simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flows characteristics of the financial asset. IFRS 9 changes the requirements for hedge effectiveness in hedge accounting. IAS 39 is still applicable for impairment of financial assets and hedge accounting. January 1, 2018

The Company is assessing the impact the new standards and amendments to standards may have on future periods.

b) Brazilian Tax Law

On May 14, 2014, Law 12,973 was enacted, establishing the following:

- Repeals the Transition Tax Regime (*Regime Tributário de Transição - RTT*) established by Law 11,941 enacted on May 27, 2009;

- Establishes regulations for changes in federal taxes (income tax, PIS and COFINS) in contemplation of adoption of the International Financial Reporting Standards - IFRS;

Except for articles 3, 72 to 75 and 93 to 119, which were effective as of the date the law was enacted, law 12,973 will be effective on January 1, 2015.

Regulation for this law was established by Normative Instruction 1,515, issued by the Federal Revenue Secretariat of Brazil on November 24, 2014.

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As Management has decided to adopt articles 1, 2 and 4 to 70 of Law 12,973, with respect to the adoption of the new tax regime (repealing *RTT*), beginning in 2015, there has been no impact to the 2014 financial statements. The Company does not expect the adoption of the new tax regime to result in material impacts in its tax expense or in its financial statements from 2015.

7. Cash and cash equivalents and Marketable securities**Cash and cash equivalents**

	2014	2013
Cash at bank and in hand	709	951
Short-term financial investments		
- In Brazil		
Single-member funds (Interbank Deposit) and other short-term deposits	1,999	3,493
Other investment funds	41	53
	2,040	3,546
- Abroad		
Time deposits	8,700	6,075
Automatic investing accounts	3,097	3,982
Other financial investments abroad	2,109	1,314
	13,906	11,371
Total short-term financial investments	15,946	14,917
Total cash and cash equivalents	16,655	15,868

Short-term financial investments in Brazil comprise investments in exclusive (single-member) funds, mainly holding Brazilian Federal Government Bonds. Short-term financial investments abroad are comprised of time deposits, highly-liquid automatic investing accounts and other short-term fixed income instruments from highly-rated financial institutions with maturities of three months or less.

Marketable securities

	2014	2013
Trading securities	2,690	3,878
Available-for-sale securities	21	17

Held-to-maturity securities	6,721	121
	9,432	4,016
Current	9,323	3,885
Non-current	109	131

Trading securities refer mainly to investments in Brazilian Government Bonds and held-to-maturity securities are mainly comprised of time deposits in highly-rated financial institutions.

These financial investments have maturities of more than three months and are classified as current assets due to their maturity or the expectation of their realization in the short term.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***8. Trade and other receivables****8.1. Trade and other receivables, net**

	2014	2013
Trade receivables		
Third parties	10,627	10,153
Related parties (Note 19)		
Investees	863	658
Receivables from the electricity sector	2,966	1,849
Petroleum and alcohol accounts -Federal Government	317	357
Other receivables	2,005	2,591
	16,778	15,608
Provision for impairment of trade receivables	(3,372)	(1,406)
	13,406	14,202
Current	7,969	9,670
Non-current	5,437	4,532

8.2. Changes in the allowance for impairment of trade receivables

	2014	2013	2012
Opening balance	1,406	1,452	1,487
Additions (*)	2,484	133	244
Write-offs	(131)	(68)	(210)
Cumulative translation adjustment	(387)	(111)	(69)
Closing balance	3,372	1,406	1,452
Current	1,448	800	854
Non-current	1,924	606	598

(*) Relates primarily to the electricity sector (see note 8.4).

8.3. Trade receivables overdue - Third parties

	2014	2013
Up to 3 months	823	911
From 3 to 6 months	178	272
From 6 to 12 months	181	395
More than 12 months	1,832	1,827
	3,014	3,405

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*(Expressed in millions of US Dollars, unless otherwise indicated)***8.4. Trade receivables – electricity sector (isolated electricity system in the northern region of Brazil)**

	12.31.2014			12.31.2013		
	Not yet due	Overdue	Total	Not yet due	Overdue	Total
Clients						
Elektrobras Group (Note 19)	2,536	430	2,966	663	1,186	1,849
Companhia de Gás do Amazonas (CIGÁS)	1,266	167	1,433	–	682	682
Others	24	394	418	43	264	307
	3,826	991	4,817	706	2,132	2,838
(-) Allowance for impairment of trade receivables	(1,090)	(621)	(1,711)	–	(15)	(15)
Total	2,736	370	3,106	706	2,117	2,823
Related parties	2,473	165	2,638	663	1,180	1,843
Third parties	263	205	468	43	937	980

As of December 31, 2014, US\$ 4,198 of the Company's receivables from the isolated electricity system in the northern region of Brazil were classified as non-current assets. The balance of those receivables was US\$ 4,817 as of December 31, 2014 (US\$ 2,838 as of December 31, 2013) and comprise:

(i) US\$ 4,526 (US\$ 2,659 as of December 31, 2013) from fuel oil, natural gas and other products sold to thermoelectric power plants (which are subsidiaries of Eletrobras), state-owned natural gas distribution companies and independent electricity producers (*Produtores Independentes de Energia – PIE*) located in the northern region of Brazil.

(ii) US\$ 291 (US\$ 179 as of December 31, 2013) from an electricity supply contract entered into by Petrobras and a subsidiary of Eletrobras in 2005 classified as a finance lease of two thermoelectric power plants in the northern region of Brazil. The thermoelectric power plants will be transferred to the subsidiary of Eletrobras by the end of the lease term (20 years) for no additional cost. These receivables are not overdue.

A portion of the costs related to the fuel supplied to those thermoelectric power plants is borne by funds from the Fuel Consumption Account (*Conta de Consumo de Combustível – CCC*), which is managed by Eletrobras.

Funds transferred from the CCC to the electricity companies in the northern region of Brazil have not been sufficient for them to meet their financial obligations, and, as a result, some of these companies are experiencing financial difficulties and have not been able to pay for the products supplied by Petrobras. The Company entered into a debt acknowledgement agreement with subsidiaries of Eletrobras on December 31, 2014 with respect to the balance of its receivables as of November 30, 2014. Eletrobras acknowledged being indebted in the amount of US\$ 3,509. This amount will be updated based on the Selic interest rate (Brazilian short-term interest rate) every month. Under the agreement, the amounts are expected to be paid in 120 monthly installments beginning in February 2015.

Pursuant to the debt acknowledgment agreement, receivables due to Petrobras in the amount of US\$ 2,483 were collateralized by receivables from the CCC that were pledged as security. The collateralized receivables relate to amounts payable from the Brazilian Energy Development Account (*Conta de Desenvolvimento Energético - CDE*) to the CCC. One of the purposes of the CDE is to refund the costs incurred by the CCC to support electricity generation and distribution in the isolated electricity system. The debt acknowledgment agreement was collateralized when the Brazilian Electricity Agency - *Agência Nacional de Energia Elétrica* (ANEEL) recognized in February 2015 a debt acknowledgement for the payables from the CDE to the CCC.

Beginning in 2015 the Brazilian government implemented a new pricing policy for the electricity sector and has already implemented price increases in the first quarter of 2015. The new policy will strengthen the financial situation of the companies in the electricity sector and reduce their insolvency on payables from fuel oil and other products supplied. The Company expects that the impact of the higher electricity prices resulting from the new policy will be more significant after the first quarter of 2015, notably because the funds received from the end customer will be transferred to the CCC and used to refund the electricity generation companies.

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The Company's Management has determined that an allowance for impairment of trade receivables was required to cover receivables as of October 31, 2014 with no guarantees, including the balances of previous debt acknowledgement agreements and from companies that were not part of the most recent debt acknowledgment agreement with Eletrobras. An allowance for impairment of trade receivables of US\$ 1,696 was recognized in 2014 (US\$ 1,948 charged to selling expenses, partially offset by a US\$ 252 cumulative translation adjustment -CTA effect). No charges were recognized for companies that were not insolvent or for receivables from sales after November 1, 2014, because those amounts were included in the calculation of ANEEL's new pricing policy.

9. Inventories

	2014	2013
Crude oil	3,977	5,849
Oil products	4,333	4,985
Intermediate products	854	924
Natural gas and LNG (*)	358	401
Biofuels	150	158
Fertilizers	34	26
	9,706	12,343
Materials, supplies and others	1,806	1,935
	11,512	14,278
Current	11,466	14,225
Non-current	46	53

(*) Liquid natural gas

Inventories are presented net of a US\$ 150 allowance reducing inventories to net realizable value (US\$ 88 as of December 31, 2013), mainly due to the decrease in international prices of crude oil and oil products. The amount of write-down of inventories to net realizable value recognized as cost of sales in 2014 is US\$ 1,015 (US\$ 580 in 2013).

A portion of the crude oil and/or oil products inventories have been pledged as security for the Terms of Financial Commitment (TFC) signed by Petrobras and Petros in the amount of US\$ 2,316 (US\$ 2,976 as of December 31, 2013), as set out in note 22.1.

10. Disposal of assets and legal mergers

10.1. Disposal of assets

Brasil PCH S.A.

On June 14, 2013, Petrobras entered into an agreement with Cemig Geração e Transmissão S.A. (which subsequently assigned the sale and purchase contract to Chipley SP Participações) for the disposal of its entire equity interest in Brasil PCH S.A., equivalent to 49% of its voting stock, for a consideration of US\$ 304, before contractual price adjustments.

On February 14, 2014, the remaining conditions precedent for this transaction were met and the disposal was concluded for a total amount of US\$ 301, after contractual price adjustments. A pre-tax gain of US\$ 274 was recognized in other income.

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Petrobras Colombia Limited (PEC)

On September 13, 2013, the Board of Directors of Petrobras approved the disposal of 100% of the share capital of Petrobras Colombia Limited (PEC), a subsidiary of Petrobras International Braspetro B.V. (PIB BV), to Perenco Colombia Limited, for a consideration of US\$ 380, subject to price adjustments through the close of the transaction.

On April 30, 2014 the transaction was concluded, the respective assets and liabilities were transferred to Perenco and a US\$ 101 gain was recognized in other income.

UTE Norte Fluminense S.A.

On April 11, 2014 Petrobras disposed of its 10% interest in Usina Termelétrica Norte Fluminense (UTE - NF) to Électricité de France (EDF) for US\$ 82. A US\$ 37 gain was recognized in other income. There are no precedent conditions to the transaction.

Transierra S.A.

On August 5, 2014, Petrobras disposed of its 44.5% interest in Transierra S.A. to Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) for US\$ 107. A US\$ 32 gain was recognized in other income. There are no precedent conditions to the transaction.

Innova S.A.

On August 16, 2013, the Board of Directors of Petrobras approved the disposal of 100% of the share capital of Innova S.A. to Videolar S.A. and its controlling shareholder at a consideration of US\$ 369, subject to certain condition precedent, such as approval by the Brazilian Antitrust Regulator (Conselho Administrativo de Defesa Econômica – CADE).

On October 1, 2014 the Brazilian Antitrust Regulator (Conselho Administrativo de Defesa Econômica – CADE) approved the purchase of Innova S.A by Videolar S.A with restrictions. The approval of the transaction was conditioned on the fulfillment of a set of measures set out in the Merger Control Agreement (Acordo em Controle e Concentrações – ACC) entered into by the antitrust agency and the merging parties.

On October 30, 2014 the transaction was concluded as set out in the sales and purchase agreement and a US\$ 57 gain was recognized in other income.

Petrobras Energia Peru S.A.

On November 12, 2013, the Board of Directors of Petrobras approved the disposal of 100% of Petrobras Energia Peru S.A. by Petrobras de Valores Internacional de España S.L. – PVIE and Petrobras International Braspetro B.V. – PIB BV to China National Petroleum Corporation (CNPC), for US\$ 2,643, subject to price adjustment through the close of the transaction. Price adjustments are being calculated, pursuant to the sales and purchase agreement.

In November 2014 the conditions precedent for the transaction were met. The conditions included approval by the Chinese and Peruvian governments, and compliance with the procedures under their "Joint Operating Agreement" (JOA). A US\$ 1,304 pre-tax gain was recognized in other income, US\$ 869 net of income taxes of US\$ 435.

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Companhia de Gás de Minas Gerais

On July 18, 2014, the Board of Directors of Petrobras approved the disposal of its 40% interest in Companhia de Gás de Minas Gerais (Gasmig) to Companhia Energética de Minas Gerais (Cemig).

On October 10, 2014 the conditions precedent were met and the transaction was concluded for US\$ 251. A US\$ 68 a gain was recognized in other income.

10.2. Assets classified as held for sale

As of December 31, 2014, the Company had assets classified as held for sale in the amount of US\$ 5 (US\$ 2,407 as of December 31, 2013, with associated liabilities of US\$ 1,073). Those assets comprise PI, PIII, PIV and PV drilling rigs and PXIV platform, all related to exploration and production in Brazil.

The conditions precedent were met and other assets classified as held for sale as of December 31, 2013 were sold during 2014.

10.3. Legal mergers

On April 2, 2014, the Petrobras Shareholders' Extraordinary General Meeting approved the mergers of Termoçu S.A., Termoçaré Ltda. and Companhia Locadora de Equipamentos Petrolíferos – CLEP into Petrobras.

On January 30, 2015, the Shareholders' Extraordinary General Meeting of Petrobras approved the mergers of Arembepe Energia S.A. and Energética Camaçari Muricy S.A. into Petrobras.

These mergers did not affect share capital.

The objective of these mergers is to simplify the corporate structure of the Company, reduce costs and capture synergies. These mergers did not affect the Company's consolidated financial statements.

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Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***11. Investments****11.1. Information about direct subsidiaries, joint arrangements and associates**

Entities that are consolidated Subsidiaries	Main business segment	% Petrobras' ownership	% Petrobras' voting rights	Shareholders' equity (deficit)	Net income (loss) for the year	Country
Petrobras Netherlands B.V. - PNBV (i)	E&P	100.00%	100.00%	14,209	1,061	Netherlands
Petrobras Distribuidora S.A. - BR	Distribution	100.00%	100.00%	4,566	481	Brazil
Transportadora Associada de Gás S.A. - TAG	Gas & Power	100.00%	100.00%	2,490	243	Brazil
Petrobras Transporte S.A. - Transpetro	RT&M	100.00%	100.00%	1,889	319	Brazil
Petrobras Logística de Exploração e Produção S.A. - PB-LOG	E&P	100.00%	100.00%	1,316	190	Brazil
Petrobras Gás S.A. - Gaspetro	Gas & Power	100.00%	100.00%	977	634	Brazil
Petrobras International Braspetro - PIB BV (i) (ii)	International	88.12%	88.12%	984	(698)	Netherlands
Petrobras Biocombustível S.A. Companhia Integrada Têxtil de Pernambuco S.A. - CITEPE	Biofuels	100.00%	100.00%	832	(113)	Brazil
	RT&M	100.00%	100.00%	396	(1,128)	Brazil
	RT&M	100.00%	100.00%	343	23	Brazil

Liquigás Distribuidora S.A. Termomacaé Ltda. Companhia Petroquímica de Pernambuco S.A. - PetroquímicaSuape Araucária	Gas & Power	99.99%	99.99%	306	79	Brazil
Nitrogenados S.A. Breitener Energética S.A. Braspetro Oil Services Company - Brasoil (i) Petrobras Comercializadora de Energia Ltda. - PBEN Termobahia S.A. Arembepe Energia S.A. 5283 Participações Ltda. Baixada Santista Energia S.A. Energética Camaçari Muricy I Ltda. Fundo de Investimento Imobiliário RB Logística - FII Termomacaé Comercializadora de Energia Ltda Cordoba Financial Services GmbH (i) Petrobras Negócios Eletrônicos S.A. - E-Petro Downstream Participações Ltda.	RT&M	100.00%	100.00%	292	(531)	Brazil
	Gas & Power	100.00%	100.00%	286	(79)	Brazil
	Gas & Power	93.66%	93.66%	227	41	Brazil
	Corporate	100.00%	100.00%	183	204	Cayman Islands
	Gas & Power	99.91%	99.91%	163	105	Brazil
	Gas & Power	98.85%	98.85%	151	28	Brazil
	Gas & Power	100.00%	100.00%	146	50	Brazil
	International	100.00%	100.00%	117	(83)	Brazil
	Gas & Power	100.00%	100.00%	103	1	Brazil
	Gas & Power	100.00%	100.00%	84	51	Brazil
	E&P	99.00%	99.00%	66	(31)	Brazil
	Gas & Power	100.00%	100.00%	35	4	Brazil
	Corporate	100.00%	100.00%	20	(3)	Austria
	Corporate	99.95%	99.95%	13	1	Brazil
	Corporate	99.99%	100.00%	(1)	–	Brazil
Joint operations Fábrica Carioca de Catalizadores S.A. - FCC	RT&M	50.00%	50.00%	94	20	Brazil
Ibiritermo S.A.	Gas & Power	50.00%	50.00%	59	17	Brazil
Entities that are not consolidated Joint ventures	RT&M	20.00%	20.00%	126	(62)	Brazil

Logum Logística S.A.						
Cia Energética Manauara S.A.	Gas & Power	40.00%	40.00%	52	1	Brazil
Petrocoque S.A. Indústria e Comércio	RT&M	50.00%	50.00%	50	14	Brazil
Brentech Energia S.A.	Gas & Power	30.00%	30.00%	28	15	Brazil
Brasympe Energia S.A.	Gas & Power	20.00%	20.00%	28	(1)	Brazil
Refinaria de Petróleo Riograndense S.A.	RT&M	33.20%	50.00%	25	(1)	Brazil
METANOR S.A. - Metanol do Nordeste	RT&M	34.54%	34.54%	20	2	Brazil
Eólica Mangue Seco 4 - Geradora e Comercializadora de Energia Elétrica S.A.	Gas & Power	49.00%	49.00%	15	–	Brazil
Eólica Mangue Seco 3 - Geradora e Comercializadora de Energia Elétrica S.A.	Gas & Power	49.00%	49.00%	15	–	Brazil
Eólica Mangue Seco 2 - Geradora e Comercializadora de Energia Elétrica S.A.	Gas & Power	51.00%	51.00%	14	–	Brazil
Eólica Mangue Seco 1 - Geradora e Comercializadora de Energia Elétrica S.A.	Gas & Power	49.00%	49.00%	13	(1)	Brazil
Companhia de Coque Calcinado de Petróleo S.A. - COQUEPAR	RT&M	45.00%	45.00%	4	(13)	Brazil
Participações em Complexos Bioenergéticos S.A. - PCBIOS	Biofuels	50.00%	50.00%	–	(27)	Brazil
GNL do Nordeste Ltda.	Gas & Power	50.00%	50.00%	–	–	Brazil
Associates						
Fundo de Investimento em Participações de	E&P	4.59%	4.59%	2,972	50	Brazil

Sondas

Sete Brasil

Participações S.A.	E&P	5.00%	5.00%	2,883	400	Brazil
Braskem S.A.	RT&M	36.20%	47.03%	2,274	367	Brazil
UEG Araucária Ltda.	Gas & Power	20.00%	20.00%	370	201	Brazil
Deten Química S.A.	RT&M	27.88%	27.88%	123	25	Brazil
Energética SUAPE II	Gas & Power	20.00%	20.00%	82	31	Brazil
Termoelétrica						
Potiguar S.A. - TEP	Gas & Power	20.00%	20.00%	27	(6)	Brazil
Nitroclor Ltda.	RT&M	38.80%	38.80%	–	–	Brazil
Bioenergética						
Britarumã S.A.	Gas & Power	30.00%	30.00%	–	–	Brazil

(i) Companies abroad with financial statements prepared in foreign currencies.

(ii) 5283 Participações Ltda holds an 11.88% interest in PIB BV and, therefore, PIB BV is a wholly-owned subsidiary.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***11.2. Investments in associates and joint ventures**

	Carrying amount of the investments		Share of earnings in the investments	
	12.31.2014	12.31.2013	12.31.2014	12.31.2013
Investments accounted for using the equity method				
Braskem S.A.	1,711	2,201	141	68
Petrobras Oil & Gas B.V. - PO&G	1,714	1,707	126	229
Guarani S.A.	518	510	(24)	(13)
State-controlled Natural Gas Distributors	340	533	121	128
Nova Fronteira Bioenergia S.A.	163	170	16	(6)
Petrowayu S.A.	136	185	(62)	(1)
Petroritupano S.A.	112	198	(109)	(38)
Other petrochemical investees	66	84	2	12
UEG Araucária Ltda	73	59	45	3
Petrokariña S.A.	45	66	(27)	(10)
Transierra S.A.	–	68	8	5
Other associates	858	863	(19)	130
	5,736	6,644	218	507
Other investees	17	22	–	–
	5,753	6,666	218	507

11.3. Investments in listed companies

Company	Thousand-share lot			Quoted stock exchange prices (US\$ per share)		Market value	
	12.31.2014	12.31.2013	Type	12.31.2014	12.31.2013	12.31.2014	12.31.2013
Indirect subsidiary							
Petrobras Argentina S.A.	1,356,792	1,356,792	Common	0.65	0.80	879	1,083
						879	1,083

Associate

Braskem S.A.	212,427	212,427	Common 4.07	7.04	864	1,496
Braskem S.A.	75,793	75,793	Preferred A 6.59	8.96	499 1,363	680 2,176

The market value of these shares does not necessarily reflect the realizable value upon sale of a large block of shares.

Braskem S.A. - Investment in publicly traded associate:

The main assumptions on which cash flow projections were based to determine Braskem's value in use are set out in note 14.2.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***11.4. Non-controlling interest**

The total amount of non-controlling interest at December 31, 2014 is US\$ 706, of which US\$ 484 is related to Petrobras Argentina S.A. Condensed financial information of Petrobras Argentina S.A. is set out following:

	Petrobras Argentina S.A.	
	2014	2013
Current assets	1,008	980
Long-term receivables	83	174
Property, plant and equipment	1,355	1,468
Other non-current assets	410	636
	2,856	3,258
Current liabilities	689	618
Non-current liabilities	693	834
Shareholders' equity	1,474	1,806
	2,856	3,258
Sales revenues	145	254
Net income	43	139
Increase (decrease) in cash and cash equivalents	118	(40)

Petrobras Argentina S.A. is an integrated energy company, indirectly controlled by Petrobras (directly controlled by PIB BV, which holds a 67.19% interest in this company) and its main place of business is Argentina.

11.5. Summarized information on joint ventures and associates

The Company invests in joint ventures and associates in Brazil and abroad, whose activities are related to petrochemical companies, gas distributors, biofuels, thermoelectric power plants, refineries and other activities. Condensed financial information is set out below:

	2014		Associates	
	Joint ventures		In Brazil	Abroad
	In Brazil	Abroad		
Current assets	1,474	1,347	10,701	2,241
Non-current assets	438	40	2,695	210
Property, plant and equipment	1,598	3,014	12,207	3,600

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Other non-current assets	753	18	4,342	79
	4,263	4,419	29,945	6,130
Current liabilities	1,841	503	6,795	3,482
Non-current liabilities	732	1,438	13,426	992
Shareholders' equity	1,681	2,328	9,779	1,656
Non-controlling interest	9	150	(55)	–
	4,263	4,419	29,945	6,130
Sales revenues	5,583	2,491	22,540	189
Net Income for the year	144	252	769	331
Ownership interest - %	20 to 83%	34 to 50%	5 to 49%	11 to 49%

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(Expressed in millions of US Dollars, unless otherwise indicated)

	2013		Associates	
	Joint ventures		In Brazil	Abroad
	In Brazil	Abroad	In Brazil	Abroad
Current assets	1,603	1,349	9,677	2,749
Non-current assets	830	81	3,103	53
Property, plant and equipment	1,639	2,879	13,141	2,783
Other non-current assets	933	50	2,945	71
	5,005	4,359	28,866	5,656
Current liabilities	1,733	495	6,750	2,562
Non-current liabilities	1,022	1,442	13,864	1,035
Shareholders' equity	2,240	2,268	8,190	2,059
Non-controlling interest	10	154	62	–
	5,005	4,359	28,866	5,656
Sales revenues	5,646	1,791	21,363	93
Net Income for the Year	254	507	1,201	322
Ownership interest - %	20 to 83%	34 to 50%	5 to 49%	11 to 49%

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*(Expressed in millions of US Dollars, unless otherwise indicated)***12. Property, plant and equipment****12.1. By class of assets**

	Land, buildings and improvement	Equipment and other assets	Assets under construction (*)	Exploration and development costs (Oil and producing properties)	Total
Balance at January 1, 2013	8,164	81,708	81,663	33,366	204,901
Additions	68	1,794	36,125	663	38,650
Additions to / review of estimates of decommissioning costs	–	–	–	(629)	(629)
Capitalized borrowing costs	–	–	3,909	–	3,909
Business combinations	17	31	16	–	64
Write-offs	(4)	(121)	(2,399)	(25)	(2,549)
Transfers (***)	1,224	23,626	(29,620)	25,896	21,126
Depreciation, amortization and depletion	(518)	(7,513)	–	(4,939)	(12,970)
Impairment recognition (****)	–	(11)	(6)	(85)	(102)
Impairment reversal (****)	–	49	–	72	121
Cumulative translation adjustment	(1,083)	(9,158)	(9,930)	(4,449)	(24,620)
Balance at December 31, 2013	7,868	90,405	79,758	49,870	227,901
Cost	10,729	133,368	79,758	77,117	300,972
Accumulated depreciation, amortization and depletion	(2,861)	(42,963)	–	(27,247)	(73,071)
Balance at December 31, 2013	7,868	90,405	79,758	49,870	227,901
Additions	30	2,031	30,362	580	33,003

Additions to / review of estimates of decommissioning costs	–	–	–	1,999	1,999
Capitalized borrowing costs	–	–	3,592	–	3,592
Write-offs	(9)	(57)	(4,024)	(196)	(4,286)
Write-off - overpayments incorrectly capitalized	(35)	(1,160)	(1,078)	(91)	(2,364)
Transfers (**)	2,685	25,371	(36,178)	23,078	14,956
Depreciation, amortization and depletion	(534)	(7,381)	–	(4,888)	(12,803)
Impairment recognition (note 14)(****)	(899)	(1,398)	(11,670)	(2,839)	(16,806)
Impairment reversal (****)	–	17	–	3	20
Cumulative translation adjustment	(1,071)	(9,832)	(7,819)	(7,760)	(26,482)
Balance at December 31, 2014	8,035	97,996	52,943	59,756	218,730
Cost	10,979	142,030	52,943	88,023	293,975
Accumulated depreciation, amortization and depletion	(2,944)	(44,034)	–	(28,267)	(75,245)
Balance at December 31, 2014	8,035	97,996	52,943	59,756	218,730
Weighted average of useful life in years	40 (25 to 50) (except land)	20 (3 to 31) (**)		Units of production method	

(*) See note 29 for assets under construction by business area

(**) Includes exploration and production assets depreciated based on the units of production method.

(***) Includes US\$ 10,446 (US\$ 22,134 in 2013), reclassified from Intangible Assets to Property, Plant and Equipment in 2014, as a result of the declaration of commerciality of areas of the Assignment Agreement (note 12.3).

(****) Recognized in the statement of income.

As of December 31, 2014, property, plant and equipment includes assets under finance leases of US\$ 72 (US\$ 86 as of December 31, 2013).

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*(Expressed in millions of US Dollars, unless otherwise indicated)***12.2. Estimated useful life****Buildings and improvements,
equipment and other assets**

Estimated useful life	Cost	Accumulated depreciation	Balance at 2014
5 years or less	4,534	(2,862)	1,672
6 - 10 years	10,897	(5,278)	5,619
11 - 15 years	1,044	(486)	558
16 - 20 years	47,225	(12,341)	34,884
21 - 25 years	19,962	(6,616)	13,346
25 - 30 years	22,727	(4,097)	18,630
30 years or more	25,055	(5,129)	19,926
Units of production method	20,957	(10,168)	10,789
	152,401	(46,977)	105,424
Buildings and improvements	10,371	(2,943)	7,428
Equipment and other assets	142,030	(44,034)	97,996

The estimated useful life of equipment and other assets was revised in 2014, based on reports of internal appraisers.

**12.3. Concession for exploration of oil and natural gas - Assignment Agreement
("Cessão Onerosa")**

Petrobras, the Brazilian Federal Government (assignor) and the Brazilian Agency of Petroleum, Natural Gas and Biofuels (Agência Nacional de Petróleo, Gás Natural e Biocombustíveis) - ANP (regulator and inspector) entered into the Assignment Agreement in 2010, which grants the Company the right to carry out prospection and drilling activities for oil, natural gas and other liquid hydrocarbons located in blocks in the pre-salt area (Franco, Florim, Nordeste de Tupi, Entorno de Iara, Sul de Guará and Sul de Tupi), limited to the production of five billion barrels of oil equivalent in up to 40 (forty) years and renewable for a further 5 (five) years subject to certain conditions.

On December 29, 2014, the Company submitted the last declaration of commerciality of crude oil and natural gas accumulations - located in the Entorno de Iara block to the ANP. Following the last declaration of commerciality, the exploration stage of the entire Assignment

Agreement is concluded.

The agreement establishes that, immediately after the declaration of commerciality for each area, the review procedures, which must be based on independent technical appraisal reports, will commence. The review commenced in January 2014 after the declarations of commerciality of Franco and Sul de Tupi were submitted to the ANP, and beginning in January 2015, following the last declaration of commerciality, all the Assignment Agreement areas were included in the review procedures. The review of the Assignment Agreement will be concluded after the review of all the areas. However, no specific date has been established for the review procedures to be concluded.

The formal review procedures for each block are based on costs incurred through the exploration stage and estimated costs and production levels included in the independent technical appraisal reports. The review of the Assignment Agreement may result in modifications to: (i) local content requirements and commitments; (ii) total volume (in barrels of oil) assigned and (iii) the value of acquired rights.

If the review of the Assignment Agreement determines that the value of acquired rights is greater than initially paid, the Company may be required to pay the difference to the Federal Government, or may proportionally reduce the total volume of barrels acquired under the agreement. If the review determines that the value of the acquired rights is lower than initially paid by the Company, the Federal Government will reimburse the Company for the difference by delivering cash or bonds, subject to budgetary regulations.

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Once the effects of the aforementioned review become probable and can be reliably measured, the Company will make the respective adjustments to the purchase prices of the rights.

During 2014 acquisition costs of US\$ 10,446, related to Florim (now Itapu field), Sul de Guará (now Sul de Sapinhoá field), Entorno de Iara (now Norte de Berbigão, Sul de Berbigão, Norte de Sururu, Sul de Sururu and Atapu fields) and Nordeste de Tupi (now Sepia field) were reclassified from intangible assets to property, plant and equipment. During 2013, acquisition costs of US\$ 22,134, related to Franco (now Búzios field) and Sul de Tupi (now Sul de Lula field), were reclassified from intangible assets to property, plant and equipment.

As of December 31, 2014, the Company's property, plant and equipment include US\$ 28,164 (US\$ 21,510 as of December 31, 2013) related to the Assignment Agreement.

The agreement also establishes a compulsory exploration program for each of the blocks and minimum commitments related to the acquisition of goods and services from Brazilian suppliers in the exploration and development stages, which will be subject to certification by the ANP. In the event of non-compliance, the ANP may apply administrative sanctions pursuant to the terms in the agreement.

Based on drilling results obtained, expectations regarding the production potential of the areas were confirmed and the Company will continue to develop its investment program and activities as established in the agreement.

12.4. Premium I and Premium II refineries

On January 22, 2015 the Company decided to abandon the construction projects of Premium I and Premium II refineries.

Based on projected demand growth in the domestic and international oil product markets and the absence of a construction phase financial support partner (one of the assumptions in the 2014-2018 Business and Management Plan - BMP), the Company decided to abandon these projects.

The decision to abandon the projects resulted in a charge of US\$ 1,236 recognized in other expenses to write-off all capitalized costs with respect to those projects.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***13. Intangible assets****13.1. By class of assets**

	Rights and Concessions	Software acquired	Software developed in-house	Goodwill	Total
Balance at January 1, 2013	38,513	188	577	461	39,739
Addition	2,931	33	128	–	3,092
Capitalized borrowing costs	–	–	12	–	12
Write-offs	(80)	(2)	(3)	–	(85)
Transfers (**)	(22,222)	(15)	(14)	(17)	(22,268)
Amortization	(38)	(47)	(133)	–	(218)
Impairment recognition	(524)	–	–	–	(524)
Cumulative translation adjustment	(4,199)	(15)	(71)	(44)	(4,329)
Balance at December 31, 2013	14,381	142	496	400	15,419
Cost	14,804	607	1,442	400	17,253
Accumulated amortization	(423)	(465)	(946)	–	(1,834)
Balance at December 31, 2013	14,381	142	496	400	15,419
Addition	92	41	118	–	251
Capitalized borrowing costs	–	–	8	–	8
Write-offs	(93)	(5)	(10)	–	(108)
Transfers (**)	(10,346)	7	9	(1)	(10,331)
Amortization	(35)	(54)	(131)	–	(220)
Impairment recognition	(8)	–	–	–	(8)
Impairment reversal	6	–	–	–	6
Cumulative translation adjustment	(405)	(12)	(58)	(33)	(508)
Balance at December 31, 2014	3,592	119	432	366	4,509
Cost	4,003	578	1,281	366	6,228
Accumulated amortization	(411)	(459)	(849)	–	(1,719)
Balance at December 31, 2014	3,592	119	432	366	4,509
Estimated useful life - years (*)		5	5	Indefinite	

(*) Mainly comprised of assets with indefinite useful lives, which are reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment.

(**) Includes US\$ 10,446 (US\$ 22,134 in 2013), reclassified from Intangible Assets to Property Plant and Equipment in 2014, as a result of the declaration of commerciality of areas of the Assignment Agreement (Franco and Sul de Tupi in 2013 and Florim, Sul de Guará and Nordeste de Tupi in 2014) - Note 12.3.

As of December 31, 2013, the Company had intangible assets in the amount of US\$ 10,424 with respect to acquisition costs under the Assignment Agreement. This amount was reclassified from intangible assets to property, plant and equipment during 2014, after the declaration of commerciality of the remaining blocks and conclusion of the exploratory stage, as set out in Note 12.3.

13.2. Exploration rights returned to the Brazilian Agency of Petroleum, Natural Gas and Biofuels - Agência Nacional de Petróleo, Gás Natural e Biocombustíveis (ANP)

Exploration areas returned to the ANP in 2014, totaling US\$ 83 (US\$ 61 in 2013) are set out below:

Area	Exploratory stage	
	Exclusive	Partnership
Campos Basin	5	—
Santos Basin	3	3
Solimões Basin	2	—
Espírito Santo Basin	1	2
Recôncavo Basin	1	1
Potiguar Basin	1	—
Jequitinhonha Basin	1	—
Camamu Almada Basin	—	1
Pará - Maranhão Basin	—	3
Parnaíba Basin	—	1

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13.3. Oil and Gas fields operated by Petrobras returned to ANP

During 2014 the following oil and gas fields were returned to ANP: Cação, Carapiá, Moréia, Caravela, Cavalo Marinho, Estrela do Mar, Tubarão, Rio Mariricu, Rio Mariricu Sul, Lagoa Parda Sul, Urutau, Iraúna and Mosquito Norte.

13.4. Exploration rights - production sharing contract

Following a public auction held on October 21, 2013, the Libra consortium – comprised of Petrobras (40% interest), Shell (20% interest), Total (20% interest), Petrochina (10% interest) and CNOOC (10% interest) entered into a production sharing contract with the ANP and the Brazilian Pre-Salt Oil and Natural Gas Management Company (*Empresa Brasileira de Administração de Petróleo e Gás Natural S.A. - Pré-Sal Petróleo PPSA*) on December 2, 2013.

The contract granted rights to explore and operate oil and gas production in a strategic pre-salt area known as the *Libra* block, located in ultra-deep waters in the Santos Basin. This was the first oil and gas production sharing contract signed in Brazil. The contract is for 35 years and cannot be renewed.

A signature bonus (acquisition cost) of US\$ 6,589 was paid by the consortium. The Company paid US\$ 2,636 (its share of the acquisition cost paid by the consortium) recognized in its intangible assets as rights and concessions in 2013.

13.5. Service concession agreement - Distribution of piped natural gas

As of December 31, 2014, intangible assets include service concession agreements related to piped natural gas distribution in Brazil, in the amount of US\$ 210 maturing between 2029 and 2043, which may be renewed. According to the distribution agreements, service is be provided to customers in the industrial, residential, commercial, automotive, air conditioning and transport sectors, among others.

The consideration receivable is a factor of a combination of operating costs and expenses, and return on capital invested. The rates charged for gas distribution are subject to periodic reviews by the state regulatory agency.

The agreements establish an indemnity clause for investments in assets which are subject to return at the end of the service agreement, to be determined based on evaluations and appraisals.

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14. Impairment

14.1. Property, plant and equipment and intangible assets

For impairment testing purposes the Company generally uses the value in use of its property, plant and equipment and intangible assets (individually or grouped into cash-generating units - CGUs) as their recoverable amount. In measuring value in use the Company bases its cash flow projections on (i) the estimated useful life of the asset or assets grouped into the CGU; (ii) assumptions and financial budgets/forecasts approved by Management for the period corresponding to the expected life cycle of each different business; and (iii) a pre-tax discount rate, which is derived from the Company's post-tax weighted average cost of capital (WACC). The Company's identified cash-generating units are set out in note 5.2.

Cash flow projections used to measure the value in use of the CGUs are mainly based on the following assumptions: (i) average Brazilian *real* x U.S. dollar exchange rate of R\$ 2.85 / US\$ 1 in 2015 and 2016 converging to R\$ 2.61 in the long run; and (ii) Brent crude oil price at US\$ 52 in 2015 and converging to US\$ 85 over the long term.

14.1.1. Changes in the CGUs into which certain assets are grouped

As set out in note 5.2, the Company excluded two assets from the "Downstream CGU": (i) Complexo Petroquímico do Rio de Janeiro (Comperj) and (ii) the second refining unit in the Abreu e Lima refinery (RNEST); and one asset from the natural gas CGU: *Unidade de Fertilizantes Nitrogenados* (UFNIII).

a) Downstream CGU

The Company had grouped all refineries and associated assets, terminals and pipelines, as well as logistics assets operated by Transpetro, located in Brazil into a single CGU referred to as the "Downstream CGU".

However, during the quarter ended December 31, 2014, changes in circumstances prompted a review of the Company's planned projects and ultimately led Management to revise certain projects under construction. As a result, Petrobras has recently decided to postpone for an extended period of time the completion of the following refining projects: (i) Petrochemical Complex of Rio de Janeiro (*Complexo Petroquímico do Rio de Janeiro - Comperj*); and (ii) the second refining unit in the Abreu e Lima refinery (RNEST). For that reason, as of December 31, 2014, those assets under construction were removed from the "Downstream CGU" and were tested for impairment individually.

Those circumstances include: (i) a decrease in expected future operating revenues following the decline of international crude oil prices; (ii) the devaluation of the Brazilian *real*, and the increased cash outflows to service the Company's debt in the near term, most of which is denominated in foreign currencies; (iii) Petrobras's current inability to access the capital markets; and (iv) insolvency of contractors and suppliers and a consequent shortage of qualified contractors and suppliers (as a result of the difficulties created for suppliers by the Lava Jato investigation or otherwise).

Comperj was designed to increase the Company's refining capacity and meet the expected growth in oil products demand in Brazil, especially diesel, naphtha, jet fuel, coke, LPG (liquid petroleum gas) and fuel oil. Its first refining unit is expected to process 165 thousand bpd when completed.

RNEST was designed to process 230 thousand bpd, 70% of which would be diesel, including a potential production capacity increase to 260 thousand bpd following the Company's Intermediate Products and Gasoline Production Increase Program (*Programa de Elevação de Médios e Gasolina - Promega*). The refining process comprises two identical refining units with a production capacity of 115 thousand bpd each when completed . Each refining unit includes units for atmospheric distillation, delayed coking, hydro-treating of diesel and naphtha, hydrogen production, amine treating, acid water treating, caustic regeneration and support facilities.

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Postponing the construction work for those projects for an extended period of time was the basis for the Company's decision to remove Comperj and the second refining unit of RNEST from the Downstream CGU and test their recoverability individually. Petrobras understands it would not be appropriate to maintain those assets grouped into the Downstream CGU for an extended period of time, based exclusively on Management's expectations with respect to the future use of those assets, which would not be corroborated, especially considering the postponement of construction work.

b) Natural Gas CGU

The Company had grouped all natural gas pipelines, natural gas processing plants and fertilizers and nitrogen products plants located in Brazil into a single CGU referred to as the "Natural Gas CGU".

However, during the quarter ended December 31, 2014, after the postponement of construction work of *Unidade de Fertilizantes Nitrogenados III* (UFN III), a fertilizers plant in the state of *Mato Grosso do Sul*, the Company rescinded the construction contract with *Consórcio UFN III* due to poor performance. Following the postponement of construction work the Company decided to revise the project's start-up schedule and postpone the engagement of a different contractor to continue construction work, for the period during which its cash preserving measures are in force. For those reasons, the Company considers the postponement of UFN III the basis for the decision to remove it from the "Natural Gas CGU" as of December 31, 2014, and has tested UFN III for impairment individually.

UFN III is projected to have a production capacity of 1.2 million tons of urea and 70 thousand tons of amine to meet the demand for those products in the states of *Mato Grosso, Mato Grosso do Sul, Goiás, São Paulo* and *Paraná*.

14.1.2. Impairment of property, plant and equipment and intangible assets

In the quarter ended December 31, 2014 the Company recognized impairment losses and reversals of impairment losses for certain assets and CGUs in the statement of income, as set out below:

Assets or CGUs, by nature	Carrying amount	Recoverable amount	Impairment (*) / (**)	Business segment	Comments
Producing properties: assets related to E&P activities in Brazil	6,425	4,863	1,562	E&P - Brazil	item (a)

(several CGUs)					
Oil and gas production and drilling equipment	1,091	555	536	E&P - Brazil	item (b)
Oil and gas producing properties abroad	3,126	1,458	1,668	E&P - International	item (c)
Comperj	9,721	1,501	8,220	RTM - Brazil	item (d)
2nd refining unit of RNEST	6,207	2,765	3,442	RTM - Brazil	item (e)
Suape Petrochemical Complex	2,847	1,726	1,121	RTM - Brazil	item (f)
Araucária (fertilizers plant)	367	251	116	Gas & Power - Brazil	item (g)
Nansei Sekiyu K.K. refinery	129	–	129	RTM - International	item (h)
Others	26	32	(6)		
Total	29,939	13,151	16,788		

(*) Impairment losses and reversals.

(**) Excludes impairment charges on assets classified as held for sale of US\$ 35.

a) Producing properties in Brazil

Impairment losses of US\$ 1,562 were recognized, mainly with respect to certain oil and gas fields under E&P concessions, whose recoverable amount was determined to be below their carrying amount. Cash flow projections are based on: financial budgets/forecasts approved by Management; and a 7.2% p.a. (6.1% p.a. in 2013) post-tax discount rate (real rate, excluding inflation) derived from the WACC for the E&P business. The impairment losses are mainly related to the impact of the recent decline in international crude oil prices on the Company's price assumptions and were principally recognized for the following fields: *Frade*, *Pirapitanga*, *Tambuatá*, *Carapicu* and *Piracucá*.

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b) Oil and gas production and drilling equipment in Brazil

Impairment losses of US\$ 536 were recognized in oil and gas production and drilling equipment, unrelated to oil and gas producing properties. Cash flow projections are based on: financial budgets/forecasts approved by Management; and an 8% p.a. (6.6% p.a. in 2013) post-tax discount rate (real rate, excluding inflation) derived from the WACC for the oil and gas services and equipment industry. The impairment losses are mainly related to idle capacity of two drilling rigs in the future and to the demobilization of two oil platforms, which were not deployed in any oil and gas property as of December 31, 2014.

c) Producing properties abroad

Impairment losses of US\$ 1,668 were recognized in international E&P assets. Cash flow projections are based on: financial budgets/forecasts approved by Management; and 5.4% p.a. to 11.2% p.a. (5.1% p.a. to 10.9% p.a. in 2013) post-tax discount rates (real rates, excluding inflation) derived from the WACC for the E&P business in different countries. The impairment losses are mainly in Cascade and Chinook producing properties located in the United States (US\$ 1,567) and are mainly attributable to the recent decline in international crude oil prices.

d) Comperj

An impairment loss of US\$ 8,220 was recognized in Comperj. Cash flow projections are based on: financial budgets/forecasts approved by Management; and a 7% p.a. (5.8% p.a. in 2013, when this asset was tested for impairment grouped into the Downstream CGU) post-tax discount rate (real rate, excluding inflation) derived from the WACC for the refining business. The impairment loss is mainly attributable to: (i) project planning deficiencies; (ii) the use of a higher discount rate, reflecting a specific risk premium for the postponed projects; (iii) a delay in expected future cash inflows resulting from postponing the project; and (iv) the Company's business context of lower projected economic growth.

e) Second refining unit in RNEST

An impairment loss of US\$ 3,442 was recognized in the second refining unit in RNEST. Cash flow projections are based on: financial budgets/forecasts approved by Management; and a 7% p.a. (5.8% p.a. in 2013, when this asset was tested for impairment grouped into the Downstream CGU) post-tax discount rate (real rate, excluding inflation) derived from the WACC for the refining business. The impairment loss is mainly attributable to: (i) project planning deficiencies; (ii) the use of a higher discount rate, reflecting a specific risk premium for the postponed projects; (iii) a delay in expected future cash inflows resulting from postponing the project; and (iv) the Company's business context of lower projected economic

growth.

f) Suape Petrochemical Complex

An impairment loss of US\$ 1,121 was recognized in *Companhia Integrada Têxtil de Pernambuco S.A. - CITEPE* and *Companhia Petroquímica de Pernambuco S.A. – Petroquímica Suape*. Cash flow projections are based on: 30-year period and zero-growth rate perpetuity; financial budgets/forecasts approved by Management; and a 6.2% p.a. (5.4% p.a. in 2013) post-tax discount rate (real rate, excluding inflation) derived from the WACC for the petrochemical business. The impairment loss is mainly attributable to changes in market assumptions and forecasts resulting from a decrease in economic activity, a reduction in the spread for petrochemical products in the international market and modifications in tax regulations.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***g) Araucária Nitrogenados S.A.**

An impairment loss of US\$ 116 was recognized in Araucária Nitrogenados S.A. (a fertilizers plant). Cash flow projections are based on: financial budgets/forecasts approved by Management; and a 6.1% p.a. (5.9% p.a. in 2013) post-tax discount rate (real rate, excluding inflation) derived from the WACC for the fertilizers business. The impairment loss is mainly attributable to operational inputs that required higher capital expenditures during 2014.

h) Nansei Sekiyu K.K. refinery

A US\$ 129 impairment loss was recognized for the international downstream assets resulting from the Company's decision to close its Japanese refinery, Nansei Sekiyu KK.

14.2. Investments in associates and joint ventures (including goodwill)

Value in use is generally used for impairment test of goodwill associated with investments in associates and joint ventures. The basis for estimates of cash flow projections includes: projections covering a period of 5 to 12 years, zero-growth rate perpetuity, budgets, forecasts and assumptions approved by management and a pre-tax discount rate derived from the WACC or the Capital Asset Pricing Model (CAPM), when applicable.

The carrying amount and the value in use of the investments in associates and joint ventures which include goodwill as of December 31, 2014 are set out below:

Investments	Segment	Post-tax discount rate (real interest rate) p.a. (*)	Value in use	Carrying Amount
Braskem S.A.	RTM	9.7% to 10.1%	3,330	1,711
Natural Gas Distributors	Natural Gas	4,8%	1,276	340
Guarani S.A.	Biofuels	7.3%	850	518

(*) Post-tax discount rate in 2013 (real interest rate p.a.) of 8.9% to 9.6% to Braskem; 4.1% to Natural Gas Distributors; and 5.9% to Guarani.

14.3. Investment in publicly traded associate (Braskem S.A.)

Braskem's shares are publicly traded on stock exchanges in Brazil and abroad. The quoted market value as of December 31, 2014, was U.S.\$ 1,363, based on the quoted values of both Petrobras's interest in Braskem's common stock (47% of the outstanding shares), and preferred stock (22% of the outstanding shares) as set out note 11.4. However, there is extremely limited trading of the common shares, since non-signatories of the shareholders' agreement hold only approximately 3% of the common shares.

In addition, given the operational relationship between Petrobras and Braskem, the recoverable amount of the investment, for impairment testing purposes, was determined based on value in use, considering future cash flow projections and the manner in which the Company can derive value from this investment via dividends and other distributions to arrive at its value in use. As the recoverable amount was higher than the carrying amount, no impairment losses were recognized for this investment.

Cash flow projections to determine the value in use of Braskem were based on the following key assumptions: (i) estimated average exchange rate of R\$ 2.85 to U.S.\$1 in 2015 and 2016 (converging to R\$ 2.61 in the long run); (ii) Brent crude oil price of US\$ 52 for 2015, increasing to U.S.\$ 85 over the long term; (iii) prices of feedstock and petrochemical products reflecting projected international prices; (iv) petrochemical products sales volume estimates reflecting projected Brazilian and global G.D.P growth; and (v) increases in the EBITDA margin during the growth cycle of the petrochemical industry in the next years and declining in the long run.

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The carrying amount of the investment as of December 31, 2014 was US\$ 1,711 (US\$ 2,201 as of December 31, 2013).

14.4. Allowance for losses on net investments

E&P operations of affiliates of Petrobras Argentina S.A. (a subsidiary of Petrobras International Braspetro B.V. – PIB BV) and of a joint venture of PIB BV, Petrobras Oil & Gas B.V. (PO&G) in Africa were negatively affected by a decrease international crude oil prices. Allowances for losses on those investments were recognized in the amounts of US\$ 163 and US\$ 88, respectively, in share of earnings in equity-accounted investments.

14.5. Assets classified as held for sale

Impairment losses were recognized in E&P assets classified as held for sale. The Board of Directors approved the disposal of PI, PIII, PIV and PV drilling rigs and PXIV platform and their fair value was below their carrying amount. Therefore, impairment losses in the amount of US\$ 35 were recognized.

15. Exploration for and evaluation of oil and gas reserves

The exploration and evaluation activities include the search for oil and gas from obtaining the legal rights to explore a specific area to the declaration of the technical and commercial viability of the reserves.

Changes in the balances of capitalized costs directly associated with exploratory wells pending determination of proved reserves and the balance of amounts paid for obtaining rights and concessions for exploration of oil and natural gas (capitalized acquisition costs) are set out in the table below:

Capitalized Exploratory Well Costs / Capitalized Acquisition Costs (*)	12.31.2014	12.31.2013
Property plant and equipment		
Opening Balance	8,802	10,649
Additions to capitalized costs pending determination of proved reserves	4,272	4,981
Capitalized exploratory costs charged to expense	(1,366)	(1,251)
Transfers upon recognition of proved reserves	(3,835)	(4,174)
Cumulative translation adjustment	(873)	(1,403)
Closing Balance	7,000	8,802
Intangible Assets (**)	3,044	13,880

Capitalized Exploratory Well Costs / Capitalized Acquisition Costs	10,044	22,682
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(*) Amounts capitalized and subsequently expensed in the same period have been excluded from the table above.

(**) The balance of intangible assets in 2013 includes amounts related to the Assignment Agreement (note 12.3).

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(Expressed in millions of US Dollars, unless otherwise indicated)

Exploration costs recognized in the statement of income and cash used in oil and gas exploration and evaluation activities are set out in the table below:

Exploration costs recognized in the statement of income	2014	2013	2012
Geological and geophysical expenses	830	968	1,022
Exploration expenditures written off (incl.dry wells and signature bonuses)	2,178	1,892	2,847
Other exploration expenses	50	99	89
Total expenses	3,058	2,959	3,958
Cash used in :	2014	2013	2012
Operating activities	879	1,073	1,139
Investment activities	4,899	8,605	6,640
Total cash used	5,778	9,678	7,779

15.1. Aging of Capitalized Exploratory Well Costs

The tables below set out the amounts of exploratory well costs that have been capitalized for a period of one year or for a period of greater than one year after the completion of drilling, the number of projects to which the costs that have been capitalized for a period of greater than one year relate and an aging of those amounts by year (including the number of wells to which those costs relate).

Aging of capitalized exploratory well costs (*)

	2014	2013
Exploratory well costs capitalized for a period of one year	2,024	2,568
Exploratory well costs capitalized for a period of greater than one year	4,976	6,234
Total capitalized exploratory well costs	7,000	8,802
Number of projects to which the exploratory well costs capitalized for a period of greater than one year relate	69	86

	Capitalized costs (2014)	Number of wells
2013	1,963	32
2012	1,500	25
2011	637	15
2010	291	5
2009 and previous years	585	15
Exploratory well costs that have been capitalized for a period of greater than one year	4,976	92

(*) Amounts paid for obtaining rights and concessions for exploration of oil and gas (capitalized acquisition costs) are not included.

Exploratory well costs that have been capitalized for a period of greater than one year since the completion of drilling amount to US\$ 4,976. Those costs relate to 69 projects comprising (i) US\$ 3,850 for wells in areas in which there has been ongoing drilling or firmly planned drilling activities in the near term and for which an evaluation plan (“*Plano de Avaliação*”) has been submitted for approval by ANP; and (ii) US\$ 1,126 relate to costs incurred to evaluate the reserves and their potential development.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***16. Trade payables**

	2014	2013
Third parties in Brazil	4,949	5,346
Third parties abroad	4,240	6,061
Related parties	571	512
Balance on current liabilities	9,760	11,919

17. Finance debt

The Company obtains funding through debt financing for capital expenditures to develop crude oil and natural gas producing properties, construct vessels and pipelines, construct and expand industrial plants, among other uses.

The Company has covenants in its loan agreements and notes issued in the capital markets requiring, among other obligations, the presentation of interim financial statements within 90 days of the end of each quarter (not reviewed by independent auditors) and audited financial statements within 120 days of the end of each fiscal year. These obligations do not represent immediate events of default and the grace period in which the Company has to deliver these financial statements ranges from 30 to 60 days in the difference agreements. Delivering financial statements is an obligation included in most financing agreements and non-compliance with that obligation can trigger an event of default and thus acceleration of the debt.

A roll-forward of non-current debt is set out below:

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(Expressed in millions of US Dollars, unless otherwise indicated)

	Export				
	Credit				
	Agencies	Banking Market	Capital Market	Others	Total
Non-current					
In Brazil					
Opening balance at January 1 , 2013	–	30,977	1,255	64	32,296
Additions (new funding obtained)	–	10,463	237	–	10,700
Interest incurred during the year	–	86	16	3	105
Foreign exchange/inflation indexation charges	–	1,510	54	2	1,566
Transfer from long term to short term	–	(9,894)	(181)	(13)	(10,088)
Transfer to liabilities associated with assets classified as held for sale	–	(14)	–	–	(14)
Cumulative translation adjustment (CTA)	–	(4,128)	(170)	(7)	(4,305)
Balance at December 31, 2013	–	29,000	1,211	49	30,260
Abroad					
Opening balance at January 1 , 2013	5,045	19,484	31,031	629	56,189
Additions (new funding obtained)	1,557	9,178	10,990	87	21,812
Interest incurred during the year	1	14	36	8	59
Foreign exchange/inflation indexation charges	159	893	280	30	1,362
Transfer from long term to short term	(671)	(1,310)	(418)	(42)	(2,441)
Transfer to liabilities associated with assets classified as held for sale	–	(393)	–	–	(393)
Cumulative translation adjustment (CTA)	(286)	(958)	653	(22)	(613)
Balance at December 31, 2013	5,805	26,908	42,572	690	75,975
Total Balance at December 31, 2013	5,805	55,908	43,783	739	106,235
Non-current					
In Brazil					

Opening balance at January 1 , 2014	–	29,000	1,211	49	30,260
Additions (new funding obtained)	–	4,319	359	–	4,678
Interest incurred during the year	–	202	2	–	204
Foreign exchange/inflation indexation charges	–	1,033	79	1	1,113
Transfer from long term to short term	–	(1,440)	(156)	(18)	(1,614)
Cumulative translation adjustment (CTA)	–	(3,826)	(194)	(4)	(4,024)
Balance as of December 31, 2014– Abroad		29,288	1,301	28	30,617
Opening balance at January 1 , 2014	5,805	26,908	42,572	690	75,975
Additions (new funding obtained)	281	6,710	13,766	–	20,757
Interest incurred during the year	4	22	46	8	80
Foreign exchange/inflation indexation charges	103	412	(1,433)	20	(898)
Transfer from long term to short term	(742)	(3,411)	(1,260)	(42)	(5,455)
Cumulative translation adjustment (CTA)	(207)	(743)	119	(27)	(858)
Balance as of December 31, 2014	5,244	29,898	53,810	649	89,601
Total Balance as of December 31, 2014	5,244	59,186	55,111	677	120,218

	12.31.2014	12.31.2013
Short-term debt	3,484	3,654
Current portion of long-term debt	6,845	3,118
Accrued interest	1,539	1,229
	11,868	8,001

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*(Expressed in millions of US Dollars, unless otherwise indicated)***17.1. Summarized information on current and non-current finance debt**

Maturity in	up to 1	1 to 2	2 to 3	3 to 4	4 to 5	5 years	Total (*)	Fair
	year	years	years	years	years	and		value
						onwards		
Financing in Brazilian Reais (BRL):								
Floating rate debt	1,413	2,787	2,387	2,565	4,179	10,094	23,425	20,176
Fixed rate debt	889	2,365	1,713	1,928	3,556	7,755	18,206	
Average interest rate	524	422	674	637	623	2,339	5,219	
	9.9%	11.9%	13.7%	11.0%	10.2%	8.2%	10.0%	
Financing in U.S.Dollars (USD):								
Floating rate debt	9,345	8,986	8,754	11,102	17,730	30,394	86,311	80,558
Fixed rate debt	7,368	4,314	5,067	8,645	12,542	8,608	46,544	
Average interest rate	1,977	4,672	3,687	2,457	5,188	21,786	39,767	
	3.0%	4.3%	4.5%	4.1%	4.2%	5.3%	4.5%	
Financing in BRL indexed to USD:								
Floating rate debt	258	391	700	699	696	6,118	8,862	9,584
Fixed rate debt	17	19	19	18	15	50	138	
Average interest rate	241	372	681	681	681	6,068	8,724	
	6.9%	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%	
Financing in Pound Sterling (£):								
Fixed rate debt	72	–	–	–	–	2,674	2,746	2,400
Average interest rate	72	–	–	–	–	2,674	2,746	
	4.1%	–	–	–	–	6.2%	6.2%	
Financing in Japanese Yen (¥):								
Floating rate debt	443	392	94	85	–	–	1,014	1,030
Fixed rate debt	86	85	85	85	–	–	341	
Average interest rate	357	307	9	–	–	–	673	
	1.2%	1.9%	1.2%	1.1%	–	–	1.5%	
Financing in Euro (€):								
Floating rate debt	331	13	13	3,338	1,584	4,440	9,719	8,956
Fixed rate debt	27	12	12	12	12	190	265	
Average interest rate	304	1	1	3,326	1,572	4,250	9,454	
	3.5%	2.1%	2.1%	3.8%	3.9%	4.3%	4.0%	

Average interest rate								
Financing in other currencies:	6	3	—	—	—	—	9	9
Fixed rate debt	6	3	—	—	—	—	9	
Average interest rate	14.0%	15.3%	—	—	—	—	14.4%	
Total as of December 31, 2014	11,868	12,572	11,948	17,789	24,189	53,720	132,086	122,713
Total Average interest rate	3.9%	6.0%	6.4%	5.2%	5.3%	6.0%	5.6%	
Total as of December 31, 2013	8,001	7,266	12,692	8,679	16,051	61,547	114,236	115,238

* The average maturity of outstanding debt as of December 31, 2014 is 6.1 years (7.1 years as of December 31, 2013).

The fair value of the Company's finance debt is determined primarily by quoted prices in active markets for identical liabilities (level 1), when applicable. When a quoted price for an identical liability is not available, the fair value is determined based on the yield curve of the Company's most liquid bonds (level 2)

The sensitivity analysis for financial instruments subject to foreign exchange variation is set out in note 32.2.

17.2. Capitalization rate used to determine the amount of borrowing costs eligible for capitalization

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was the weighted average of the borrowing costs applicable to the borrowings that were outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. In 2014 the capitalization rate was 4.9% p.a. (4.5% p.a. in 2013). This rate was applied to the balance of assets under construction as the basis for capitalizing borrowing costs, when eligible.

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Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***17.3. Lines of credit – Outstanding balance**

Company	Available (Lines of Credit)	Used	Balance
Company Abroad			
PGT	500	–	500
Petrobras	2,500	530	1,970
In Brazil			
Transpetro	3,787	1,070	2,717
Petrobras	5,460	4,707	753
PNBV	3,719	372	3,347
Liquigás	53	51	2

17.4. Guarantees

The financial institutions which have provided financing have not required Petrobras to provide guarantees related to loans, except for certain specific funding instruments to promote economic development, which are collateralized by tangible assets.

The loans obtained by structured entities are collateralized based on the projects' assets, as well as liens on receivables and shares of the structured entities. Certain subsidiaries issue securities fully and unconditionally guaranteed by Petrobras (note 36).

The Company's capital market financing relates primarily to unsecured global notes.

18. Leases

Future minimum lease payments/receivables from non-cancelable operating leases and finance leases are set out below:

Estimated lease	Operating leases		Annual finance	Present value of	Total future	Annual finance	Finance leases Present value of
	Future minimum	Total future					

payments / receivable	payments	minimum payments receivable	charges	minimum lease payments receivable	minimum payments	charges	minimum lease payments
2015	14,644	191	(112)	79	21	(5)	16
2016 – 2019 2020 and thereafter	38,499	795	(451)	344	68	(37)	31
As of December 31, 2014	65,261	1,762	(670)	1,091	229	(204)	25
Current	118,404	2,748	(1,233)	1,514	318	(246)	72
Non-current				59			16
As of December 31, 2013	125,851			1,455			56
				1,521			89

In 2014, the balance of estimated future minimum lease payments under operating leases includes US\$ 69,565 (US\$ 81,044 in 2013) with respect to assets under construction, for which the lease term has not commenced.

During 2014 the Company recognized expenditures of US\$ 10,652 (US\$ 11,520 during 2013) for operating lease installments.

Operating leases mainly include oil and gas production facilities, drilling rigs and other exploration and production equipment, vessels and support vessels, helicopters, land and buildings.

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Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***19. Related party transactions**

The Company carries out commercial transactions with its subsidiaries, joint arrangements, consolidated structure entities and associates at market prices and market conditions.

19.1. Transactions with joint ventures, associates, government entities and pension funds

The balances of significant transactions are set out in the table below:

	2014	2013		2014		2013
	Income	Income	Assets	Liabilities	Assets	Liabilities
	(expense)	(expense)				
Joint ventures and associates						
State-controlled gas distributors	4,507	3,920	506	195	424	209
Petrochemical companies	7,703	7,456	205	82	94	120
Other associates and joint ventures	537	940	152	263	140	193
	12,747	12,316	863	540	658	522
Government entities						
Government bonds	662	1,044	4,339	–	6,247	–
Banks controlled by the Federal Government	(3,246)	(1,973)	3,814	28,304	2,801	29,791
Receivables from the Electricity sector (Note 8.4)	687	747	2,966	–	1,849	–
Petroleum and alcohol account - receivables from Federal government (Note 19.2)	3	–	317	–	357	–
Federal Government - dividends and interest on capital	22	(18)	–	–	–	834
Others	74	92	241	224	210	334
	(1,798)	(108)	11,677	28,528	11,464	30,959
Pension plans	1	–	–	135	–	156
	10,950	12,208	12,540	29,203	12,122	31,637
Revenues (mainly sales revenues)	13,207	13,164				

Foreign exchange and inflation indexation charges, net	(904)	(791)				
Finance income (expenses), net	(1,353)	(165)				
Current assets			6,715		7,572	
Non-current assets			5,825		4,550	
Current liabilities				1,855		3,568
Non-current liabilities				27,348		28,069
	10,950	12,208	12,540	29,203	12,122	31,637

19.2. Petroleum and Alcohol accounts - Receivables from Federal Government

As of December 31, 2014, the balance of receivables related to the Petroleum and Alcohol accounts was US\$ 317 (US\$ 357 as of December 31, 2013). Pursuant to Provisional Measure 2,181 of August 24, 2001, the Federal Government may settle this balance by using National Treasury Notes in an amount equal to the outstanding balance, or allow the Company to offset the outstanding balance against amounts payable to the Federal Government, including taxes payable, or both options.

The Company has provided all the information required by the National Treasury Secretariat (*Secretaria do Tesouro Nacional - STN*) in order to resolve disputes between the parties and conclude the settlement with the Federal Government.

Following several negotiation attempts at the administrative level, the Company filed a lawsuit in July 2011 to collect the receivables. Court-ordered expert proceedings are ongoing.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***19.3. Compensation of employees and officers**

The criteria for compensation of employees and officers are established based on the current labor legislation and the Company's policies related to Positions, Salaries and Benefits (*Plano de Cargos e Salários e de Benefícios e Vantagens*).

The compensation of employees (including those occupying managerial positions) and officers in the months of December 2014 and December 2013 were:

Compensation of employees (amounts refer to monthly compensation in U.S. dollars)

	2014	2013
Lowest compensation	1,064.74	1,126.35
Average compensation	5,905.34	6,015.75
Highest compensation	32,309.79	34,743.45
Compensation of highest paid Petrobras officer	38,798.87	42,511.80

The total compensation of Petrobras' key management is set out below:

	2014			2013		
	Officers	Board	Total	Officers	Board	Total
Wages and short-term benefits	4.1	0.5	4.6	4.1	0.5	4.6
Social security and other employee-related taxes (*)	1.1	0.1	1.2	1.1	0.1	1.2
Post-employment benefits (pension plan)	0.3	–	0.3	0.3	–	0.3
Variable compensation (**)	1.4	–	1.4	1.7	–	1.7
Total compensation recognized in the statement of income	6.9	0.6	7.5	7.2	0.6	7.8
Total compensation paid	6.5	0.6	7.1	6.1	0.6	6.7
Number of members	7	10	17	7	10	17

(*) The compensation of executive officers and directors is based on legal requirements and guidelines established by the Brazilian Department of Oversight and Governance of

State-controlled Companies (Departamento de Coordenação e Governança das Empresas Estatais - DEST). DEST determined that social security and other employee-related taxes were included in the key management compensation proposed at the Annual General Meeting of 2014. Those taxes had been included since 2013, but were not included in the notes to the financial statements.

(**) Key Management personnel variable compensation is based on operational and financial targets set out in a specific program, which are paid in installment payments over four years: 60% payable within 12 months of the end of the period and the remaining 40% allocated on a straight-line basis over the following three years.

In 2014 board members and officers of the consolidated Petrobras group received US\$ 30.8 as compensation (US\$ 27.6 in 2013).

20. Provision for decommissioning costs

Non-current liabilities	2014	2013
Opening balance	7,133	9,441
Adjustment to provision	2,430	(902)
Payments made	(679)	(506)
Interest accrued	201	199
Others	75	59
Cumulative translation adjustment	(893)	(1,158)
Closing balance	8,267	7,133

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Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***21. Taxes****21.1. Income taxes and other taxes**

Income taxes	Current assets		Current liabilities	
	2014	2013	2014	2013
Taxes in Brazil	1,018	951	139	158
Taxes abroad	45	109	108	123
	1,063	1,060	247	281

Other taxes	Current assets		Non-current assets		Current liabilities	
	2014	2013	2014	2013	2014	2013
Current / Deferred ICMS (VAT)	1,772	1,623	787	879	1,275	1,164
Current / Deferred PIS and COFINS (taxes on revenues)	829	2,069	2,983	4,197	295	230
CIDE	13	20	–	–	8	16
Production taxes	–	–	–	–	1,517	2,432
Withholding income taxes	–	–	–	–	486	256
Others	73	151	230	292	281	350
	2,687	3,863	4,000	5,368	3,862	4,448
Taxes abroad	61	48	8	12	202	221
	2,748	3,911	4,008	5,380	4,064	4,669

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Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***21.2. Deferred income taxes - non-current**

Income taxes in Brazil comprise corporate income tax (IRPJ) and social contribution on net income (CSLL). Brazilian statutory corporate tax rates are 25% and 9%, respectively. The changes in the deferred income taxes are presented as follows:

a) Changes in deferred income taxes

	Property, Plant & Equipment		Loans, trade and other receivables / payables and financing		Provision for legal proceedings		Tax losses	Inventories	Interest on capital
	Oil and gas exploration costs	Others		Finance leases					
Balance at January 1, 2013	(12,677)	(3,111)	561	(588)	346		1,109	467	1,050
Recognized in the statement of income for the year	(2,567)	(1,487)	330	(53)	133		3,481	177	351
Recognized in shareholders' equity	–	–	1,407	53	–		71	–	–
Cumulative translation adjustment	1,842	427	(221)	72	(63)		(330)	(77)	(50)
Others (*)	(4)	165	(93)	(2)	(7)		480	8	(8)
Balance at December 31, 2013	(13,406)	(4,006)	1,984	(518)	409		4,811	575	1,343
Recognized in the statement of income for the year	(2,055)	3,917	401	(42)	182		2,965	(7)	(1,418)

Recognized in shareholders' equity	—	—	1,949	(41)	—	(192)	—	—
Cumulative translation adjustment	1,814	302	(441)	86	(75)	(842)	(66)	68
Others (*)	—	(3)	(70)	(77)	10	(51)	1	—
Balance at December 31, 2014	(13,647)	210	3,823	(592)	526	6,691	503	(7)

Deferred tax
assets
Deferred tax
liabilities
Balance at
December
31, 2013

Deferred tax
assets
Deferred tax
liabilities
Balance at
December
31, 2014

(*) Relates primarily to disposal of interests in investees.

The deferred tax assets will be realized in proportion to the realized in proportion to the realization of the provisions and the final resolution of future events, both of which are based on estimates.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***b) Timing of reversal of deferred income taxes**

Management considers that the deferred tax assets will be realized in proportion to the realization of the provisions and the final resolution of future events, both of which are based on estimates.

The estimated schedule of recovery/reversal of net deferred tax assets (liabilities) recoverable (payable) as of December 31, 2014 is set out in the following table:

	Deferred income tax	
	Assets	Liabilities
2015	109	13
2016 and thereafter	897	3,018
Recognized deferred tax credits	1,006	3,031
Brazil	215	–
Abroad	3,200	–
Unrecognized deferred tax credits	3,415	–
Total	4,421	3,031

As of December 31, 2014, the Company had tax loss carryforwards from companies abroad, for which no deferred tax assets have been recognized, in the amount of US\$ 3,200 (US\$ 2,223 as of December 31, 2013) resulting from net operating losses, mainly from oil and gas exploration and production and refining activities in the United States in the amount of US\$ 1,833 (US\$ 1,680 as of December 31, 2013), as well as Spanish and Dutch companies, in the amount of US\$ 882 and US\$ 485, respectively.

An aging of the unrecognized tax carryforwards, from companies abroad, by lapse of the applicable statute of limitations is set out below:

Lapse of Statute of Limitations	2026 and onward Total											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	onward	Total
Unrecognized deferred tax credits	37	73	155	231	49	448	161	65	84	6	1,891	3,200

21.3. Reconciliation between statutory tax rate and tax expense

A reconciliation between tax expense and the product of “income before income taxes” multiplied by the Brazilian statutory corporate tax rates is set out in the table below:

	2014	2013	2012
Income (loss) before income taxes	(8,824)	13,410	14,493
Nominal income taxes computed based on Brazilian statutory corporate tax rates (34%)	3,000	(4,558)	(4,928)
Adjustments to arrive at the effective tax rate:			
· Tax benefits from the deduction of interest on capital distribution	66	1,306	1,612
· Different jurisdictional tax rates for companies abroad	559	644	335
· Tax incentives	26	57	58
· Tax loss carryforwards (unrecognized tax losses)	(1,289)	(1)	(341)
· Write-off - overpayments incorrectly capitalized (note 3)	(907)	-	-
· Non taxable income (deductible expenses), net (*)	(338)	(198)	(559)
· Tax credits of companies abroad in the exploration stage	(1)	(2)	(2)
· Others	205	174	263
Income taxes benefit (expense)	1,321	(2,578)	(3,562)
Deferred income taxes	3,045	(402)	(1,266)
Current income taxes	(1,724)	(2,176)	(2,296)
	1,321	(2,578)	(3,562)
Effective tax rate	15.0%	19.2%	24.6%

(*) Includes share of earnings in equity-accounted investees.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***22. Employee benefits (Post-Employment)**

The balance of employee benefits (post-employment) as of December 31, 2014 and 2013 are set out below:

	2014	2013
Liabilities		
Petros Pension Plan	7,874	5,342
Petros 2 Pension Plan	287	121
AMS Medical Plan	9,019	6,999
Other plans	107	111
	17,287	12,573
Current	796	816
Non-current	16,491	11,757
	17,287	12,573

The current balance relates to an estimate of the payments to be made over the next 12 months.

22.1. Petros Plan and Petros 2 Plan

The Company's post-retirement plans are managed by Fundação Petrobras de Seguridade Social (Petros), which was established by Petrobras as a nonprofit legal entity governed by private law with administrative and financial autonomy.

a) Petros Plan - Fundação Petrobras de Seguridade Social

The Petros Plan was established by Petrobras in July 1970 as a defined-benefit pension plan and currently provides post-retirement benefits for employees of Petrobras and Petrobras Distribuidora S.A., in order to complement government social security benefits. The Petros Plan has been closed to new participants since September 2002.

Petros contracts with an independent actuary to perform an annual actuarial review of its costs using the capitalization method for most benefits. The employers (sponsors) make regular contributions in amounts equal to the contributions of the participants (active employees, assisted employees and retired employees), on a parity basis.

In the event an eventual deficit is determined, participants of the plan and employers (sponsors) shall cover this deficit, pursuant to Brazilian Law (Constitutional Amendment 20/1998 and Complementary Law 109/2001), on the basis of their respective proportions of regular contributions made to the plan during the year in which the deficit arose.

As of December 31, 2014, the balance of the Terms of Financial Commitment (TFC), signed by Petrobras and Petros in 2008 is US\$ 3,451, including US\$ 205 related to interest expense due in 2015. The TCF are due in 20 years, with 6% p.a. semiannual coupon payments based on the updated balance. The Company holds crude oil and oil products pledged as security for the TFC corresponding to US\$ 2,316.

In 2014, salary increases given to active employees pursuant to Petrobras' Collective Bargaining Agreements of 2004, 2005 and 2006, were included in the pension benefits of retirees as approved by the Executive Council of Fundação Petros.

The employers' expected contributions to the plan for 2015 are US\$ 440.

The duration of the actuarial liability related to the plan, as of December 31, 2014 is 11.49 years.

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b) Petros 2 Plan - Fundação Petrobras de Seguridade Social

Petros 2 Plan was established in July 2007 by Petrobras and certain subsidiaries as a variable contribution plan recognizing past service costs for contributions for the period from August 2002 to August 29, 2007. The Petros 2 Plan currently provides post-retirement benefits for employees of Petrobras, Petrobras Distribuidora S.A., Stratura Asfaltos, Termobahia, Termomacaé, Transportadora Brasileira Gasoduto Brasil-Bolívia S.A. – TBG, Petrobras Transporte S.A. – Transpetro and Petrobras Biocombustível. The plan is open to new participants although there will no longer be payments relating to past service costs.

Certain elements of the Petros 2 Plan have defined benefit characteristics, primarily the coverage of disability and death risks and the guarantee of minimum defined benefit and lifetime income. These actuarial commitments are treated as defined benefit components of the plan and are accounted for by applying the projected unit credit method. Contributions paid for actuarial commitments that have defined contribution characteristics are monthly accrued in the statement of income and are intended to constitute a reserve for programmed retirement. The contributions for the portion of the plan with defined contribution characteristics were US\$ 345 in 2014.

The defined benefit portion of the contributions has been suspended from July 1, 2012 to June 30, 2015, as determined by the Executive Council of Fundação Petros, based on advice from the actuarial consultants from Fundação Petros. Therefore, the entire contributions are being appropriated in the individual accounts of plan participants.

For 2015 the employers' expected contributions to the defined contribution portion of the plan are US\$ 325. The duration of the actuarial liability related to the plan, as of December 31, 2014 is 41.80 years.

22.2. Other plans

The Company also sponsors other pension and health care plans of certain of its Brazilian and international subsidiaries, including plans with defined benefit characteristics abroad, for subsidiaries in Argentina, Japan and other countries. Most of these plans are funded and their assets are held in trusts, foundations or similar entities governed by local regulations.

22.3. Pension Plans assets

Pension plans assets follow a long term investment strategy based on the risks assessed for each different class of assets and provide for diversification, in order to lower portfolio risk. The portfolio profile must comply with the Brazilian National Monetary Council (Conselho Monetário Nacional – CMN) regulations.

Fundação Petros establishes investment policies for 5-year periods, reviewed annually. Petros uses an asset liability management model (ALM) to address net cash flow mismatches of the benefit plans, based on liquidity and solvency parameters, simulating a 30-year period.

Portfolio allocation limits for the period between 2015 and 2019 for the Petros Plan of the Petrobras Group are 30% to 60% in fixed-income securities, 30% to 45% in variable-income securities, 3% to 8% in real estate, 0% to 15% in loans to participants, 4% to 13% in structured finance projects and up to 1% in variable-income securities abroad. Allocation limits for Petros 2 Plan for the same period are: 30% to 90% in fixed-income securities, 5% to 25% in variable-income securities, 0% to 8% in real estate, 0% to 15% in loans to participants, 0% to 10% % in structured finance projects and 0% to 3% in variable-income securities abroad.

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The pension plan assets by type of asset are set out following:

Type of asset	2014		Total fair value		2013	
	Quoted prices in active markets	Unquoted prices		%	Total fair value	%
Fixed income	5,881	1,834	7,715	38%	8,521	37%
Corporate bonds	–	374	374		536	
Government bonds	5,881	–	5,881		6,523	
Other investments	–	1,460	1,460		1,462	
Variable income	8,323	361	8,684	44%	10,499	47%
Common and preferred shares	8,323	–	8,323		10,152	
Other investments	–	361	361		347	
Structured investments	–	1,601	1,601	7%	1,571	7%
Private equity funds	–	1,427	1,427		1,464	
Venture capital funds	–	20	20		29	
Real estate Funds	–	154	154		78	
Real estate properties	–	1,436	1,436	7%	1,387	6%
Loans to participants	14,204	5,232	19,436	96%	21,978	97%
			715	4%	757	3%
			20,151	100%	22,735	100%

As of December 31, 2014, the investment portfolio included Petrobras' common and preferred shares in the amount of US\$ 108 and US\$ 157, respectively, and real estate properties leased by the Company in the amount of US\$ 168.

Loans to participants are measured at amortized cost, which is considered to be an appropriate estimate of fair value.

22.4. Medical Benefits: Health Care Plan - Assistência Multidisciplinar de Saúde (“AMS”)

Petrobras, Petrobras Distribuidora S.A., Petrobras Transporte S.A. – Transpetro, Petrobras Biocombustível and Transportador Brasileira Gasoduto Brasil-Bolívia - TBG operate a medical benefit plan for their employees in Brazil (active and retired) and their dependents: the AMS

health care plan. The plan is managed by the Company based on a self-supporting benefit assumption and includes health prevention and health care programs. The plan is most significantly exposed to the risk of an increase in medical costs due to new technologies and new types of coverage or to a higher level of usage of medical benefits. The Company continuously improves the quality of its technical and administrative processes, as well as the health programs offered to beneficiaries in order to hedge such risks.

The employees make fixed monthly contributions to cover high-risk procedures and variable contributions for a portion of the cost of the other procedures, both based on the contribution tables of the plan, which are determined based on certain parameters, such as salary levels. The plan also includes assistance towards the purchase of certain medicines in registered drugstores throughout Brazil. There are no health care plan assets. Benefits are paid and recognized by the Company based on the costs incurred by the participants.

The duration of the actuarial liability related to this health care plan, as of December 31, 2014 is 21.18 years.

22.5. Net actuarial liabilities and expenses calculated by independent actuaries and fair value of plans assets

Aggregate information is presented for other plans, whose total assets and liabilities are not material. All plans are unfunded (excess of benefit liabilities over plan assets).

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*(Expressed in millions of US Dollars, unless otherwise indicated)***a) Changes in the actuarial liabilities, in the fair value of the assets and in the amounts recognized in the statement of financial position**

	2014		Medical Plan AMS	Other plans	Total
	Pension plan Petros	Petros 2			
Changes in the present value of obligations					
Obligations at the beginning of the year	27,804	354	6,999	151	35,308
Interest expense:	3,599	45	969	17	4,630
Term of financial commitment (TFC)	441	–	–	–	441
Actuarial	3,158	45	969	17	4,189
Current service cost	58	33	176	11	278
Contributions paid by participants	164	–	–	–	164
Benefits paid	(1,236)	(10)	(395)	(6)	(1,647)
Remeasurement: Experience (gains) / losses	1,114	158	(350)	7	929
Remeasurement: (gains) / losses - demographic assumptions	(2,022)	(55)	(757)	(6)	(2,840)
Remeasurement: (gains) / losses - financial assumptions	1,966	77	3,645	5	5,693
Others	–	–	–	7	7
Cumulative Translation Adjustment	(3,738)	(59)	(1,268)	(19)	(5,084)
Obligations at the end of the year	27,709	543	9,019	167	37,438
Changes in the fair value of plan assets					
Fair value of plan assets at the beginning of the year	22,462	233	–	40	22,735
Interest income	2,863	29	–	4	2,896
Contributions paid by the sponsor (Company)	245	–	396	7	648
Contributions paid by participants	164	–	–	–	164
Receipts from the Term of financial commitment (TFC)	203	–	–	–	203
Benefits Paid	(1,236)	(10)	(395)	(6)	(1,647)
	(2,206)	37	–	4	(2,165)

Remeasurement: Return on plan assets exceeding interest income					
Others	(1)	–	–	20	19
Cumulative Translation Adjustment	(2,659)	(33)	(1)	(9)	(2,702)
Fair value of plan assets at the end of the year	19,835	256	–	60	20,151
Amounts recognized in the Statement of Financial Position					
Present value of obligations	27,709	543	9,019	167	37,438
(-) Fair value of plan assets	(19,835)	(256)	–	(60)	(20,151)
Net actuarial liability as of December 31,	7,874	287	9,019	107	17,287
Changes in the net actuarial liability					
Balance as of January 1,	5,342	121	6,999	111	12,573
Remeasurement effects recognized in other comprehensive income	3,264	143	2,538	2	5,947
Costs incurred in the period	794	49	1,155	24	2,022
Contributions paid	(245)	–	(396)	(7)	(648)
Payments related to Term of financial commitment (TFC)	(203)	–	–	–	(203)
Others	1	–	–	(13)	(12)
Cumulative Translation Adjustment	(1,079)	(26)	(1,277)	(10)	(2,392)
Balance as of December 31,	7,874	287	9,019	107	17,287

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(Expressed in millions of US Dollars, unless otherwise indicated)

	2013		Medical Plan AMS	Other plans	Total
	Pension plan Petros	Petros 2			
Changes in the present value of obligations					
Obligations at the beginning of the year	38,548	789	8,390	182	47,909
Interest expense:	3,373	73	735	20	4,201
Term of financial commitment (TFC)	298	–	–	1	299
Actuarial	3,075	73	735	19	3,902
Current service cost	484	145	192	10	831
Contributions paid by participants	182	–	–	–	182
Benefits paid	(1,155)	(6)	(364)	(10)	(1,535)
Remeasurement: Experience (gains) / losses	1,701	(118)	(1,978)	(2)	(397)
Remeasurement: (gains) / losses - demographic assumptions	323	(31)	2	(5)	289
Remeasurement: (gains) / losses - financial assumptions	(11,215)	(443)	1,066	5	(10,587)
Others	–	22	–	(27)	(5)
Cumulative Translation Adjustment	(4,437)	(77)	(1,044)	(22)	(5,580)
Obligations at the end of the year	27,804	354	6,999	151	35,308
Changes in the fair value of plan assets					
Fair value of plan assets at the beginning of the year	27,407	242	–	36	27,685
Interest income	2,461	22	–	4	2,487
Contributions paid by the sponsor (Company)	255	–	364	24	643
Contributions paid by participants	182	–	–	–	182
Receipts from the Term of financial commitment (TFC)	153	–	–	–	153
Benefits Paid	(1,155)	(6)	(364)	(10)	(1,535)
Remeasurement: Return on plan assets exceeding interest income	(3,458)	8	–	3	(3,447)
Others	–	–	–	(13)	(13)

Cumulative Translation Adjustment	(3,383)	(33)	–	(4)	(3,420)
Fair value of plan assets at the end of the year	22,462	233	–	40	22,735
Amounts recognized in the Statement of Financial Position					
Present value of obligations	27,804	354	6,999	151	35,308
(-) Fair value of plan assets	(22,462)	(233)	–	(40)	(22,735)
Net actuarial liability as of December 31,	5,342	121	6,999	111	12,573
Changes in the net actuarial liability					
Balance as of January 1,	11,141	547	8,390	146	20,224
Remeasurement effects recognized in other comprehensive income	(5,733)	(600)	(910)	(5)	(7,248)
Costs incurred in the period	1,396	218	927	25	2,566
Contributions paid	(255)	–	(364)	(24)	(643)
Payments related to Term of financial commitment (TFC)	(153)	–	–	–	(153)
Others	–	22	–	(14)	8
Cumulative Translation Adjustment	(1,054)	(66)	(1,044)	(17)	(2,181)
Balance as of December 31,	5,342	121	6,999	111	12,573

b) Defined benefit costs

	2014 Pension		Medical		Total
	Plans Petros	Petros 2	Plan AMS	Other Plans	
Service cost	58	33	176	11	278
Interest on net liabilities (assets)	736	16	969	13	1,734
Others	–	–	10	–	10
Net expenses for the year	794	49	1,155	24	2,022
Related to active employees:					
Included in the cost of sales	255	26	347	(1)	627
Operating expenses in statement of income	140	22	179	24	365
Related to retirees	399	1	629	1	1,030
Net expenses for the year	794	49	1,155	24	2,022

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(Expressed in millions of US Dollars, unless otherwise indicated)

	2013 Pension		Medical		Total
	Plans Petros	Petros 2	Plan AMS	Other Plans	
Service cost	484	145	192	10	831
Interest on net liabilities (assets)	912	51	735	16	1,714
Others	–	22	–	(1)	21
Net expenses for the year	1,396	218	927	25	2,566
Related to active employees:					
Included in the cost of sales	597	119	267	3	986
Operating expenses in statement of income	355	94	211	20	680
Related to retirees	444	5	449	2	900
Net expenses for the year	1,396	218	927	25	2,566

	2012 Pension		Medical		Total
	Plans Petros	Petros 2	Plan AMS	Other Plans	
Service cost	(9)	197	146	7	341
Interest on net liabilities (assets)	722	61	892	6	1,681
Others	(8)	26	39	12	69
Net expenses for the year	705	284	1,077	25	2,091
Related to active employees:					
Included in the cost of sales	218	124	228	4	574
Operating expenses in statement of income	121	153	180	21	475
Related to retirees	366	7	669	–	1,042
Net expenses for the year	705	284	1,077	25	2,091

c) Sensitivity analysis of the defined benefit plans

The effect of a 100 basis points (bps) change in the assumed discount rate and medical cost trend rate is as set out below:

	Discount Rate		Medical		Medical Cost	
	Pension Benefits		Benefits		Medical Benefits	
	+100	-100	+100	-100	+100	-100
	bps	bps	bps	bps	bps	bps
Pension Obligation	(2,632)	3,187	(1,024)	1,260	1,303	(1,075)
Current Service cost and interest cost	(147)	183	(20)	24	53	(44)

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*(Expressed in millions of US Dollars, unless otherwise indicated)***d) Significant actuarial assumptions**

Assumptions	2014	2013
Discount rate - (real rate)	6.14% (1) / 6.20% (2) / 6.15% (3)	6.56% (1) / 6.65% (2) / 6.58% (3)
Expected Inflation (Brazilian price index - IPCA)	6.50% (1) (2) (3) (4)	5.93% (1) (2) (3)
Nominal discount rate (real rate + inflation)	13.04% (1) / 13.10% (2) / 13.05(3)	12.88% (1) / 12.97% (2) / 12.90% (3)
Expected salary growth - real rate	1.761% (1) / 3.77% (2)	1.981% (1) / 4.044% (2) (5)
Expected salary growth - nominal (real rate + Inflation)	8.37% (1) / 10.52 (2)	8.03% (1) / 10.21% (2)
Medical plan turnover	0.642% p.a. (6)	0.590% p.a. (6)
Pension plan turnover	Null	Null
Expected changes in medical and hospital costs	14.47% to 3.00% p.a. (7)	11.62% to 4.09% p.a. (7)
Mortality table	EX-PETROS 2013 (both genders) (8)	Gender-specific Basic AT 2000, 20% smoothing coefficient (8)
Disability table	TASA 1927 (9)	TASA 1927 (9)
Mortality table for disabled participants	Male AT 49, 10% increasing coefficient (10)	Gender-specific Winklevoss, 20% smoothing coefficient (10) Male, 56 years / Female, 55 years (1) (11)
Age of retirement	Male, 57 years / Female, 56 years (11)	Male, 53 years / Female, 48 years (2)

(1) Petros Plan for Petrobras Group.

(2) Petros 2 Plan.

(3) AMS Plan.

(4) Inflation reflects market projections: 6.30% for 2015 and converging to 3.00% in 2030.

(5) Decreasing rate reaching 3.395% as of 2015.

- (6) Average turnover (only of Petrobras, the sponsor) according to age and employment time.
- (7) Decreasing rate, converging in 30 years to the long-term expected inflation. Refers only to Petrobras (sponsor) rate.
- (8) Except for Petros 2 Plan, for which Female AT 2000 with a 10% smoothing coefficient (2014) and AT 2000 (80% male + 20% female) with a 10% smoothing coefficient (2013) have been used.
- (9) Except for Petros 2 Plan, for which Álvaro Vindas disability table has been used.
- (10) Except for Petros 2 Plan, for which IAPB 1957 mortality table for disabled participants was used.
- (11) Except for Petros Plan 2, for which the Company used the eligibility under the rules of the Brazilian Social Security System (Regime Geral de Previdência Social - RGPS).

In 2014 the Company revised the mortality assumption for its benefits based on new tables. EX-PETROS 2013 general mortality table replaced AT 2000 (which was used to calculate the Company's actuarial obligation in 2013) for both genders. The EX-PETROS mortality table has two-dimensional characteristics indicating data for mortality by age and for longevity increases. This Table, which is recognized by the actuarial technical bodies, was designed based on extensive data over a long period for the participants of the Petrobras Petros Plan. The independent actuary of Fundação Petrobras used the 2013 position of the EX-PETROS table, which was considered to be the most statistically consistent in the time series, with respect to the population of participants of the Petros plan.

e) Expected maturity analysis of pension and medical benefits

	2014		Medical Plan	Other Plans	Total
	Pension Plan				
	Petros	Petros 2	AMS		
Up to 1 Year	1,654	13	355	2	2,024
1 To 2 Years	1,614	15	370	2	2,001
2 To 3 Years	1,583	16	381	2	1,982
3 To 4 Years	1,549	17	391	2	1,959
Over 4 Years	21,309	482	7,522	159	29,472
	27,709	543	9,019	167	37,438

22.6. Other defined contribution plans

Petrobras, through its subsidiaries in Brazil and abroad, also sponsors defined contribution pension plans for employees. Contributions paid in 2014, in the amount of US\$ 5 were recognized in the statement of income.

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22.7. Profit sharing

Profit sharing benefits comply with Brazilian legal requirements and those of the Brazilian Department of Coordination and Governance of State Owned Enterprises (DEST), of the Ministry of Planning, Budget and Management, and of the Ministry of Mines and Energy, and are computed based on the consolidated net income attributable to the shareholders of Petrobras.

In March 2014, the Company and the labor unions reached an agreement regarding a new profit sharing regulation, following negotiations started in the context of the 2013/2015 Collective Bargaining Agreement.

Pursuant to the amended rules, profit sharing benefits will be computed based on the results of six corporate indicators, for which annual goals are defined by management (maximum permissible levels of crude oil and oil products spill, lifting cost excluding production taxes in Brazil, crude oil and NGL production in Brazil, feedstock processed - excluding NGL - in Brazil, vessel operating efficiency and percentage of compliance with natural gas delivery schedule).

The results of the six individual goals are factored into a consolidated result that will determine the percentage of the profit to be distributed as a profit sharing benefit to employees.

Pursuant to the amended rules, in the event the Company records a net loss for the period, profit sharing benefit will be one half of the benefit paid in the prior year in addition to half a month's salary for each employee.

2013 profit sharing benefit

The amended rules were applied to determine profit sharing benefits for the year ended December 31, 2013, which were paid on May 2, 2014, resulting in an additional profit sharing expense of US\$ 164, recognized in other expenses.

Based on the consolidated result of the corporate indicators for 2013, a 6.25% distribution was applied to the net income expressed in *reais*.

2014 profit sharing benefit

In 2014 the annual goals of the six corporate indicators were achieved but the Company reported a net loss. Pursuant to the amended rules, the Company recognized a profit sharing expense of US\$ 444.

22.8. Voluntary Separation Incentive Plan

In January 2014, the Company launched a Voluntary Separation Incentive Plan (PIDV), which was developed within the context of its Productivity Optimization Plan (POP) to contribute to the achievement of the goals set out in the Business and Management Plan.

A total of 8,298 employees joined during the enrollment period, which ended on March 31, 2014. Those employees were divided into five categories, which determine when their separation will take place, between 2014 and 2017 based on a knowledge management plan or a management succession plan related to the business processes and activities in which such employees are engaged.

Employees who enrolled in the PIDV had to be aged 55 or more and would have to be eligible to retire under the Brazilian Institute of Social Security (INSS) before the end of the enrollment period (March 31, 2014). Employees who leave any time before the agreed dates are not entitled to the separation program incentives.

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The plan determines two types of separation incentives: fixed additional payments of ten monthly-salaries, between a floor equivalent to US\$ 80 thousand and a cap of equivalent to US\$ 265 thousand; variable additional payments between 15% and 25% of a monthly-salary for every month worked after the seventh working month, up to the date of separation.

On March 31, 2014 the Company recognized in other expenses in the statement of income a provision for the estimated charges. The amounts are subject to changes resulting from employees who cancel their requests for voluntary separation, impacts of Collective Bargaining Agreements, which might increase salaries before separation, inflation-indexation of the floor and the cap based on the Brazilian Consumer Price Index (IPCA), as well as variable additional incentives earned by employees.

From April to December 2014, 4,936 separations and 481 cancellations of requests were made for voluntary separation of employees who enrolled in the PIDV. Changes in the provision are set out below:

Opening balance as of March 31, 2014	1,059
Revision of provision (*)	21
Separations in the period	(609)
Cumulative translation adjustment	(81)
Closing balance as of December 31, 2014	390
Current	206
Non-current	184

(*) Includes cancellation of requests for voluntary separation, compensation increases and inflation indexation charges of the floor and cap amounts.

23. Shareholders' equity**23.1. Share capital (net of share issuance costs)**

As of December 31, 2014, subscribed and fully paid share capital was US\$ 107,380 (US\$ 107,371 on December 31, 2013), represented by 7,442,454,142 outstanding common shares and 5,602,042,788 outstanding preferred shares, all of which are registered, book-entry shares with no par value.

Preferred shares have priority on returns of capital, do not grant any voting rights and are non-convertible into common shares.

Capital increase with reserves in 2014

The Shareholders' Extraordinary General Meeting, held jointly with the Annual General Meeting on April 2, 2014 approved a capital increase through capitalization of a portion of the profit reserve relating to tax incentives, established in 2013 in the amount of US\$ 9, pursuant to article 35, paragraph 1, of Ordinance 283/13 of the Ministry for National Integration (*Ministro do Estado da Integração Nacional*), without issue of new shares (pursuant to article 169, paragraph 1, of the Brazilian Corporation Law - 6,404/76).

Incremental costs directly attributable to the issue of new shares – includes any transaction costs directly attributable to the issue of new shares, net of taxes.

23.2. Change in interest in subsidiaries

Includes any excess of amounts paid/received over the carrying value of the interest acquired/disposed. Changes in ownership interest in subsidiaries that do not result in loss of control of the subsidiary are equity transactions.

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23.3. Profit reserves

Legal reserve – represents 5% of the net income for the year, calculated pursuant to article 193 of the Brazilian Corporation Law.

Statutory reserve – is appropriated by applying a minimum of 0.5% of the year-end share capital and is retained to fund technology research and development programs. The balance of this reserve may not exceed 5% of the share capital, pursuant to article 55 of the Company's bylaws.

Tax incentives reserve – government grants are recognized in the statement of income and are appropriated from retained earnings to the tax incentive reserve in the shareholders' equity pursuant to article 195-A of Brazilian Corporation Law. This reserve may only be used to offset losses or increase share capital.

The Company recorded a net loss in 2014 and, therefore, the impact of tax incentives in the north and northeast regions of Brazil from *Superintendências de Desenvolvimento do Nordeste* (SUDENE) and *Superintendências de Desenvolvimento da Amazônia* (SUDAM) were not allocated to the tax incentives reserve. However, the impact of tax incentives will be allocated to the tax incentives reserve in future periods, pursuant to Chapter I of Law 12,973/14.

Profit retention reserve – appropriates funds intended for capital expenditures, primarily in oil and gas exploration and development activities, included in the capital budget of the Company, pursuant to article 196 of the Brazilian Corporation Law.

The accumulated deficit balance of US\$ 7,363 at December 31, 2014 will be allocated to the profit retention reserve.

23.4. Accumulated other comprehensive income

Comprises gains or losses arising from remeasurement of net pension and medical benefits liabilities; cash flow hedges; measurement at fair value of available-for-sale financial assets; and cumulative translation adjustment (CTA), which comprises all exchange differences arising from the translation of the consolidated financial statements from the functional currency (Brazilian *Real*) into the presentation currency (U.S. dollar).

23.5. Dividends

Shareholders are entitled to receive minimum mandatory dividends (and/or interest on capital) of 25% of the adjusted net income for the year proportional to the number of common

and preferred shares, pursuant to Brazilian Corporation Law.

To the extent the Company proposes dividend distributions, preferred shares have priority in dividend distribution, which is based on the highest of 3% of the preferred shares' net book value, or 5% of the preferred share capital. Preferred shares participate under the same terms as common shares in capital increases resulting from the capitalization of profit reserves or retained earnings.

Dividends - 2013

The Annual General Meeting on April 2, 2014 approved a dividend distribution in the form of interest on capital of US\$ 3,970, which corresponds to US\$ 0.2227 per common shares and US\$ 0.4129 per preferred share (translated into U.S. dollars using the closing rate for 2013). These dividends were paid on April 25, 2014 and the record date was April 2, 2014. Amounts paid were index adjusted based on the SELIC rate from December 31, 2013 to the date of payment.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

The Board of Directors will not propose a dividend distribution in 2014, as the Company reported a loss for the year ended December 31, 2014.

23.6. Earnings per Share

	2014	2013	2012
Net income (loss) attributable to shareholders of Petrobras	(7,367)	11,094	10,931
Weighted average number of common and preferred shares outstanding	13,044,496,930	13,044,496,930	13,044,496,930
Basic and diluted earnings per common and preferred share (US\$ per share)	(0.56)	0.85	0.85

24. Sales revenues

	2014	2013	2012
Gross sales	174,031	172,016	176,714
Sales taxes	(30,374)	(30,554)	(32,611)
Sales revenues (*)	143,657	141,462	144,103
Diesel	42,586	41,435	38,558
Automotive gasoline	23,702	23,470	23,277
Fuel oil (including bunker fuel)	4,357	3,464	2,864
Naphtha	5,622	5,885	5,745
Liquefied petroleum gas	3,729	3,960	4,126
Jet fuel	5,562	5,553	5,862
Other oil products	5,771	5,760	5,958
Subtotal oil products	91,329	89,527	86,392
Natural gas	8,035	7,376	6,580
Ethanol, nitrogen products, renewables and other non-oil products	3,862	4,868	4,027
Electricity, services and others	8,384	4,693	3,498
Total domestic market	111,610	106,464	100,497
Exports	13,930	15,172	22,353

International sales (**)	18,117	19,826	21,253
Sales revenues (*)	143,657	141,462	144,103

(*) Analysis of sales revenues by business segment is set out in note 29.

(**) Sales revenues from operations outside of Brazil, other than exports.

25. Other expenses, net

	2014	2013	2012
Unscheduled stoppages and pre-operating expenses	(1,089)	(923)	(856)
Voluntary Separation Incentive Plan - PIDV (note 22.8)	(1,035)	—	—
Pension and medical benefits - retirees	(1,030)	(900)	(1,042)
Institutional relations and cultural projects	(743)	(821)	(777)
Gains / (losses) on decommissioning of returned/abandoned areas	(443)	58	—
Collective bargaining agreement	(440)	(419)	(444)
E&P areas returned and cancelled projects	(268)	(19)	—
Legal, administrative and arbitration proceedings	(194)	(269)	(716)
Health, safety and environment	(143)	(225)	(289)
Government grants	61	181	385
Gains / (losses) on disposal/write-offs of assets (**)	(213)	1,764	(2)
Reimbursements from E&P partnership operations	360	241	268
Others (*)	(116)	219	167
	(5,293)	(1,113)	(3,306)

(*) In 2014 includes additional profit sharing benefit for 2013, as set out on note 22.7.

(**) Includes a US\$ 1,304 gain on disposal of the Company's interest in Petrobras Energia Peru S.A. (note 10.1) and a US\$ 1,236 write-off of Premium I and Premium II refineries (note 12.4) in 2014.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***26. Costs and Expenses by nature**

	2014	2013	2012
Raw material / products for resale	(58,539)	(60,068)	(58,410)
Production taxes	(13,500)	(14,498)	(16,083)
Employee compensation	(13,215)	(12,769)	(12,071)
Depreciation, depletion and amortization	(13,023)	(13,188)	(11,119)
Changes in inventories	(1,181)	1,681	724
Materials, freight, rent, third-party services and other related costs	(23,847)	(23,202)	(24,719)
Allowance for impairment of trade receivables	(2,378)	(73)	(39)
Exploration expenditures written off (incl. dry wells and signature bonuses)	(2,178)	(1,892)	(2,847)
Other taxes	(760)	(780)	(386)
Legal, administrative and arbitration proceedings	(194)	(269)	(716)
Institutional relations and cultural projects	(743)	(821)	(777)
Unscheduled stoppages and pre-operating expenses	(1,089)	(923)	(856)
Health, safety and environment	(143)	(225)	(289)
Impairment of assets	(16,823)	(544)	(137)
Gains / (losses) on disposal/write-offs of assets	(213)	1,764	(2)
E&P areas returned and cancelled projects	(268)	(19)	–
Write-off - overpayments incorrectly capitalized	(2,527)	–	–
Results of decommissioning areas	(443)	58	–
	(151,064)	(125,768)	(127,727)
In the Statement of income			
Cost of sales	(109,477)	(108,834)	(108,276)
Selling expenses	(6,827)	(4,904)	(4,927)
General and administrative expenses	(4,756)	(4,982)	(5,034)
Exploration costs	(3,058)	(2,959)	(3,994)
Research and development expenses	(1,099)	(1,132)	(1,143)
Impairment of assets	(16,823)	(544)	(137)
Other taxes	(760)	(780)	(386)
Write-off - overpayments incorrectly capitalized	(2,527)	–	–
Other expenses, net	(5,293)	(1,113)	(3,306)
Profit sharing	(444)	(520)	(524)
	(151,064)	(125,768)	(127,727)

27. Net finance income (expense)

	2014	2013	2012
Foreign exchange gains/(losses) and inflation indexation charges on debt (*)	(561)	(1,603)	(3,327)
Debt interest and charges	(6,734)	(5,491)	(5,152)
Income from investments and marketable securities	1,007	1,278	1,716
Financial result on net debt	(6,288)	(5,816)	(6,763)
Capitalized borrowing costs	3,600	3,921	3,807
Gains (losses) on derivatives, net	337	(181)	(52)
Interest income from marketable securities	(39)	(95)	919
Other finance expense and income, net	(159)	(320)	404
Other foreign exchange gains/(losses) and indexation charges, net	914	(300)	(241)
Finance income (expenses), net	(1,635)	(2,791)	(1,926)
Income	1,949	1,815	3,659
Expenses	(3,923)	(2,673)	(2,016)
Foreign exchange gains/ (losses) and inflation indexation charges, net	339	(1,933)	(3,569)
	(1,635)	(2,791)	(1,926)

(*) Includes debt raised in Brazil (in Brazilian reais) indexed to the U.S. dollar.

28. Supplemental information on statement of cash flows

	2014	2013	2012
Amounts paid/received during the year:			
Income taxes paid	853	1,446	1,093
Withholding income tax paid on behalf of third-parties	1,852	1,954	2,045
Capital expenditures and financing activities not involving cash			
Purchase of property, plant and equipment on credit	123	209	187
Recognition (reversal) of provision for decommissioning costs	1,999	(629)	5,208

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***29. Segment Information****Consolidated assets by Business Area - 12.31.2014**

	Exploration	Refining, and Production & Marketing	Gas Transportation & Power	Biofuels	Distribution	International	Corporate	Other
Current assets	6,008	14,724	3,979	65	3,481	2,345	24,160	(3)
Non-current assets	145,516	55,314	24,388	1,044	3,740	10,664	8,225	(1)
Long-term receivables	6,729	3,605	1,411	3	1,211	1,848	5,029	(9)
Investments	200	1,807	524	836	15	2,226	145	–
Property, plant and equipment	135,671	49,662	22,126	205	2,284	6,058	2,787	(6)
Operating assets	99,313	40,940	17,868	189	1,730	3,716	2,094	(6)
Under construction	36,358	8,722	4,258	16	554	2,342	693	–
Intangible assets	2,916	240	327	–	230	532	264	–
Total Assets	151,524	70,038	28,367	1,109	7,221	13,009	32,385	(4)

Consolidated assets by Business Area - 12.31.2013*

Current assets	5,902	19,141	3,864	77	2,380	5,089	21,643	(5)
Non-current assets	146,805	73,393	23,839	1,119	4,874	13,034	6,897	(1)
Long-term receivables	6,251	4,411	1,853	2	2,229	1,987	3,168	(1)
Investments	94	2,318	749	895	6	2,511	93	–
Property, plant and equipment	126,716	66,522	20,882	222	2,350	7,971	3,312	(7)
Operating assets	90,888	32,636	16,698	205	1,686	3,792	2,312	(7)

Under construction	35,828	33,886	4,184	17	664	4,179	1,000	–
Intangible assets	13,744	142	355	–	289	565	324	–
Total Assets	152,707	92,534	27,703	1,196	7,254	18,123	28,540	(6)

* Beginning in 2014, management of Liquigás (a subsidiary) was allocated to the RTM segment (previous amounts previously reported for 2013 were restated for comparability purposes and the results previously reported for the Distribution segment are now presented under the RTM segment, pursuant to the management approach premise adopted for the financial statements by business segment.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***Consolidated Statement of Income by Business Area**

	Jan-Dec/2014						
	Exploration	Refining,	Gas		Biofuels	Distribution	International
	and	Transportation &		Power	Production & Marketing	Corporation	Other
Sales revenues	65,616	112,320	17,882	266	41,729	13,912	–
Intersegments	65,116	39,251	1,695	238	1,129	639	–
Third parties	500	73,069	16,187	28	40,600	13,273	–
Cost of sales	(35,072)	(115,984)	(15,303)	(311)	(38,495)	(12,829)	–
Gross profit (loss)	30,544	(3,664)	2,579	(45)	3,234	1,083	–
Income							
(expenses)	(8,646)	(19,312)	(3,307)	(67)	(2,448)	(1,618)	(5,972)
Selling, general and administrative	(440)	(2,762)	(2,551)	(50)	(2,253)	(821)	(2,935)
Exploration costs	(2,882)	–	–	–	–	(176)	–
Research and development	(548)	(192)	(85)	(15)	(1)	(1)	(257)
Other taxes	(52)	(95)	(124)	–	(12)	(111)	(366)
Impairment of assets	(2,133)	(12,782)	(117)	–	–	(1,791)	–
Write-off - overpayments incorrectly capitalized	(804)	(1,398)	(266)	–	(9)	(9)	(41)
Other expenses, net	(1,787)	(2,083)	(164)	(2)	(173)	1,291	(2,373)
Income / (loss) before financial results, profit sharing and income taxes	21,898	(22,976)	(728)	(112)	786	(535)	(5,972)
Net finance income (expense) –	–	–	–	–	–	–	(1,635)
Share of earnings in equity-accounted	16	120	195	(53)	–	(63)	3

investments							
Profit sharing	(150)	(127)	(20)	(1)	(26)	(10)	(110)
Income / (loss)							
before income							
taxes	21,764	(22,983)	(553)	(166)	760	(608)	(7,714)
Income taxes	(7,635)	7,569	163	39	(261)	(493)	2,168
Net income (loss)	14,129	(15,414)	(390)	(127)	499	(1,101)	(5,546)
Net income							
attributable to:							
Shareholders of							
Petrobras	14,133	(15,405)	(410)	(127)	499	(1,145)	(5,359)
Non-controlling							
interests	(4)	(9)	20	—	—	44	(187)
	14,129	(15,414)	(390)	(127)	499	(1,101)	(5,546)

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***Consolidated Statement of Income by Business Area (*)**

	Jan-Dec/2013						
	Exploration	Refining,	Gas				
	and	Transportation &	Power	Biofuels	Distribution	International	Corporation
	Production & Marketing						
Sales revenues	68,210	111,665	14,017	388	40,023	16,302	–
Intersegments	67,096	37,375	1,191	324	995	2,162	–
Third parties	1,114	74,290	12,826	64	39,028	14,140	–
Cost of sales	(34,283)	(120,043)	(12,154)	(466)	(36,639)	(14,212)	–
Gross profit (loss)	33,927	(8,378)	1,863	(78)	3,384	2,090	–
Income (expenses)	(4,129)	(3,955)	(1,162)	(69)	(2,048)	(215)	(4,932)
Selling, general and administrative	(443)	(3,150)	(1,087)	(55)	(2,048)	(860)	(2,406)
Exploration costs	(2,784)	–	–	–	–	(175)	–
Research and development	(523)	(242)	(57)	(16)	(2)	(2)	(290)
Other taxes	(238)	(166)	(81)	(1)	(15)	(141)	(138)
Impairment of assets	(4)	–	–	–	–	(540)	–
Other expenses, net	(137)	(397)	63	3	17	1,503	(2,098)
Income / (loss) before financial results, profit sharing and income taxes	29,798	(12,333)	701	(147)	1,336	1,875	(4,932)
Net finance income (expense) –	–	–	–	–	–	–	(2,791)
Share of earnings in equity-accounted investments	2	73	243	(20)	2	174	33
Profit sharing	(181)	(141)	(23)	(1)	(32)	(14)	(128)
Income / (loss) before income taxes	29,619	(12,401)	921	(168)	1,306	2,035	(7,818)

Income taxes	(10,070)	4,243	(230)	51	(443)	(246)	4,087
Net income (loss)	19,549	(8,158)	691	(117)	863	1,789	(3,731)
Net income attributable to:							
Shareholders of Petrobras	19,523	(8,150)	631	(117)	863	1,729	(3,331)
Non-controlling interests	26	(8)	60	—	—	60	(400)
	19,549	(8,158)	691	(117)	863	1,789	(3,731)

* Beginning in 2014, management of Liquigás (a subsidiary) was allocated to the RTM segment (previously reported for 2013 were restated for comparability purposes and the results previously attributed to the RTM segment are now presented under the RTM segment, pursuant to the management and accountability requirements of the financial statements by business segment.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

Consolidated Statement of Income by Business Area (*)

Jan-Dec/2012

Exploration Refining, Gas Biofuels Distribution International Corpora

and Transportation&

Production & Marketing Power

Sales revenues	74,714	116,826	11,803 455	40,596	17,929	—
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Intersegments	73,871	37,950	1,288	365	878	3,868	—
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Third parties	843	78,876	10,515 90	39,718	14,061	—
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Cost of sales	(33,632)	(130,439)	(9,621)(488)	(36,915)	(14,538)	—
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Gross profit (loss)	41,082	(13,613)	2,182	(33)	3,681	3,391	—
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Income (expenses)	(5,438)	(3,837)	(1,080)(95)	(2,259)	(1,430)	(4,937)
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Selling, general and administrative	(494)	(3,087)	(967)	(64)	(2,200)	(922)	(2,376)
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Exploration costs (3,613)	-	-	-	-	(381)	-
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Research and development	(540)	(228)	(36)	(34)	(2)	—	(303)
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Other taxes	(53)	(66)	(57)	(1)	(12)	(111)	(86)
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Impairment of assets	(34)	135	(1)	–	–	(237)	–
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Other expenses, net	(704)	(591)	(19)	4	(45)	221	(2,172)
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Income / (loss) before financial results, profit sharing and income taxes	35,644	(17,450)	1,102	(128)	1,422	1,961	(4,937)
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Net finance	—	—	—	—	—	—	—	(1,926)
income (expense)								

Share of earnings (1) in equity-accounted investments	(104)	193	(27)	1	(14)	(5)
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Profit sharing	(178)	(146)	(18)	(1)	(36)	(14)	(131)
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Income / (loss) before income taxes	35,465	(17,700)	1,277	(156)	1,387	1,933	(6,999)
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Income taxes	(12,057)	5,982	(367)	44	(473)	(1,147)	4,213
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Net income (loss)	23,408	(11,718)	910	(112)	914	786	(2,786)
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Net income
attributable to:

Shareholders of Petrobras	23,406	(11,718)	861	(112)	914	719	(2,565)
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Non-controlling interests	2	-	49	-	-	67	(221)
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23,408	(11,718)	910	(112)	914	786	(2,786)
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* Beginning in 2014, management of Liquigás (a subsidiary) was allocated to the RTM segment (previous Distribution segment). Amounts previously reported for 2012 were restated for comparability purposes and the results previously reported for the Distribution segment are now presented under the RTM segment, pursuant to the management and accounting policy adopted for the financial statements by business segment.

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Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***Statement of
Income -
breakdown of
International
Business
Area**

	Jan-Dec/2014						
	Exploration	Refining,	Gas				
	&	Transportation &					
	Production & Marketing	Power	Distribution	Corporate	Eliminations	Total	
Statement of income							
Sales revenues	3,000	7,406	490	5,167	23	(2,174)	13,912
Intersegments	1,234	1,528	34	2	15	(2,174)	639
Third parties	1,766	5,878	456	5,165	8	–	13,273
Income before financial results, profit sharing and income taxes	185	(556)	71	96	(327)	(4)	(535)
Net income (loss) attributable to shareholders of Petrobras	(413)	(474)	92	82	(428)	(4)	(1,145)

	Jan-Dec/2013						
	Exploration	Refining,	Gas				
	&	Transportation &					
	Production & Marketing	Power	Distribution	Corporate	Eliminations	Total	
Statement of income							
Sales revenues	4,134	8,633	556	5,223	7	(2,251)	16,302
Intersegments	2,382	1,982	37	7	5	(2,251)	2,162
Third parties	1,752	6,651	519	5,216	2	–	14,140
	2,030	(22)	66	105	(303)	(1)	1,875

Income before financial results, profit sharing and income taxes								
Net income (loss) attributable to shareholders of Petrobras	1,644	(12)	68	92	(62)	(1)		1,729
	Jan-Dec/2012							
	Exploration		Refining,		Gas			
	&		Transportation		&			
	Production & Marketing		Power		Distribution		Corporate Eliminations Total	
Statement of income								
Sales revenues	5,369	8,989	601	5,184	—	(2,214)		17,929
Intersegments	3,834	2,194	38	16	—	(2,214)		3,868
Third parties	1,535	6,795	563	5,168	—	—		14,061
Income before financial results, profit sharing and income taxes	2,438	(407)	132	73	(291)	16		1,961
Net income (loss) attributable to shareholders of Petrobras	1,317	(400)	121	70	(403)	14		719
	Exploration		Refining,		Gas			
	&		Transportation		&			
	Production & Marketing		Power		Distribution		Corporate Eliminations Total	
Total assets - breakdown of International Business Area								
At 12.31.2014	9,623	1,861	472	940	1,230	(1,117)		13,009
At 12.31.2013	13,656	2,652	602	1,085	1,970	(1,842)		18,123

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***30. Provisions for legal proceedings****30.1. Provisions for legal proceedings, contingent liabilities and not provisions for legal proceedings**

The Company has recognized provisions for the best estimate of the costs of proceedings for which it is probable that an outflow of resources embodying economic benefits will be required and that can be reasonably estimated. These proceedings are mainly comprised of labor claims, tax proceedings related to withholding income tax over proceeds from notes issued abroad, losses and damages proceedings resulting from the cancellation of an assignment of excise tax (IPI) credits to a third party and fishermen seeking indemnification from the Company for a January 2000 oil spill in the State of Rio de Janeiro.

Provisions for legal proceedings, are set out below:

Non-current liabilities	12.31.2014	12.31.2013
Labor claims	717	569
Tax claims	104	94
Civil claims	666	545
Environmental claims	40	26
Other claims	13	12
	1,540	1,246

	12.31.2014	12.31.2013
Opening Balance	1,246	1,265
New provisions, net	766	415
Payments made	(314)	(249)
Accruals and charges	66	77
Others	(8)	(57)
Cumulative translation adjustment	(216)	(205)
Closing Balance	1,540	1,246

Judicial deposits made in connection with legal proceedings are set out in the table below according to the nature of the corresponding lawsuits:

Non-current assets	12.31.2014	12.31.2013
Labor	928	882
Tax	1,006	1,002
Civil	663	529
Environmental	80	83
Others	5	8
	2,682	2,504

Contingent liabilities for which the likelihood of loss is considered to be possible are not recognized as liabilities in the financial statements but are disclosed, unless the expected outflow of resources embodying economic benefits is considered remote.

The estimated contingent liabilities for legal proceedings at December 31, 2014 for which the likelihood of loss is considered to be possible are set out in the table below.

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(Expressed in millions of US Dollars, unless otherwise indicated)

Nature	Estimate
Tax	36,992
Civil - General	3,896
Labor	4,661
Civil - Environmental	1,499
Others	2
	47,050

A brief description of the nature of the main contingent liabilities (tax, civil, environmental and labor) for which the likelihood of loss is considered to be possible are set out in the table below.

Description of tax matters	Estimate
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Plaintiff: Secretariat of the Federal Revenue of Brazil

1) Failure to withhold and pay income tax (IRRF) and Contribution of Intervention in the Economic Domain (CIDE) on remittances for payment of platform charters.

Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights. 7,929

2) Failure to pay tax on financial operations (IOF) over intercompany loans entered into with, PifCo, Brasoil and BOC in 2007, 2008, 2009 and 2010.

Current status: Awaiting the hearing of an appeal at the administrative level. 2,689

3) Deduction from taxable income of profits of subsidiaries and associates domiciled abroad in 2005, 2006, 2007, 2008, 2009 and 2010.

Current status: Awaiting the hearing of an appeal at the administrative level. 2,547

4) Failure to withhold and pay income tax withheld (IRRF) on remittances for payment of crude oil imports.

Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights. 1,918

5) Deduction from taxable income of expenses from Petros
Plan renegotiation and penalties.

Current status: Awaiting the hearing of an appeal at the administrative level. 1,858

6) Deduction from taxable income (income tax - IRPJ and social contribution - CSLL) of development costs.

Current status: This claim involves a lawsuit in 1,757
administrative stage, in which the Company is taking legal
actions to ensure its rights.

7) Tax credits applied were disallowed due to failure to comply with an ancillary tax obligation.

Current status: Awaiting the hearing of an appeal at the administrative level. 1,736

8) Failure to pay Contribution of Intervention in the Economic Domain (CIDE) on imports of naphtha.

Current status: This claim is being discussed at the administrative level. 1,328

9) Failure to pay social security contributions over contingent bonuses paid to employees.

Current status: This claim involves lawsuits in 821
administrative stages, in which the Company is taking legal
actions to ensure its rights.

10) Deduction from taxable income (income tax - IRPJ and social contribution - CSLL) of various employee benefits and pension benefits (PETROS) expenses in 2007 and 2008.

Current status: This claim is being disputed at the administrative level, involving three administrative proceedings.

744

11) Failure to pay Contribution of Intervention in the Economic Domain (CIDE) from March 2002 to October 2003 on transactions with fuel retailers and service stations protected by judicial injunctions determining that fuel sales were made without gross-up of such tax.

Current status: This claim involves lawsuits in different administrative and judicial levels, in which the Company is taking legal actions to ensure its rights. 634

Plaintiff: State of São Paulo Finance Department

12) Dispute over VAT (ICMS) levied on a drilling rig import – temporary admission in the state of São Paulo and clearance in the state of Rio de Janeiro and related fines for breach of ancillary tax obligations.

Current status: This claim involves lawsuits in 1,813
administrative stages, in which the Company is taking legal
actions to ensure its rights.

**Plaintiff: States of AM, BA, DF, ES, PA, PE and RJ
Finance Departments**

13) Dispute over VAT (ICMS) levied on crude oil and natural gas sales attributable to alleged differences in beginning inventory and ending inventory.

Current status: This claim involves lawsuits in different administrative and judicial levels, in which the Company is taking legal actions to ensure its rights. 1,151

Plaintiff: State of Rio de Janeiro Finance Department

14) VAT (ICMS) levied on dispatch of liquid natural gas (LNG) without issuance of tax document by the main establishment.

Current status: This claim involves lawsuits in different administrative stages, in which the Company is taking legal actions to ensure its rights. 1,323

15) Dispute over VAT (ICMS) levied on jet fuel sales, as Decree 36,454/2004 was declared unconstitutional.

Current status: This claim involves lawsuits in 758
administrative stages, in which the Company is taking legal
actions to ensure its rights.

Plaintiff: Municipal governments of the cities of Anchieta, Aracruz, Guarapari, Itapemirim, Marataízes, Linhares, Vila Velha, Vitória and Maragogipe.

16) Alleged failure to withhold and pay tax on services provided offshore (ISSQN) in some municipalities located in the State of Espírito Santo. Petrobras withheld and paid these taxes to the municipalities where the respective service providers were established, in accordance with Complementary Law 116/03.

Current status: This claim involves lawsuits in different judicial stages, in which the Company is taking legal actions to ensure its rights. 846

Plaintiff: State SP, RS and SC Finance Departments

17) Three States challenged VAT (ICMS) paid to the State of MS on imports of natural gas.

Current status: This claim involves lawsuits in different administrative and judicial stages, as well as three civil lawsuits in the Supreme Court. 799

**Plaintiff: States of Rio de Janeiro and Sergipe
Finance Departments**

18) VAT (ICMS) credits were allegedly applied improperly on the purchase of drilling rig bits and chemical products used in formulating drilling fluid.

Current status: This claim involves lawsuits in different judicial stages, in which the Company is taking legal actions to ensure its rights. 396

19) Other tax matters

5,945

Total tax matters

36,992

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Description of civil matters	Estimate
Plaintiff: Agência Nacional de Petróleo, Gás Natural e Biocombustíveis - ANP	
1) Legal and administrative disputes on differences in special participation charges and royalties paid in several fields. In addition, the Brazilian Oil, Natural Gas and Biofuels Agency (ANP) is claiming fines for alleged non-compliance with minimum exploratory programs and alleged irregularities in platform measurement systems. Current status: This claim involves proceedings in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights.	1,557
Plaintiff: Refinaria de Petróleo de Manguinhos S.A.	
2) Lawsuit seeking to recover damages for alleged anti-competitive practices with respect to gasoline and other oil products (Diesel and LPG) sales in the domestic market. Current status: This claim is in judicial stage and was ruled for the plaintiff in the first stage. The Company is taking legal actions to ensure its rights. The Brazilian Antitrust regulator (CADE) has analyzed this claim and did not consider the Company's practices anti-competitive.	497
3) Other civil matters	1,842
Total for civil matters	3,896

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Description of environmental matters	Estimate
Plaintiff: Ministério Público Federal, Ministério Público Estadual do Paraná	
AMAR - Associação de Defesa do Meio Ambiente de Araucária e IAP - Instituto Ambiental do Paraná	
1) Legal proceeding related to specific performance obligations, indemnification and compensation for damages related to an environmental accident that occurred in the State of Paraná on July 16, 2000. Current status: The court partially ruled in favor of the plaintiff, however both parties (the plaintiff and the Company) filed an appeal.	783
2) Other environmental matters	716
Total for environmental matters	1,499

Description of labor matters	Estimate
Plaintiff : Sindipetro of Espírito Santo, Rio de Janeiro, Bahia, Minas Gerais and São Paulo.	
1) Class actions requiring a review of how the minimum compensation based on the employee's position and work schedule (Remuneração Mínima por Nível e Regime - RMNR) is computed. Current status: The Company filed with the Superior Labor Court a collective bargaining agreement seeking to interpret the collective bargaining agreement clause questioned before the Labor Courts.	1,187
Plaintiff : Sindipetro of Norte Fluminense and Sindipetro do Estado da Bahia	
2) Class Actions regarding wage underpayments to certain employees due to alleged changes in the methodology used to factor overtime into the calculation of paid weekly rest, allegedly computed based on ratios that are higher than those established by Law No. 605/49. Current status: The Company has appealed a decision with 437 respect to the claim filed by Sindipetro/BA and awaits judgment by the Superior Labor Court. The Company has	

filed an appeal in the Superior Labor Court to overturn a decision with respect to the claim filed by Sindipetro Norte Fluminense (NF) and awaits judgment.

Plaintiff : Sindipetro of Norte Fluminense – SINDIPETRO/NF

3)The plaintiff claims Petrobras to pay overtime for standby work time exceeding 12-hours per day. It also claims that Petrobras must respect a 12-hour limit per workday, subject to a daily fine.

Current status: Awaiting the Superior Labor Court to judge appeals filed by both parties.

4) Other labor matters

Total for labor matters

381
2,656
4,661

30.2. Class actions and other related proceedings

Between December 8, 2014 and January 7, 2015, five putative securities class action complaints were filed against the Company in the United States District Court for the Southern District of New York (SDNY). These actions were consolidated on February 17, 2015 (the “Consolidated Securities Litigation”). The Court appointed a lead plaintiff, Universities Superannuation Scheme Limited (“USS”), on March 4, 2015. USS filed a consolidated amended complaint on March 27, 2015 that purports to be on behalf of investors who: (i) purchased or otherwise acquired Petrobras securities traded on the NYSE or pursuant to other transactions in the U.S. during the period January 22, 2010 and March 16, 2015, inclusive (the “Class Period”), and were damaged thereby; (ii) purchased or otherwise acquired the 2012 Notes pursuant to the 2009 Registration Statement, or the 2013 Notes or 2014 Notes pursuant to the 2012 Registration Statement and were damaged thereby; and (iii) purchased or otherwise acquired Petrobras securities on the Brazilian stock exchange during the period January 22, 2010 and March 19, 2015, who also purchased or otherwise acquired Petrobras securities traded on the NYSE or pursuant to other transactions in the U.S. during the same period.

The consolidated amended complaint alleges, among other things, that in the Company’s press releases, filings with the SEC and other communications, the Company made materially false and misleading statements and omissions regarding the value of its assets, the amounts of the Company’s expenses and net income, the effectiveness of the Company’s internal controls over financial reporting, and the Company’s anti-corruption policies, due to alleged corruption purportedly in connection with certain contracts, which allegedly artificially inflated the market value of the Company’s securities.

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In addition, to date, three complaints have been filed by individual investors in the Southern District of New York consisting of allegations similar to those in the consolidated amended complaint. Those individual actions have been consolidated with the Consolidated Securities Litigation for pre-trial purposes.

The plaintiffs have not specified an amount of alleged damages in the actions. Because these actions are in their early stages, the possible loss or range of losses, if any, arising from the litigation cannot be estimated. The Company has engaged a U.S. firm as legal counsel and intends to defend vigorously against the allegations made in the context of these actions.

30.3. Contingent assets

30.3.1. Legal proceeding in the United States - P-19 and P-31 platforms

In 2002, Braspetro Oil Service Company (Brasoil) and Petrobras obtained a favorable decision in related lawsuits filed before U.S. courts by the insurance companies United States Fidelity & Guaranty Company and American Home Assurance Company in which they were seeking to obtain (since 1997 and regarding Brasoil) a judicial order exempting them from their payment obligations under the performance bond related to platforms P- 19 and P-31 platforms, and seeking reimbursement from Petrobras for any amounts for which they could ultimately be held liable in the context of the execution proceedings of such performance bond.

On July 21, 2006, the U.S. courts issued an executive decision, conditioning the payment of the amounts owed to Brasoil on a definitive dismissal of the legal proceedings involving identical claims that were ongoing before Brazilian courts.

In August 2014, Brasoil and Petrobras signed an out-of-court agreement with the U.S. insurance companies, which provides for the closure of all lawsuits and judicial executions filed in Brazilian and foreign courts. The agreement resulted in a US\$ 295 gain, of which US\$ 72 had been previously recognized, and therefore, a US\$ 223 gain was recognized in other income in 2014.

30.3.2. Recovery of PIS and COFINS

The Company filed civil lawsuits against the Federal Government claiming to recover, through offsetting, amounts paid as taxes on finance income and foreign exchange variation gains (PIS) in the period between February 1999 and November 2002 and COFINS between February 1999 and January 2004 claiming that paragraph 1 of article 3 of Law 9,718/98 is unconstitutional.

On November 9, 2005, the Federal Supreme Court declared this paragraph to be unconstitutional.

On November 18, 2010, the Superior Court of Justice upheld the claim filed by Petrobras in 2006 to recover the COFINS for the period from January 2003 to January 2004. Petrobras then recognized the amount of US\$ 290 as recoverable taxes.

The Company recognized US\$ 957 as recoverable taxes in September 2014 (US\$ 360 in other income and US\$ 597 in finance income) for the lawsuit filed in 2005 to recover PIS and COFINS taxes overpaid on finance income in the period from February 1999 to December 2002, after its right to recover those taxes has been definitely recognized and the amounts and documents necessary to request judicial payment were presented.

As of December 31, 2014, the Company had non-current receivables of US\$ 1,030 related to PIS and COFINS, which are inflation indexed and awaiting settlement, are set out in the table below.

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	12.31.2014
COFINS - January 2003 to January 2004	290
PIS / COFINS - February 1999 to November 2002	957
Inflation indexation	24
Cumulative translation adjustment	(241)
Non-current receivables	1,030

31. Commitment to purchase natural gas

On August 18, 2014, Petrobras reached an agreement with Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) to settle controversies regarding several aspects of the Bolivian natural gas import contract to supply the Brazilian domestic market (GSA). This agreement sets out payment schedules and compensations for both parties to resolve different interpretations of the GSA, and includes a contract to secure Bolivian natural gas supply to for a thermoelectric power plant - UTE Cuiabá through December 2016.

As of December 31, 2014, the total amount of agreement (GSA) for the 2015 to 2019 period is approximately 54.92 billion cubic meters (m³) of natural gas (equivalent to 30.08 cubic meters (m³) per day) and corresponds to a total value of US\$ 10.09 billion.

The agreement resulted in a net charge to income of US\$ 383, of which US\$ 438 was recognized in cost of sales, partially offset by a US\$ 55 gain in other income.

32. Collateral for crude oil exploration concession agreements

The Company has granted collateral to the Brazilian Agency of Petroleum, Natural Gas and Biofuels (*Agência Nacional de Petróleo, Gás Natural e Biocombustíveis -ANP*) in connection with the performance of the Minimum Exploration Programs established in the concession agreements for petroleum exploration areas in the total amount of US\$ 2,467 of which US\$ 1,881 are still in force at December 31, 2014, net of commitments that have been undertaken. The collateral comprises crude oil from previously identified producing fields, pledged as security, amounting to US\$ 1,512 and bank guarantees of US\$ 369.

33. Risk management

The Company is exposed to a variety of risks arising from its operations, including price risk (related to crude oil and oil products prices), foreign exchange rates risk, interest rates risk,

credit risk and liquidity risk. It manages risks through a corporate policy established by its officers.

The objective of the overall risk management policy is to support the achievement of the Company's strategic goals through an adequate resource allocation and an appropriate balance between growth, return on investments and risk exposure level, which can arise from its normal activities or from the context within which the Company operates.

A summary of the positions held by the Company and recognized in other current assets and liabilities as of December 31, 2014, as well as the amounts recognized in the statement of income and other comprehensive income and the guarantees given is set out following:

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	Statement of Financial Position					
	Fair value					
	Notional value		Asset Position (Liability)		Maturity	
	12.31.2014	12.31.2013	12.31.2014	12.31.2013		
Derivatives not designated for hedge accounting						
Future contracts - total (*)	(4,314)	10,224	70	(20)		
Long position/Crude oil and oil products	84,544	52,267	–	–		2015
Short position/Crude oil and oil products	(88,858)	(42,043)	–	–		2015
Options - total (*)	(594)	–	0.7	–		
Call/Crude oil and oil products	(364)	–	(0.4)	–		
Put/Crude oil and oil products	(230)	–	1.1	–		2015
Forward contracts - total			2	(1)		
Long position/Foreign currency forwards (ARS/USD)	USD 10		(1)	–		2015
Short position/Foreign currency forwards (BRL/USD)	USD 249	USD 17	3	(1)		2015
Swap Interest – Euribor / Fixed rate	EUR 5	EUR 10	–	(0.6)		2015
Derivatives designated for hedge accounting						
Swap - total			(42)	(9)		
Foreign currency / Cross-currency Swap	USD 298	USD 298	(22)	11		2016
Interest – Libor / Fixed rate	USD 419	USD 440	(20)	(20)		2020
Total recognized in the Statement of Financial Position			30.7	(30.6)		
(*) Notional value in thousands of bbl						

	Gains (losses) recognized in the statement of income (*)			Gains (losses) recognized in the Shareholders' Equity (**)			Guarantees given as collateral	
	2014	2013	2012	2014	2013	2012	12.31.2014	12.31.2013
Commodity derivatives	368	(105)	(103)	–	–	–	6	143
Foreign currency derivatives	(20)	(39)	41	10	10	7	–	–
Interest rate derivatives	(11)	–	(1)	(1)	11	(9)	–	–
Embedded derivative - ethanol	–	(37)	10	–	–	–	–	–
	337	(181)	(53)	9	21	(2)	6	143
Cash flow hedge on exports (***)	(702)	(303)	–	(5,741)	(5,923)	–	–	–
	(365)	(484)	(53)	(5,732)	(5,902)	(2)	6	143

(*) Amounts recognized in finance income in the period.

(**) Amounts recognized as other comprehensive income in the period.

(***) Using non-derivative financial instruments as designated hedging instruments, as set out note 33.3.

A sensitivity analysis for the different types of market risks, to which the Company is exposed, based on the derivative financial instruments held as of December 31, 2014 is set out following:

Financial Instruments	Risk	Stressed Scenario		
		Probable Scenario*	(Δ of 25%)	(Δ of 50%)
Derivatives not designated for hedge accounting				
Future contracts	Crude oil and oil products - price changes	70	(71)	(212)
Forward contracts	Foreign currency - depreciation R\$ x USD	(20)	(60)	(120)
Forward contracts	Foreign currency - appreciation Argentine peso x USD	–	(3)	(5)
Swap	Interest - Euribor decrease	–	–	–

Options	Crude oil and oil products - price changes	1	–	(3)
		51	(134)	(340)
Derivatives designated for hedge accounting				
Swap		(1)	102	305
	Foreign currency - appreciation			
Debt	JPY x USD	1	(102)	(305)
Net effect		–	–	–
Swap		5	(1)	(1)
Debt	Interest - LIBOR increase	(5)	1	1
Net effect		–	–	–

(*) On February 27, 2015, the probable scenario was computed based on the following risks: R\$ x U.S. Dollar - an 8.36% depreciation of the Real; Japanese Yen x U.S. Dollar - a 0.03% depreciation of the Japanese Yen; Peso x U.S. Dollar - a 2.00% depreciation of the Peso; LIBOR Forward Curve - a 0.35% increase throughout the curve; EURIBOR Forward Curve - a 0.15% decrease throughout the curve.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***33.1. Risk management of price risk (related to crude oil and oil products prices)**

Petrobras preferably does not use derivative instruments to hedge exposures to commodity price cycles related to products purchased and sold to fulfill operational needs. Derivatives are used as hedging instruments to manage the price risk of certain short-term commercial transactions.

33.2. Foreign exchange risk management

Petrobras seeks to identify and manage foreign exchange rate risks based on an integrated analysis of natural hedges, to benefit from the correlation between income and expenses. The Company's short-term risk management involves choosing the currency in which to hold cash, such as the Brazilian Real, U.S. dollar or other currency. The risk management strategy involves the use of derivative instruments to hedge certain liabilities, minimizing foreign exchange rate risk exposure.

a) Cash Flow Hedge involving the Company's highly probable future exports

The Company designates hedging relationships to account for the effects of the existing natural hedge between a portion of its long-term debt obligations (denominated in U.S. dollars) and its U.S. dollar denominated exports and to properly recognize that hedge in its financial statements.

Individual hedging relationships were designated in a one-to-one proportion, meaning that a portion of the total monthly exports will be the hedged transaction of an individual hedging relationship, hedged by a portion of the company's long-term debt (which has an average maturity of approximately 6.1 years).

The principal amounts, fair value as of December 31, 2014, and a schedule of the timing of the losses recognized in other comprehensive income (shareholders' equity) to be recycled to the statement of income, as of December 31, 2014, based on a R\$/USD 2.6562 exchange rate, are set out below:

Hedging Instrument	Hedged Transactions	Nature of the Risk	Maturity Date	Principal Amount (US\$ million)	Carrying amount as of December 31, 2014 (R\$ million)
Non-Derivative Financial Instruments	Portion of Highly Probable	Foreign Currency	January 2015 to	50,858	135,088

Future Monthly – Real vs U.S. June 2023
 Export Dollar
 Revenues
 Spot Rate

Changes in the principal amount (in US\$ million)

Amounts designated as of December 31, 2013	40,742
New hedging instruments designated	22,330
Exports affecting profit or loss	(5,764)
Principal repayments / amortization	(6,450)
Amounts designated as of December 31, 2014	50,858

A schedule of the timing of the losses recognized in other comprehensive income (shareholders' equity) to be recycled to the statement of income as of December 31, 2014 is set out below:

	Consolidated									
	12.31.2014									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Expected reclassification	(1,278)	(1,452)	(1,642)	(1,569)	(1,391)	(924)	(769)	(884)	(132)	(10,041)

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*(Expressed in millions of US Dollars, unless otherwise indicated)***b) Cash flow hedges involving swap contracts – Yen x Dollar**

The Company has a cross currency swap to fix in U.S. dollars the payments related to bonds denominated in Japanese yen and does not intend to settle these contracts before the maturity. The relationship between the derivative and the bonds was designated for cash flow hedge accounting.

c) Sensitivity analysis for foreign exchange risk on financial instruments

A sensitivity analysis is set out below, showing the probable scenario for foreign exchange risk on financial instruments, computed based on external data along with stressed scenarios (a 25% and a 50% change in the foreign exchange rates), except for assets and liabilities of foreign subsidiaries, when transacted in a currency equivalent to their respective functional currencies.

Financial Instruments	Exposure at 12.31.2014	Risk	Probable Scenario (*)	Stressed Scenario (Δ of 25%)	Stressed Scenario (Δ of 50%)
Assets	2,594		217	648	1,297
Liabilities	(61,299)	Dollar/Real	(5,123)	(15,325)	(30,649)
Cash flow hedge on exports	50,858		4,250	12,714	25,429
	(7,847)		(656)	(1,963)	(3,923)
Liabilities (**)	(651)	Yen/Dollar	–	(163)	(325)
Assets	6	Euro/Real	–	2	3
Liabilities	(2,589)		–	(647)	(1,295)
	(2,583)		–	(645)	(1,292)
Assets	6,878	Euro/Dollar	(781)	1,719	3,439
Liabilities	(13,866)		1,575	(3,467)	(6,933)
	(6,988)		794	(1,748)	(3,494)
Assets	4	Pound	–	1	2
Liabilities	(727)	Sterling/Real	(54)	(182)	(363)
	(723)		(54)	(181)	(361)
Assets	1,763	Pound	(37)	441	882
Liabilities	(3,787)	Sterling/Dollar	80	(947)	(1,894)
	(2,024)		43	(506)	(1,012)
Assets	274	Peso/Dollar	6	69	137
Liabilities	(765)		(15)	(191)	(382)
	(491)		(9)	(122)	(245)

(20,656)	118	(5,165)	(10,327)
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(*) On 27/02/15, the probable scenario was computed based on the following risks: Real x Dollar – an 8.36% depreciation of the Real / Yen x Dollar – a 0.03% depreciation of the Yen / Peso x Dollar: a 2.00% depreciation of the Peso/ Euro x Dollar: a 7.70% depreciation of the Euro / Pound Sterling x Dollar: a 0.87% depreciation of the Pound Sterling. The probable scenario was determined based on the spot foreign exchange rates (PTAX selling rates) reported by the Central Bank of Brazil on February 27, 2015.

(**) A portion of the foreign currency exposure is hedged by a cross-currency swap.

33.3. Interest rate risk management

The Company considers that interest rate risk does not create a significant exposure and therefore, preferably does not use derivative financial instruments to manage interest rate risk, except for specific situations encountered by certain subsidiaries of Petrobras.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***33.4. Capital management**

The Company's objectives when making its financial decisions is to achieve an adequate capital management and indebtedness level in order to safeguard its ability to continue as a going concern, adding value to its shareholders and investors. Its main sources of funding have been cash provided by its operating activities, debt issuance in the international capital markets, loan agreements with commercial banks and cash provided by asset disposals (divesting). The duration of the Company's debt matches the maturity of its capital expenditures (an average maturity of approximately 6 years).

Net debt is calculated as total debt (short-term debt and long-term debt) less cash, cash equivalents and government bonds and time deposits with maturities higher than three months. Adjusted EBITDA is calculated by adding back net finance income (expenses), income taxes, depreciation/amortization, share of earnings in equity-accounted investments, impairment charges and write-off of overpayments incorrectly capitalized to net income. Net total capitalization is calculated by adding net debt to shareholders' equity. These measures are not defined by the International Financial Reporting Standards – IFRS (non-GAAP measures) and should neither be considered in isolation or as substitutes for profit, indebtedness and cash flow provided by operating activities as defined by the IFRS, nor be compared to those measures of other companies.

	2014	2013
Total debt (current and noncurrent)	132,158	114,325
Cash and cash equivalents	(16,655)	(15,868)
Government securities and time deposits (maturity of more than three months)	(9,302)	(3,878)
Net debt	106,201	94,579
Net debt/(net debt+shareholders' equity)	48%	39%
Adjusted EBITDA	24,966	29,426
Net debt/Adjusted EBITDA ratio	4.25	3.21

Undertaking capital expenditures in the oil and gas industry is financial-capital intensive and involves long-term maturity. Thus cash used in investing activities may exceed cash provided by operating activities during certain periods. Cash provided by operating activities may be negatively affected if oil prices remain at the current level for a significant period of time. Thus the Company's financial ratios may be negatively affected during the period when there is no cash flows provided by the operations of its ongoing capital expenditures or when

changes resulting from a revision of the Company's Business and Management Plan – BMP are being implemented.

In addition, the recently revised divestment plan for the 2015 to 2016 period (projecting divestments of US\$ 13.7 billion) is part of the Company's financial planning, aimed at reducing leverage, preserving cash and prioritizing capital expenditures, primarily in oil and gas production in Brazil in highly productive and profitable areas.

However, this divestment portfolio is dynamic and the occurrence of the transactions depend on business conditions, market conditions and the Company's continuing assessment of its businesses.

33.5. Credit risk

Credit risk management in Petrobras aims at reconciling the need for minimizing risk (of not collecting receivables or financial deposits) and maximizing the result of commercial and financial transactions, through efficient credit analysis, granting and management based on quantitative and qualitative parameters that are appropriate for each market segment in which the Company operates.

The commercial credit portfolio is very diversified and comprises clients from the domestic market and from foreign markets. Credit granted to financial institutions is spread among "investment grade" international banks rated by international rating agencies and highly-rated Brazilian banks.

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*(Expressed in millions of US Dollars, unless otherwise indicated)***33.5.1. Credit quality of financial assets****a) Trade and other receivables**

Most of the company's customers have no credit agency ratings. Thus, credit commissions assess creditworthiness and define credit limits, which are regularly monitored, based on the client's main activity, commercial relationship and credit history with Petrobras, solvency, financial situation and external market assessment of the customer.

b) Other financial assets

Credit quality of cash and cash equivalents, as well as marketable securities is based on external credit ratings provided by Standard & Poor's, Moody's and Fitch. The credit quality of those financial assets, that are neither past due nor have been impaired, are set out below:

	Cash and cash equivalents		Marketable securities	
	2014	2013	2014	2013
AAA	21	23	–	–
AA	100	7	–	–
A	8,145	4,959	20	–
BBB	1,501	62	91	–
AAA.br	5,221	9,926	9,282	3,979
AA.br	926	462	–	–
Others	741	429	39	37
	16,655	15,868	9,432	4,016

33.6. Liquidity risk

Liquidity risk is represented by the possibility of a shortage of cash or other financial assets in order to settle the Company's obligations on the agreed dates and is managed by the Company based on policies such as: centralized cash management, in order to optimize the level of cash and cash equivalents held and to reduce working capital; a minimum cash level to ensure that the need of cash for investments and short-term obligations is met even in adverse market conditions; increasing the number of investors in the domestic and international markets through funding opportunities, developing a strong presence in the international capital markets and searching for new funding sources, including new markets and financial products.

This strategy is currently is being achieved, for example, by seeking funding in the Asian market. The Company intends to use different funding sources (banking market, Export Credit Agencies - ECAs and capital markets) in 2015 to obtain the necessary funding to repay debt and fund its capital expenditures. In addition, the Company's divestment program (of US\$ 13.7 billion) will contribute to its funding needs.

A maturity schedule of the Company's finance debt (undiscounted), including face value and interest payments is set out following:

Maturity	2015	2016	2017	2018	2019	2020 and thereafter	Balance at December 31, 2014	Balance at December 31, 2013
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16,042 18,499 16,842 22,351 27,506 78,464 179,704 155,175

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Notes to the financial statements

*(Expressed in millions of US Dollars, unless otherwise indicated)***33.7. Insurance (unaudited)**

The Company's insurance strategy involves acquiring insurance to cover risks that may produce material impacts and also to cover risks that are subject to compulsory insurance coverage (pursuant to legal or contractual requirements). The remaining risks are self-insured and Petrobras intentionally assumes the entire risk by abstaining from contracting insurance. The Company assumes a significant portion of its risk, by entering into insurance policies that have deductibles that may reach an amount equivalent to US\$ 20.

The Company's risk assumptions for insurance are not part of the audit scope of the financial statements audit and therefore were not examined by independent auditors.

The main information concerning the insurance coverage outstanding at December 31, 2014 is set out below:

Assets	Types of coverage	Amount insured
Facilities, equipment inventory and products inventory	Fire, operational risks and engineering risks	182,746
Tankers and auxiliary vessels	Hulls	3,800
Fixed platforms, floating production systems and offshore drilling units	Oil risks	38,741
Total		225,287

Petrobras does not have loss of earnings insurance or insurance related to well control, automobiles and pipeline networks in Brazil.

34. Fair value of financial assets and liabilities

Fair values are determined based on market prices, when available, or, in the absence thereof, on the present value of expected future cash flows. The fair values of cash and cash equivalents, short term debt and other non-current assets and liabilities are the same as or do not differ significantly from their carrying amounts.

The hierarchy of the fair values of the financial assets and liabilities, recorded on a recurring basis, is set out below:

- Level 1 inputs: are the most reliable evidence of fair value, quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs: are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: are unobservable inputs for the asset or liability.

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Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

	Fair value measured based on			Total fair value recorded
	Level I	Level II	Level III	
Assets				
Marketable securities	2,711	–	–	2,711
Commodity derivatives	70.7	–	–	70.7
Foreign currency derivatives	–	2	–	2
Balance at December 31, 2014	2,781.7	2	–	2,783.7
Balance at December 31, 2013	3,895	10	–	3,905
Liabilities				
Foreign currency derivatives	–	(22)	–	(22)
Interest derivatives	–	(20)	–	(20)
Balance at December 31, 2014	–	(42)	–	(42)
Balance at December 31, 2013	(20)	(20.6)	–	(40.6)

There are no material transfers between levels.

The estimated fair value for the Company's long term debt as of December 31, 2014, computed based on the prevailing market rates is set out in note 17.

35. Subsequent events**Moody's review of Petrobras's global ratings**

On February 24, 2015, Moody's downgraded Petrobras's bonds credit rating in the U.S. market. Petrobras lost its investment grade rating.

According to Moody's, the downgrade of Petrobras's rating reflects increasing concern about corruption investigations and liquidity pressures that might result from delays in delivering audited financial statements. In addition, Moody's expects that the Company will be challenged to make meaningful reduction in its debt level over the next several years and expects the Company to take longer than previously expected to achieve planned leverage

reductions.

The Company has no covenants which are affected by the credit rating downgrades or require maintenance of an investment grade rating.

Closure of refining activities in Japan

In February 2015, Petrobras initiated a plan for closure of the refining activities in Okinawa, Japan. The plan will provide for the closure of the Nansey Sekiyu (NSS) refinery and the Company will work together with the Japanese Ministry of Economy, Trade and Industry (METI).

Disposal of assets in Argentina

On March 30, 2015, Petrobras Argentina S.A., PESA, disposed of its interest in assets located in the Austral basin in Santa Cruz to Compañía General de Combustibles S.A. (CGC) for US\$ 101.

Financing agreements in the banking market

On April 1, 2015, Petrobras Global Trading BV – PGT, an indirect subsidiary of Petrobras entered into a US\$ 3.5 billion line of credit for 10 years with China Development Bank Corporation – CDB.

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Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

On April 9, 2015, Petrobras Distribuidora S.A. (a wholly-owned subsidiary of Petrobras) entered into a R\$ 4.5 billion (US\$ 1.5 billion) working capital loan agreement with Banco do Brasil, due March 2021.

On April 17, 2015, the Company announced the approval of the following financing agreements:

- 5-year standby credit line with Caixa Econômica Federal of R\$ 2 billion (US\$ 0.8 billion);
- 5-year standby credit line with Bradesco of R\$ 3 billion (US\$ 1.2 billion);
- Cooperation agreement with Standard Chartered for an oil production platform sale and leaseback transaction of US\$ 3 billion for 10 years.

36. Information Related to Guaranteed Securities Issued by Subsidiaries

36.1. Petrobras Global Finance B.V. (PGF)

Petróleo Brasileiro S.A. - Petrobras fully and unconditionally guarantees the debt securities issued by Petrobras Global Finance B.V. (PGF), a 100-percent-owned finance subsidiary of Petrobras. There are no significant restrictions on the ability of Petrobras to obtain funds from PGF.

36.2. Petrobras International Finance Company – PifCo

In the past, Petrobras used its former wholly-owned subsidiary Petrobras International Finance Company S.A., or PifCo, as a vehicle to issue notes that it fully and unconditionally guaranteed. PGF acquired all of the outstanding shares of Petrobras International Finance Company S.A. (PifCo) on February 12, 2014 and on December 29, 2014, PifCo merged into PGF, and PGF assumed PifCo's obligations under all outstanding notes originally issued by PifCo, which continue to benefit from Petrobras' full and unconditional guarantee.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

In accordance with Codification Topic 932 - Extractive Activities – Oil and Gas, this section provides supplemental information on oil and gas exploration and production activities of the Company. The information included in items (i) through (iii) provides historical cost information pertaining to costs incurred in exploration, property acquisition and development, capitalized costs and results of operations. The information included in items (iv) and (v) presents information on Petrobras' estimated net proved reserve quantities, standardized measure of estimated discounted future net cash flows related to proved reserves, and changes in estimated discounted future net cash flows.

Beginning in 1995, the Federal Government of Brazil undertook a comprehensive reform of the country's oil and gas regulatory system. On November 9, 1995, the Brazilian Constitution was amended to authorize the Federal Government to contract with any state or privately owned company to carry out the activities related to the upstream and downstream segments of the Brazilian oil and gas sector. This amendment eliminated Petrobras' effective monopoly. The amendment was implemented by the Oil Law, which liberated the fuel market in Brazil beginning January 1, 2002.

The Oil Law established a regulatory framework ending Petrobras' exclusive agency and enabling competition in all aspects of the oil and gas industry in Brazil. As provided in the Oil Law, Petrobras was granted the exclusive right for a period of 27 years to exploit the petroleum reserves in all fields where the Company had previously commenced production. However, the Oil Law established a procedural framework for Petrobras to claim exclusive exploratory (and, in case of success, development) rights for a period of up to three years with respect to areas where the Company could demonstrate that it had "established prospects". To perfect its claim to explore and develop these areas, the Company had to demonstrate that it had the requisite financial capacity to carry out these activities, alone or through financing or partnering arrangements.

The international geographic area includes activities in South America, which includes Argentina, Colombia and Ecuador; North America, which includes Mexico and the United States of America; and others, comprised of Turkey. The equity-accounted investments are comprised of the operations of Petrobras Oil and Gas B.V. (PO&G) in Namibia and Nigeria, as well as Venezuelan companies involved in exploration and production activities.

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

*(Expressed in millions of US Dollars, unless otherwise indicated)***i) Capitalized costs relating to oil and gas producing activities**

The following table summarizes capitalized costs for oil and gas exploration and production activities with the related accumulated depreciation, depletion and amortization, and asset retirement obligation assets:

	Consolidated entities						Equity	Method	Investees
	Brazil	South America	North America	Africa	Others	International	Total	Total	Total
December 31, 2014									
Unproved oil and gas properties	9,298	72	673	–	–	745	10,043	9	
Proved oil and gas properties	96,520	2,007	4,247	–	–	6,254	102,774	4,542	
Support Equipment	79,497	1,181	78	–	3	1,262	80,759	26	
Gross Capitalized costs	185,315	3,260	4,998	–	3	8,261	193,576	4,577	
Depreciation, depletion and amortization	(46,691)	(1,753)	(1,274)	–	(3)	(3,030)	(49,721)	(1,819)	
Net capitalized costs	138,624	1,507	3,724	–	–	5,231	143,855	2,758	
December 31, 2013									
Unproved oil and gas properties	21,261	826	685	22	–	1,533	22,794	–	
Proved oil and gas properties	82,389	2,410	5,907	–	–	8,317	90,706	3,972	
Support Equipment	81,436	360	(274)	(15)	4	75	81,511	1	

Gross Capitalized costs	185,086	3,596	6,319	7	4	9,926	195,012	3,973
Depreciation, depletion and amortization	(44,626)	(2,045)	(948)	—	(4)	(2,997)	(47,623)	(1,455)
Net capitalized costs	140,460	1,551	5,370	7	1	6,929	147,389	2,518
December 31, 2012								
Unproved oil and gas properties	48,255	705	1,641	1,500	25	3,871	52,126	—
Proved oil and gas properties	60,651	3,950	3,572	2,467	—	9,989	70,640	491
Support Equipment	74,411	1,499	2	26	7	1,534	75,945	—
Gross Capitalized costs	183,317	6,154	5,215	3,994	32	15,394	198,711	491
Depreciation, depletion and amortization	(43,283)	(3,013)	(625)	(1,415)	(3)	(5,056)	(48,339)	(170)
Net capitalized costs	140,034	3,141	4,590	2,579	29	10,338	150,372	321

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

*(Expressed in millions of US Dollars, unless otherwise indicated)***ii) Costs incurred in oil and gas property acquisition, exploration and development activities**

Costs incurred are summarized below and include both amounts expensed and capitalized:

	Consolidated entities						Equity	Method
	Brazil	South America	North America	Africa	Others	International (*)	Total	Investees
								Total
December 31, 2014								
Acquisition costs:								
Proved	–	89	–	–	–	89	89	–
Unproved	54	–	–	–	–	–	54	–
Exploration costs	5,455	122	135	15	–	272	5,727	–
Development costs	18,158	546	418	–	–	964	19,122	638
Total	23,667	757	552	15	–	1,325	24,992	638
December 31, 2013								
Acquisition costs:								
Proved	–	–	–	–	–	–	–	–
Unproved	2,791	–	–	–	–	–	2,791	–
Exploration costs	6,814	183	397	1	1	582	7,396	–
Development costs	16,732	673	1,138	282	2	2,095	18,827	237
Total	26,337	856	1,535	283	3	2,677	29,014	237
December 31, 2012								
Acquisition costs:								
Proved	–	–	–	–	–	–	–	–

Unproved Exploration costs	–	–	–	–	–	–	–	–
Development costs	5,670	282	601	86	1	970	6,640	–
Total	16,217	877	1,036	285	60	2,258	18,475	19
	21,887	1,159	1,637	371	61	3,228	25,115	19

(*) The assets classified as held for sale in 2013 were disposed of in 2014.

(iii) Results of operations for oil and gas producing activities

The Company's results of operations from oil and gas producing activities for the years ended December 31, 2014, 2013 and 2012 are shown in the following table. The Company transfers substantially all of its Brazilian crude oil and gas production to the Refining, Transportation & Marketing segment in Brazil. The prices calculated by the Company's model may not be indicative of the price the Company would have realized had this production been sold in an unregulated spot market. Additionally, the prices calculated by the Company's model may not be indicative of the future prices to be realized by the Company. Gas prices used are those set out in contracts with third parties.

Production costs are lifting costs incurred to operate and maintain productive wells and related equipment and facilities, including operating employees' compensation, materials, supplies, fuel consumed in operations and operating costs related to natural gas processing plants.

Exploration expenses include the costs of geological and geophysical activities and non-productive exploratory wells. Depreciation and amortization expenses relate to assets employed in exploration and development activities. In accordance with Codification Topic 932 – Extractive Activities – Oil and Gas, income taxes are based on statutory tax rates, reflecting allowable deductions. Interest income and expense are excluded from the results reported in this table.

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

*(Expressed in millions of US Dollars, unless otherwise indicated)***(iii) Results of operations for oil and gas producing activities**

	Consolidated entities						Equity	Method	Investees
	Brazil	South America	North America	Africa	Others	International	Total	Total	Total
December 31, 2014									
Net operation revenues:									
Sales to third parties	500	847	919	–	–	1,766	2,266	676	
Intersegment	65,116	1,234	–	–	–	1,234	66,350	1,394	
	65,616	2,081	919	–	–	3,000	68,616	2,071	
Production costs	(27,397)	(998)	(227)	–	–	(1,225)	(28,622)	(579)	
Exploration expenses	(2,882)	(28)	(142)	(15)	–	(185)	(3,067)	(280)	
Depreciation, depletion and amortization	(7,675)	(352)	(558)	–	–	(910)	(8,585)	(174)	
Impairment of oil and gas properties	(2,133)	(87)	(1,585)	(6)	–	(1,678)	(3,811)	(74)	
Other operating expenses	(2,827)	1,059	(112)	2	113	1,063	(1,764)	(8)	
Results before income tax expenses	22,702	1,675	(1,705)	(20)	113	64	22,766	954	
Income tax expenses	(7,719)	(490)	(4)	–	17	(477)	(8,196)	(653)	
Results of operations (excluding corporate	14,983	1,186	(1,709)	(20)	130	(413)	14,570	301	

overhead and
interest costs)

December 31,
2013

Net operation
revenues:

Sales to third
parties

	1,114	1,033	513	206	—	1,752	2,866	546
Intersegment	67,096	1,708	—	674	—	2,382	69,478	762
	68,210	2,742	513	879	—	4,134	72,344	1,308

Production
costs

	(26,465)	(1,420)	(177)	(65)	—	(1,663)	(28,128)	(197)
Exploration expenses	(2,784)	(61)	(88)	(28)	(3)	(180)	(2,964)	(2)

Depreciation,
depletion and
amortization

	(7,814)	(519)	(322)	(89)	—	(931)	(8,745)	(263)
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Impairment of
oil and gas
properties

	(4)	1	(14)	(560)	—	(573)	(577)	—
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Other
operating
expenses

	(1,345)	(256)	(75)	(50)	1,748	1,367	22	—
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Income before
income tax
expenses

	29,798	486	(162)	86	1,744	2,154	31,952	847
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Income tax
expenses

	(10,131)	(141)	(2)	(367)	(1)	(510)	(10,642)	(348)
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Results of
operations
(excluding
corporate

overhead and
interest costs)

	19,667	345	(164)	(281)	1,744	1,644	21,311	498
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December 31,
2012

Net operation
revenues:

Sales to third
parties

	843	1,148	19	368	—	1,535	2,378	186
Intersegment	73,871	1,659	290	1,886	—	3,834	77,705	—
	74,714	2,807	309	2,254	—	5,369	80,083	186

Production
costs

	(27,094)	(1,360)	(40)	(178)	—	(1,578)	(28,672)	(154)
Exploration expenses	(3,613)	(176)	(48)	(81)	(56)	(361)	(3,974)	—

Depreciation,
depletion and

	(6,528)	(476)	(177)	(191)	(1)	(845)	(7,373)	(79)
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amortization								
Impairment of								
oil and gas								
properties	(34)	—	—	(16)	—	(16)	(50)	—
Other								
operating								
expenses	(1,801)	(152)	(113)	176	(42)	(131)	(1,932)	—
Income before								
income tax								
expenses	35,644	643	(69)	1,964	(99)	2,438	38,082	(47)
Income tax								
expenses	(12,119)	(150)	—	(929)	1	(1,078)	(13,197)	14
Results of								
operations								
(excluding								
corporate								
overhead and								
interest costs)	23,525	493	(69)	1,035	(98)	1,360	24,885	(33)

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(iv) Reserve quantities information

The Company's estimated net proved oil and gas reserves and changes thereto for the years 2014, 2013 and 2012 are shown in the following table. Proved reserves are estimated by the Company's reservoir engineers in accordance with the reserve definitions prescribed by the Securities and Exchange Commission.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

Developed oil and gas reserves are reserves of any category that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is done by means not involving a well.

In some cases, substantial new investments in additional wells and related facilities will be required to recover these proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

Bolivian proved reserves were not classified as such in 2010 due to the new Bolivian Constitution, which restricts the disclosure of estimated reserves for properties under its authority. The initial balance of Bolivian proved reserves for 2010 is adjusted under the line item "Revisions of previous estimates".

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

*(Expressed in millions of US Dollars, unless otherwise indicated)***(iv) Reserve quantities information**

A summary of the annual changes in the proved reserves of oil is as follows (in millions of barrels):

Proved developed and undeveloped reserves	Consolidated Entities						Synthetic Oil	Total	Equity Method Investees
	Brazil	South America	North America	Africa	International**	Total			Total
Reserves at December 31, 2011	10,411.2	1,911.2	53.7	118.1	363.0	8.6	10,782.8	29.6	
Revisions of previous estimates	69.7	(2.6)	23.5	22.4	43.3	0.7	113.7	(3.0)	
Extensions and discoveries	424.4	11.4	–	–	11.4	–	435.8	–	
Improved Recovery	324.6	0.6	–	18.7	19.3	–	343.9	–	
Production for the year	(690.7)	(25.2)	(3.3)	(19.0)	(47.5)	(1.0)	(739.1)	(2.3)	
Reserves at December 31, 2012	10,539.2	2,175.4	74.0	140.2	389.6	8.3	10,937.1	124.3	
Transfers by loss of control*	–	–	–	(140.2)	(140.2)	–	(140.2)	140.2	
Revisions of previous estimates	(110.0)	13.4	21.9	–	35.4	1.3	(73.4)	1.8	
Extensions and discoveries	818.3	–	33.0	–	33.0	–	851.4	–	
Improved Recovery	124.2	–	–	–	–	–	124.2	–	
Sales of reserves	(42.3)	–	(1.5)	–	(1.5)	–	(43.8)	(65.4)	
Production for the year	(671.0)	(22.8)	(4.3)	–	(27.1)	(0.8)	(698.9)	(16.5)	

Reserves at December 31, 2013	10,658.4	166.0	123.1	(0.0)	289.2	8.8	10,956.4	84.5
Revisions of previous estimates	629.3	(3.2)	5.3	–	2.1	0.2	631.6	(1.1)
Extensions and discoveries	267.7	3.0	1.6	–	4.6	–	272.3	–
Improved Recovery	–	0.5	–	–	0.5	–	0.5	–
Sales of reserves	–	(104.4)	(0.1)	–	(104.5)	–	(104.5)	–
Purchases of reserves	–	22.9	–	–	22.9	–	22.9	–
Production for the year	(704.6)	(18.3)	(10.0)	–	(28.3)	(1.1)	(734.0)	(11.3)
Reserves at December 31, 2014	10,850.9	966.5	119.9	(0.0)	186.5	7.9	11,045.2	272.1

*Amounts transferred from consolidated entities to equity-method entities, as the Company ceased to consolidate PO&G.

** In 2013 includes 105 million barrels related to assets classified as held for sale.

Apparent differences in the sum of the numbers are due to rounding off.

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

*(Expressed in millions of US Dollars, unless otherwise indicated)***(iv) Reserve quantities information**

A summary of the annual changes in the proved reserves of natural gas is as follows (in billions of cubic feet):

Proved developed and undeveloped reserves	Consolidated Entities						Synthetic Gas	Total	Equity Method Investees Total
	Brazil	South America	North America	Africa	International**				
Reserves at December 31, 2011	11,067.0	1,189.6	71.9	39.3	1,300.8	13.4	12,381.2	43.5	
Revisions of previous estimates	373.4	(18.3)	2.7	6.2	(9.4)	1.8	365.8	5.2	
Extensions and discoveries	275.8	19.6	–	–	19.6	–	295.4	–	
Improved Recovery	(624.3)	0.8	–	–	0.8	–	(623.5)	–	
Production for the year	(747.3)	(108.0)	(6.9)	–	(114.9)	(1.9)	(864.1)	(0.9)	
Reserves at December 31, 2012	10,344.6	1,083.7	67.7	45.5	1,196.9	13.3	11,554.8	47.8	
Transfers by loss of control*	–	–	–	(45.5)	(45.5)	–	(45.5)	45.5	
Revisions of previous estimates	(291.2)	75.2	2.6	–	77.8	(0.1)	(213.5)	(8.0)	
Extensions and discoveries	1,113.0	–	80.4	–	80.4	–	1,193.4	–	
Improved Recovery	916.0	–	–	–	–	–	916.0	–	
Sales of reserves	(17.3)	–	(13.4)	–	(13.4)	–	(30.7)	(22.8)	
Purchases of reserves	0.4	–	–	–	–	–	0.4	–	

Production for the year	(773.8)	(100.4)	(4.4)	–	(104.8)	(1.4)	(880.0)	(0.6)
Reserves at December 31, 2013	11,291.7	1,058.5	132.9	0.0	1,191.4	11.8	12,494.8	861.9
Revisions of previous estimates	468.0	25.5	46.1	–	71.6	0.1	539.7	(14.4)
Extensions and discoveries	216.0	42.1	6.0	–	48.1	–	264.1	–
Improved Recovery	–	10.8	–	–	10.8	–	10.8	–
Sales of reserves	–	(351.7)	(0.1)	–	(351.8)	–	(351.8)	–
Purchases of reserves	–	47.1	–	–	47.1	–	47.1	–
Production for the year	(805.4)	(101.5)	(4.9)	–	(106.4)	(1.4)	(913.2)	(0.6)
Reserves at December 31, 2014	11,170.3	730.8	180.0	0.0	910.8	10.6	12,091.5	546.9

*Amounts transferred from consolidated entities to equity-method entities, as the Company ceased to consolidate PO&G.

** In 2013 includes 363 billion cubic feet related to assets classified as held for sale. Apparent differences in the sum of the numbers are due to rounding off.

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(iv) Reserve quantities information

2014

2013

2012

Crude Oil	Synthetic Oil	Natural Gas	Synthetic Gas	Crude Oil	Synthetic Oil	Natural Gas	Synthetic Gas	Crude Oil	Synthetic Oil	Natural Gas	Synthetic Gas	Crude Oil	Synthetic Oil	Natural Gas	Synthetic Gas
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**(millions of
barrels)**

**(billions of cubic (millions of
feet) barrels)**

**(billions of cubic (millions
feet) barrels)**

Net proved
developed
reserves:

Consolidated
Entities

Brazil

7,002.77.9

6,661.0 10.6

6,509.38.8

6,578.9 11.8

6,397.58

South America	52.0	–	358.2	–	86.0	–	368.4	–	96.5	–
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North America	63.6	-	146.2	-	46.2	-	9.9	-	21.2	-
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Africa

- - - - -

77.8

International	115.6	–	504.3	–	132.2	–	378.3	–	195.5	–
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Total
Consolidated
Entities

7,118.37.9

7,165.4 10.6

6,641.68.8

6,957.3 11.8

6,593.08

Nonconsolidated
Entities

South America	9.4	-	15.7	-	12.4	-	14.9	-	12.7	-
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Africa	30.8	-	14.4	-	37.3	-	15.7	-	-	-
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International	40.2	-	30.1	-	49.8	-	30.5	-	12.7	-
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Total Nonconsolidated Entities	40.2	–	30.1	–	49.8	–	30.5	–	12.7	–
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Total Consolidated and Nonconsolidated Entities	7,158.57.9	7,195.5 10.6	6,691.48.8	6,987.8 11.8	6,605.78
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Net proved
undeveloped
reserves:

Consolidated Entities

Brazil	3,848.2	–	4,509.2	–	4,149.1	–	4,712.7	–	4,141.7	–	3,533.0	–
South America	14.6	–	372.5	–	80.1	–	690.1	–	78.9	–	669.5	–
North America	56.4	–	33.8	–	77.0	–	123.1	–	52.8	–	42.5	–
Africa	–	–	–	–	–	–	–	–	62.4	–	9.8	–
International	71.0	–	406.3	–	157.1	–	813.2	–	194.1	–	721.8	–
Total Consolidated Entities	3,919.2	–	4,915.5	–	4,306.2	–	5,525.9	–	4,335.8	–	4,254.8	–

Nonconsolidated
Entities

South America	8.6	–	11.9	–	8.8	–	26.4	–	11.6	–	33.2	–
Africa	23.3	–	4.9	–	25.9	–	4.9	–	–	–	–	–
International	31.9	–	16.8	–	34.7	–	31.3	–	11.6	–	33.2	–

Total

Nonconsolidated
Entities

	31.9	–	16.8	–	34.7	–	31.3	–	11.6	–	33.2	–
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Total Consolidated
and Nonconsolidated
Entities

	3,951.1	–	4,932.3	–	4,340.8	–	5,557.2	–	4,347.4	–	4,288.0	–
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Apparent differences in the sum of the numbers are due to rounding off.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein

The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of Codification Topic 932 – Extractive Activities – Oil and Gas. Estimated future cash inflows from production in Brazil and international segments are computed by applying the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indicators, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and are applied to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% mid-period discount factors. This discounting requires a year-by-year estimate of when the future expenditures will be incurred and when the reserves will be produced.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

The valuation prescribed under Codification Topic 932 – Extractive Activities – Oil and Gas requires assumptions as to the timing and amount of future development and production costs. The calculations are made as of December 31 each year and should not be relied upon as an indication of Petrobras' future cash flows or the value of its oil and gas reserves.

	Consolidated entities					Equity	Method	Investees
	Brazil	South America	North America	Africa	International**	Total		Total
As of December 31, 2014								
Future cash inflows	1,080,516	7,164	11,334	–	18,498	1,099,014		6,282
Future production costs	(469,252)	(3,743)	(3,687)	–	(7,430)	(476,682)		(1,904)
Future development costs	(70,098)	(1,195)	(2,351)	–	(3,547)	(73,644)		(1,613)
Future income tax expenses	(188,740)	(618)	(408)	–	(1,026)	(189,766)		(920)
Undiscounted future net cash flows	352,427	1,608	4,888	–	6,495	358,922		1,846
10 percent midyear annual discount for timing of estimated cash flows*	(178,720)	(526)	(1,582)	–	(2,108)	(180,828)		(553)
Standardized measure of discounted future net cash flows	173,707	1,082	3,306	–	4,388	178,094		1,292
As of December 31, 2013								
	1,134,383	16,770	12,071	–	28,841	1,163,225		8,724

Future cash inflows							
Future production costs	(469,442)	(8,742)	(3,484)	—	(12,226)	(481,668)	(3,051)
Future development costs	(72,675)	(2,146)	(2,795)	—	(4,942)	(77,617)	(1,927)
Future income tax expenses	(205,938)	(1,693)	(169)	—	(1,862)	(207,800)	(1,221)
Undiscounted future net cash flows	386,328	4,189	5,622	—	9,811	396,139	2,524
10 percent midyear annual discount for timing of estimated cash flows*	(197,760)	(1,435)	(2,288)	—	(3,723)	(201,483)	(820)
Standardized measure of discounted future net cash flows	188,569	2,754	3,335	—	6,088	194,657	1,704
As of December 31, 2012							
Future cash inflows	1,107,784	18,010	7,318	15,682	41,010	1,148,794	4,155
Future production costs	(458,630)	(8,822)	(1,676)	(3,105)	(13,603)	(472,233)	(2,880)
Future development costs	(58,197)	(2,245)	(2,002)	(3,785)	(8,032)	(66,229)	(177)
Future income tax expenses	(204,258)	(2,010)	—	(3,166)	(5,176)	(209,434)	(405)
Undiscounted future net cash flows	386,699	4,933	3,640	5,626	14,199	400,898	693
10 percent midyear annual discount for timing of estimated cash flows*	(198,081)	(1,733)	(1,174)	(1,872)	(4,779)	(202,860)	(282)
Standardized measure of discounted future net cash flows	188,618	3,200	2,466	3,754	9,420	198,038	411

*Semiannual capitalization

**In 2013 includes the amount of US\$ 1,758 related to assets classified as held for sale.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

*(Expressed in millions of US Dollars, unless otherwise indicated)***(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein**

	Consolidated entities						Equity	Method	Investees
	Brazil	South	North	Africa	Others	International	Total	Total	
		America	America						
Balance at January 1, 2014	188,569	2,754	3,335	–	–	6,088	194,657	1,704	
Sales and transfers of oil and gas, net of production cost	(38,212)	(652)	(700)	–	–	(1,352)	(39,563)	(952)	
Development cost incurred	18,158	546	418	–	–	964	19,122	638	
Net change due to purchases and sales of minerals in place	–	(1,092)	106	–	–	(985)	(985)	–	
Net change due to extensions, discoveries and improved recovery less related costs	7,197	182	–	–	–	182	7,379	–	
Revisions of previous quantity estimates	16,764	(28)	213	–	–	185	16,949	(30)	
Net change in prices, transfer prices and in production costs	(33,371)	(255)	(397)	–	–	(652)	(34,023)	(547)	
	(11,824)	(361)	38	–	–	(323)	(12,147)	(116)	

Changes in estimated future development costs								
Accretion of discount	18,857	132	343	—	—	475	19,331	176
Net change in income taxes	7,570	(114)	(94)	—	—	(208)	7,363	86
Timing		—	19	—	—	19	19	(29)
Other - unspecified		(30)	25	—	—	(6)	(6)	362
Balance at December 31, 2014	173,707	1,082	3,306	—	—	4,388	178,094	1,292

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

	Consolidated entities						Equity	Method	Investees
	Brazil	South America	North America	Africa	Others	International**	Total		Total
Balance at January 1, 2013	188,618	3,200	2,466	3,755	–	9,421	198,039		411
Transfers by loss of control*	–	–	–	(3,755)	–	(3,755)	(3,755)		3,755
Sales and transfers of oil and gas, net of production cost	(33,988)	(1,159)	(398)	–	–	(1,557)	(35,545)		(735)
Development cost incurred	16,732	656	165	282	2	1,105	17,837		237
Net change due to purchases and sales of minerals in place	(1,008)	272	(116)	–	–	157	(851)		(1,878)
Net change due to extensions, discoveries and improved recovery less related costs	33,171	–	673	–	–	673	33,844		–
Revisions of previous quantity estimates	(4,075)	28	936	–	–	963	(3,112)		84
Net change in prices,	(9,710)	(370)	303	(282)	(2)	(351)	(10,061)		(416)

transfer prices and in production costs								
Changes in estimated future development costs	(19,155)	(404)	(346)	—	—	(750)	(19,905)	(86)
Accretion of discount	18,862	447	271	—	—	718	19,579	251
Net change in income taxes	(877)	189	(12)	—	—	176	(701)	272
Timing		(3)	(654)	—	—	(657)	(657)	—
Other - unspecified		(102)	46	—	—	(56)	(56)	(192)
Balance at December 31, 2013	188,569	2,754	3,335	—	—	6,088	194,657	1,704

*Amounts transferred from consolidated entities to equity-method entities, as the Company ceased to consolidate PO&G.

** Includes the amount of US\$ 1,758 related to assets classified as held for sale.

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

	Consolidated entities					Equity	Method	Investees
	Brazil	South America	North America	Africa	International	Total	Total	
Balance at January 1, 2012	192,396	3,446	1,133	3,465	8,044	200,440	445	
Sales and transfers of oil and gas, net of production cost	(47,822)	(1,241)	(67)	(1,721)	(3,029)	(50,851)	(116)	
Development cost incurred	16,217	759	538	285	1,642	17,859	19	
Net change due to purchases and sales of minerals in place	–	–	–	–	–	–	–	
Net change due to extensions, discoveries and improved recovery less related costs	17,855	180	1,017	1,372	2,569	20,424	40	
Revisions of previous quantity estimates	3,410	246	(59)	1,774	1,961	5,371	(58)	
Net change in prices, transfer prices and in production costs	(6,848)	84	114	(341)	(203)	(7,051)	(138)	
Changes in estimated future development costs	(8,958)	(823)	(380)	(1,058)	(2,261)	(11,219)	(114)	
Accretion of discount	19,240	485	130	344	959	20,199	67	
Net change in income taxes	3,129	154	–	(100)	54	3,183	1	
Timing	–	(37)	54	–	17	17	–	
Other - unspecified	–	(54)	(15)	(265)	(334)	(334)	265	
	188,619	3,199	2,465	3,755	9,419	198,038	411	

Balance at
December 31, 2012

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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: April 23, 2015

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By:

/s/ Ivan de Souza Monteiro

Ivan de Souza Monteiro
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.
