PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
March 16, 2018
UNITED STATES

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 March, 2018

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. – PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation – PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65

20031-912 - Rio de Janeiro, RJ

Federative Republic of Brazil

(Address of principal executive office)

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

Form 20-F ___X___ Form 40-F _______

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

Yes _______ No___X____

FINANCIAL

STATEMENTS

—

December 31, 2017 and 2016

with auditor’s report

(A free translation of the original

in Portuguese)

Index

(Expressed in millions of reais, unless otherwise indicated)

KPMG Auditores Independentes

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(A free translation of the original report in Portuguese, as filed with the Brazilian Securities and Exchange Commission (CVM), prepared in accordance with the accounting practices adopted in Brazil, rules of the CVM and of the International Financial Reporting Standards - IFRS)

The Shareholders and Board of Directors of

Petróleo Brasileiro S.A. - Petrobras

Rio de Janeiro – RJ

Opinion

We have audited the individual and consolidated financial statements financial statements of Petróleo Brasileiro S.A. - Petrobras S.A. ("Company"), referred to as parent company and consolidated financial statements, respectively, which comprise the statement of Financial Position as of December 31, 2017, and the statement of income, the statement of Comprehensive Income, Statement of Changes in Shareholders' equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Petróleo Brasileiro S.A. - Petrobras, as at December 31, 2017, and its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with Brazilian accounting policies and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB.

Basis for opinion

We conducted our audit in accordance with International and Brazilian Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent from the Company and its subsidiaries in accordance with the ethical requirements that are relevant to our audit of the financial statements and are set forth on the Professional Code of Ethics for Accountants and on the professional standards issued by the Regional Association of Accountants, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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1 - The “Lava Jato investigation” and its effects on the Company

According to note 3 of the individual and consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
With respect to the ongoing investigations conducted by public federal authorities known as " Lava Jato investigation " and its outcomes, the Company carried out an independent investigation, and based on the available information at that moment recognized in 2014 a write-off in the amount of R$6,194 million (R$4,788 million, Company). The amount consists of estimated expenses that were improperly capitalized and additionally paid by the Company on the acquisition of property, plant and equipment in prior periods. That estimate was based on assumptions that the Company has been monitoring ever since, as investigations continue and new facts come up. The most significant of these assumptions are the following: (i) contract terms and payments made to the companies involved; (ii) names of the companies and people involved, as well as direct and indirect relationships with them; and (iii) percentages on illegal payments in contracts. This assumption due to new information revealed by the investigations currently conducted by the Company was considered significant in our audit. Such information can influence the assumptions that led to the recognition of a write-off of the expenses capitalized in an improper manner in the financial statements, as well as impacting the amounts of those assets in the individual and consolidated financial statements, and in the equity-accounted of the individual financial statements.	Our audit procedures in this area included, among others, evaluating the design, implementation and operating effectiveness of key internal controls adopted by the Company and associated with the capture of processes, risk assessment, measurement, accounting recognition and disclosure of the information about the ongoing investigations conducted by the Company, testing the integrity of the whistle-blowing reports and reporting results to the appropriate governance bodies. We evaluated the Company's main investigations carried out by the Internal Investigation Commissions and by independent law firms. Based on this, we evaluated whether the Company's position about the estimates and assumptions it has adopted is adequate. We have also engaged forensic experts to evaluate the scope, including the completeness and the immersion of the independent investigation, particularly with respect to the projects considered to have the greatest exposure to the risk of connection with the illegal acts investigated by the Lava Jato task force. Also have we engaged the forensic experts to make a critical evaluation of the procedures and methods used by the independent investigators, including procedures followed by collecting and analyzing critical documents and/or information, selecting the most critical aspects to apply additional procedures, following up on significant information reported by the media and using the relevant information obtained from the state's evidence and the plea agreements approved by authorities to adjust the estimate of the expenses capitalized in an improper manner. According to the evidence obtained by applying the procedures described above, we considered that the assumptions and methods used for estimating the capitalized overpayment on the acquisition of property, plant and equipment, as well as the related disclosures, are acceptable in the context of the financial statements taken as a whole, for the year ended December 31, 2017.

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2 - Legal proceedings and contingencies

According to note 30.1 of the individual and consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The Company is involved in labor, civil and tax lawsuits over the normal course of its activities. The Company's evaluation of the likelihood of loss is supported by criteria and assumptions that involve a high level of complexity and that are influenced by theses and/or judgments resulting from interpretations of complex legal matters that are sometimes polemical at several judicial courts. We considered this to be a key audit matter due to the fact that the recognition and measurement of provisions and contingent liabilities requires the Company to exercise significant judgment to determine the existence of a present obligation, the likelihood of an outflow of funds and the estimation of the amount of the obligation resulting from the legal proceedings in which the Company is involved, as well as impacting the amounts of those liabilities in the individual and consolidated financial statements, and in the equity-accounted of the individual financial statements.	Our audit procedures included, among others, the evaluation of the design, implementation and effectiveness of key internal controls adopted by the Company and associated with the capture of processes, risk assessment, measurement, accounting recognition and disclosure of provisions for contingencies. We evaluated the significant estimates and judgments made by the Company by analyzing the criteria and assumptions used for measuring the accrued and/or disclosed amounts that considering the assessment prepared by the Company's internal and external legal counselors, including the tax amnesty programs. We evaluated the information about the main proceedings and claims involving the Company according to the confirmation received from internal and external legal counselors and other documents produced by the Company. According to the evidence obtained by applying the procedures described above, we considered that the criteria and assumptions used for estimating the legal proceedings and contingencies, as well as related disclosures, are acceptable in the context of the financial statements taken as a whole, for the year ended December 31, 2017.

3 - Impairment

According to note 14 of the individual and consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The impairment assessment on property, plant and equipment and intangible assets, and the definition of the cash generating units (CGUs) requires the exercise of significant judgment about assumptions, such as: (i) average Brent oil price and average exchange rate (Real/US dollar) whose estimates are relevant for all the company's business segments; (ii) estimates about the recovery of oil and gas reserves; (iii) definition of discount rates and exchange rates. Due to the high level of complexity involved in evaluating the determination and reviewing of the cash generating units for testing assets for impairment and the level of uncertainties inherent in cash flow projections and the estimates made to determine the recoverability of assets, which requires a significant level of judgment by the Company, that may impact the amount of those assets in the individual and consolidated financial statements and the amount of the investment recorded through the equity pick-up method in the individual financial statements, we considered this to be a key audit matter.	Our audit procedures included, among others, an evaluation of the design, implementation and effectiveness of key internal controls adopted by the Company and associated with the capture of processes, risk assessment, measurement, accounting recognition and disclosure of the impairment loss on and estimates of oil and gas reserves. Significant aspects of our audit approach included an understanding of the preparation and review of the business plan, budgets and impairment tests made available by the Company. We evaluated the reasonableness of the estimate prepared by the Company, the determination of the CGUs and the methodology used to test the assets for impairment. We involved a valuation specialist to assist us in evaluating the assumptions and methodologies used by the Company to prepare the asset valuation model and compared the assumptions with the data obtained from external sources, when available, such as the future price of oil and gas, estimated economic growth, the forecast inflation rate and the discount rates. We also conducted a sensitivity analysis for these assumptions. In order to estimate the recoverability of oil and gas reserves, we compared a study conducted by an external expert hired by the Company with the total amount of Reserves used, and we evaluated the movements in the reserves during the year according to internal and external information regarding production. We assessed the recoverable value of assets against the book values of the Company's property, plant and equipment and intangible assets to determine the impairment loss on the Company's assets for each CGU. We also assessed the adequacy of the disclosures to the financial statements. According to the evidence obtained from performing the procedures described above, we considered that the assumptions and methods used for estimating the

impairment loss on intangible assets and on property, plant and equipment are reasonable in the context of the financial statements taken as a whole, for the year ended December 31 2017.

4 - Employee benefits

According to note 22 of the individual and consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The Company sponsors pension and health care plans that provide supplementary retirement benefits and medical care to its employees. Actuarial liabilities are determined according to an actuarial calculation annually made by an independent actuary, according to the projected unit credit method, by reference to actuarial assumptions that comprise demographic and economic estimates, estimates of medical costs, historical data about expenses and employee contributions. Due to the high level of judgment exercised by the Company to make estimations and the extent of historical data about the employees' expenses and contributions used, that may impact the amount of these liabilities in the individual and consolidated financial statements, and in the equity-accounted of the individual financial statements, we considered this a key audit matter.	Our audit procedures included, among others, an evaluation of the design, implementation and effectiveness of key internal controls adopted by the Company and associated with the measurement and disclosure of actuarial liabilities. We performed sample techniques to assess the information used to calculate the liabilities, and we obtained information about the technical expertise and experience of the independent actuary in charge of the actuarial calculation. We involved an actuarial specialist to assist us on evaluated the assumptions and methods used by the Company to calculate the actuarial liabilities. Besides, we compared the figures used with data obtained from external sources, when available, such as discount rate, salary growth, turnover of the pension and health care plans, mortality and disability table and medical costs. Moreover, with the involvement of valuation specialist, we assessed the estimate of the fair value of the related assets. Moreover, we assessed the disclosures in the financial statements. During the course of our audit procedures, we identified not recorded adjustments that affect the measurement and disclosure of the actuarial liability, which were not corrected by management, since they were considered to be immaterial According the evidence obtained from performing the procedures described above, we considered that the policy adopted for recognizing employee benefits is reasonable to support the judgments, estimates and information included in the financial statements taken as a whole, for the year ended December 31, 2017.

5 - Trade receivables from the electricity sector

According to note 8.4 of the individual and consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The Company provides fuel oil and natural gas, among other products, to thermoelectric power plants (subsidiaries of Eletrobras), state concessionaires and independent energy producers that are part of the isolated energy system of Brazil's Northern region. A significant portion of the amount used for settling the Company's trade receivables arises from the electricity industry fund called Fuel Consumption Account. Recent legal restrictions have reduced the amounts reimbursed by the fund, causing an increase in the default of the companies that operate in that segment. Due to the circumstances mentioned above, the materiality of the balance of trade receivables, and the significant level of judgment exercised by the Company to prepare the accounting estimate of the impairment loss on this trade receivables, that may impact the amount of those assets in the individual and consolidated financial statements, we considered this a key audit matter.	Our audit procedures included, among others, an evaluation of the design, implementation and effectiveness of key internal controls adopted by the Company and associated with the capture of processes, risk assessment, measurement and accounting recognition of the balance of trade receivables from the electricity industry. We performed procedures to assess the impairment loss on trade receivables from the electricity industry. We obtained confirmations from electricity companies based on a sample. Besides, we analyzed debt acknowledgment agreements and the current stage of the negotiations between the Company, Eletrobrás and the federal government. Finally, we assess the disclosures made in the individual company and consolidated financial statements. According the evidence obtained from performing the procedures described above, we considered that the impairment loss on trade receivables from the electricity industry is reasonable in the context of the financial statements taken as a whole, for the year ended December 31, 2017.

6 - Cash flow hedge accounting

According to note 4.3.6 and 33.2 of the individual and consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The Company uses cash flow hedge accounting for certain transactions. Cash flow hedge is the hedge 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 and could affect profit or loss. In such hedges, the effective portion of gains and losses on hedging instruments is recognized in OCI and transferred to net finance income (costs), in the statement of income, when the hedged item is realized. The ineffective portion of the hedge is recognized as finance income (costs) during the period. Due to the significance of the hedged financial instruments and the level of judgments in the estimates made by the Company to determine future exports considered as highly probable and the foreign exchange gains and losses reported by the Company, that may impact the amount disclosed in the individual and consolidated financial statements, we considered this a key audit matter.	Our audit procedures included, among others, an evaluation of the design, implementation and effectiveness of key internal controls adopted by the Company and associated with the capture of processes, risk assessment, measurement, accounting recognition and disclosure of cash flow hedge accounting. We involved specialist to assist us by analyzing the criteria applied by the Company to define the portion of future exports considered "highly probable", and we assessed the assumptions used for applying cash flow hedge accounting. Finally, we performed procedures to recalculate foreign exchange fluctuations and we assess the prospective and retrospective efficiency tests performed by the Company. According to the evidence obtained from performing the procedures described above, we considered that the assumptions used for determining highly probable future exports and foreign exchange gains and losses are reasonable in the context of the financial statements taken as a whole, for the year ended December 31, 2017.

7 - Provisions for decommissioning costs

According to note 20 of the individual and consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
Because of the business in which the Company operation have the obligation to dismantle and restore the environment of the areas that will be abandoned. Estimating the costs associated with the decommissioning involves significant judgment given that: (i) obligations will be incurred after a long period; (ii) contracts and regulations have subjective descriptions regarding removal and restoration practices and about the criteria to be met when removal and restoration actually occurs; and (iii) asset removal technologies and costs are rapidly changing, together with environmental and security regulations. Due to the materiality of the provision recognized for decommissioning costs and the level of uncertainty involved in making an estimate that may have an impact on the amount of this provision in the financial statements, that may impact the amount of these liabilities in the individual and consolidated financial statements, we considered this a key audit matter.	Our audit procedures included, among others, an evaluation of the design, implementation and effectiveness of key internal controls adopted by the Company and associated with the capture of processes, risk assessment, measurement and accounting recognition of the provision for decommissioning areas. We have involved valuation specialists, to assist us evaluating the assumptions used to calculate this estimate, particularly the nature and breakdown of future expenses expected to be incurred for decommissioning, inflation rates, discount rates, risk rates, and the market information that supports the applied rates. We also assess the adequacy of the disclosures made by the Company. According to the evidence obtained by applying the procedures described above, we considered that the assumptions and methods used for recognizing the provision for decommissioning costs is reasonable in the context of the financial statements taken as a whole, for the year ended December 31, 2017.

Other matters

Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2017, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes, were submitted to the same audit procedures followed together with the audit of the Company's financial statements. In order to form our opinion, we evaluated whether these statements are reconciled to the financial statements and to the accounting records, as applicable, and whether their form and content are in accordance with the criteria set on Technical Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added have been adequately prepared, in all material respects, according to the criteria set on this Technical Pronouncement and are consistent with the individual company and consolidated financial statements taken as a whole.

Corresponding figures

The figures for the year ended December 31, 2016, presented for comparison purposes, were audited by another independent auditors, who issued an unqualified audit report dated March 21, 2017.

Other information that accompanies the individual company and consolidated financial statements and the independent auditors' report

The Company's management is responsible for the other information. The other information comprises the Annual Report and the Financial Report.

Our opinion on the individual company and consolidated financial statements does not cover the Annual Report and the Financial Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual company and consolidated financial statements, our responsibility is to read the Annual Report and the Financial Report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work performed, we conclude that there is material misstatement in the Annual Report and in the Financial Report, we are required to report on such fact. We have nothing to report on this respect.

Responsibilities of Management and Those Charged with Governance for the Individual Company and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these individual company and consolidated financial statements in accordance with accounting policies adopted in Brazil and with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual company and consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries, or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s and its subsidiaries' financial reporting process.

Auditors’ Responsibilities for the Audit of the Individual Company and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the individual company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that the examination performed in accordance with Brazilian and international standards on auditing will always detect possible existing material misstatements. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the examination performed in accordance with Brazilian and international standards on auditing, we exercised professional judgment and maintained professional skepticism throughout the audit. We also:

-Identify and assess the risks of material misstatement of the individual company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is greater than the one deriving from error, as fraud may involve the act of circumventing internal control, collusion, forgery, omission or deliberate false representations.

-Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal controls.

-Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

-Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the individual company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are substantiated by the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

-Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the individual company and consolidated financial statements represent the corresponding transactions and events in a compatible manner with the objective of a true and fair presentation.

-Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual company and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rio de Janeiro, March 14, 2018

KPMG Auditores Independentes

CRC SP-014428/O-6 F-RJ

Marcelo Gavioli

Accountant CRC 1SP201409/O-1

Petróleo Brasileiro S.A. – Petrobras

Statement of Financial Position

December 31, 2017 and 2016 (In millions of reais, unless otherwise indicated)

		Consolidated		Parent Company				Consolidated		Parent Company	
Assets	Note	2017	2016	2017	2016	Liabilities	Note	2017	2016	2017	2016
Current assets						Current liabilities					
Cash and cash equivalents	7.1	74,494	69,108	1,305	6,267	Trade payables	16	19,077	18,781	22,179	24,384
Marketable securities	7.2	6,237	2,556	3,531	2,487	Finance debt	17	23,160	31,796	74,724	62,058
Trade and other receivables, net	8	16,446	15,543	34,239	31,073	Finance lease obligations	18	84	59	1,261	1,091
Inventories	9	28,081	27,622	23,165	23,500	Income taxes payable	21.1	990	412	243	–
Recoverable income taxes	21.1	1,584	1,961	669	786	Other taxes payable	21.1	15,046	11,826	14,485	11,219
Other recoverable taxes	21.1	6,478	6,192	5,514	5,064	Payroll and related charges		4,331	7,159	3,662	6,158
Advances to suppliers		258	540	173	361	Pension and medical benefits	22	2,791	2,672	2,657	2,533
Others		4,739	3,716	3,767	3,466	Provisions for legal proceedings	30.1	7,463		6,397	
		138,317	127,238	72,363	73,004	Others		8,298	6,857	6,105	5,818
								81,240	79,562	131,713	113,261
Assets classified as held for sale	10.2	17,592	18,669	9,520	8,260	Liabilities on assets classified as held for sale	10.2	1,295	1,605	606	170
		155,909	145,907	81,883	81,264			82,535	81,167	132,319	113,431
Non-current assets						Non-current liabilities					
Long-term receivables						Finance debt	17	337,564	353,193	193,393	206,421
Trade and other receivables, net	8	17,120	14,832	15,211	10,262	Finance lease obligations	18	675	736	4,108	4,975
Marketable securities	7.2	211	293	204	286	Income taxes payable	21.2	2,219	–	2,169	–
Judicial deposits	30.2	18,465	13,032	17,085	11,735	Deferred income taxes	21.5	3,956	856	2,762	–

Deferred income taxes	21.5	11,373	14,038	–	4,873	Pension and medical benefits	22	69,421	69,996	64,519	64,903
Other tax assets	21.1	10,171	10,236	8,999	9,326	Provisions for legal proceedings	30.1	15,778	11,052	12,680	8,391
Advances to suppliers		3,413	3,742	502	510	Provision for decommissioning costs	20	46,785	33,412	45,677	32,615
Others		10,202	10,378	8,815	9,106	Others		2,973	1,790	2,243	1,122
		70,955	66,551	50,816	46,098			479,371	471,035	327,551	318,427
								561,906	552,202	459,870	431,858
						Shareholders' equity					
						Share capital (net of share issuance costs)	23.1	205,432	205,432	205,432	205,432
Investments	11	12,554	9,948	149,356	121,191	Capital transactions		2,457	1,035	2,673	1,251
Property, plant and equipment	12	584,357	571,876	435,536	424,771	Profit reserves		77,364	77,800	77,148	77,584
Intangible assets	13	7,740	10,663	6,264	8,764	Accumulated other comprehensive (deficit)	23.4	(21,268)	(34,037)	(21,268)	(34,037)
		675,606	659,038	641,972	600,824	Attributable to the shareholders of Petrobras		263,985	250,230	263,985	250,230
						Non-controlling interests		5,624	2,513	–	–
								269,609	252,743	263,985	250,230
		831,515	804,945	723,855	682,088			831,515	804,945	723,855	682,088

The Notes form an integral part of these Financial Statements.

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Petróleo Brasileiro S.A. – Petrobras

Statement of Income

December 31, 2017 and 2016 (In millions of reais, unless otherwise indicated)

		Consolidated		Parent Company	
	Note	2017	2016	2017	2016
Sales revenues	24	283,695	282,589	227,964	223,067
Cost of sales		(192,100)	(192,611)	(156,109)	(153,725)
Gross profit		91,595	89,978	71,855	69,342
Income (expenses)					
Selling expenses		(14,510)	(13,825)	(18,490)	(17,023)
General and administrative expenses		(9,314)	(11,482)	(6,465)	(8,242)
Exploration costs	15	(2,563)	(6,056)	(2,199)	(5,533)
Research and development expenses		(1,831)	(1,826)	(1,828)	(1,823)
Other taxes		(5,921)	(2,456)	(4,657)	(1,305)
Impairment of assets	14	(3,862)	(20,297)	(3,220)	(11,119)
Other income and expenses	25	(17,970)	(16,925)	(14,731)	(9,707)
		(55,971)	(72,867)	(51,590)	(54,752)
Income (loss) before finance income (expense), results in equity-accounted investments and income taxes		35,624	17,111	20,265	14,590
Net finance income (expenses):	27	(31,599)	(27,185)	(21,860)	(25,704)
Finance income		3,337	3,638	2,917	2,418
Finance expense		(23,612)	(24,176)	(17,521)	(18,967)
Foreign exchange gains (losses) and inflation indexation charges		(11,324)	(6,647)	(7,256)	(9,155)
Results in equity-accounted investments	11	2,149	(629)	6,714	(4,576)
Net income/(loss) before income taxes		6,174	(10,703)	5,119	(15,690)
Income taxes	21.6	(5,797)	(2,342)	(5,565)	866
Net income /(loss) for the year		377	(13,045)	(446)	(14,824)
Net income/(loss) attributable to:					
Shareholders of Petrobras		(446)	(14,824)	(446)	(14,824)
Non-controlling interests		823	1,779	–	–
Net income /(loss) for the year		377	(13,045)	(446)	(14,824)
Basic and diluted earning (loss) per weighted-average of common and preferred share (in R$)	23.6	(0.03)	(1.14)	(0.03)	(1.14)

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Statement of Comprehensive Income

December 31, 2017 and 2016 (In millions of reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2017	2016	2017	2016
Net income/(loss) for the year	377	(13,045)	(446)	(14,824)
Other comprehensive income				
Items that will not be reclassified to the statement of income:				
Actuarial gain/(loss) on defined benefit pension plans	6,199	(17,449)	5,458	(15,510)
Deferred Income tax	(887)	3,485	(850)	3,219
	5,312	(13,964)	4,608	(12,291)
Share of other comprehensive income/(loss) in equity-accounted investments	(3)	(12)	536	(1,679)
Items that may be reclassified subsequently to the statement of income:				
Unrealized gains/(losses) on cash flow hedge - exports				
Recognized in equity	(2,073)	40,327	(2,208)	36,607
Reclassified to the statement of income	10,067	9,935	8,282	8,994
Deferred income tax	(2,718)	(17,089)	(2,065)	(15,504)
	5,276	33,173	4,009	30,097
Unrealized gains/(losses) on cash flow hedge - others				
Recognized in equity	(17)	30	–	
	(17)	30	–	–
Unrealized gains/(losses) on available-for-sale securities				
Recognized in equity	49	–	41	
Deferred income tax	(14)		(14)	
	35	–	27	–
Cumulative translation adjustments in investees (*)				
Recognized in equity	1,782	(15,585)	1,854	(11,209)
Reclassified to the statement of income	116	3,693	–	–
	1,898	(11,892)	1,854	(11,209)
Share of other comprehensive income in equity-accounted investments				
Recognized in equity	418	1,285	1,745	4,391
Reclassified to the statement of income	69	–	–	–
	487	1,285	1,745	4,391
Total other comprehensive income/(loss)	12,988	8,620	12,779	9,309
Total comprehensive income/(loss)	13,365	(4,425)	12,333	(5,515)
Comprehensive income/(loss) attributable to:				

Shareholders of Petrobras	12,333	(5,520)	12,333	(5,515)
Non-controlling interests	1,032	1,095	–	
Total comprehensive income/(loss)	13,365	(4,425)	12,333	(5,515)

(*) It includes a gain of R$ 79 (loss of R$ 1,063 in 2016) of cumulative translation adjustments in associates and joint ventures.

The Notes form an integral part of these Financial Statements.

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Petróleo Brasileiro S.A. – Petrobras

Statement of Cash Flows

December 31, 2017 and 2016 (In millions of reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2017	2016	2017	2016
Cash flows from Operating activities				
Loss	377	(13,045)	(446)	(14,824)
				–
Adjustments for:				
Pension and medical benefits (actuarial expense)	8,705	8,001	7,991	7,409
Results in equity-accounted investments	(2,149)	629	(6,714)	4,576
Depreciation, depletion and amortization	42,478	48,543	32,159	37,150
Impairment assets (reversal)	3,862	20,297	3,220	11,119
Inventory write-down to net realizable value	211	1,320	–	–
Allowance (reversals) for impairment of trade and other receivables	2,271	3,843	1,306	1,072
Exploratory expenditures write-offs	893	4,364	561	3,940
Gains and losses on disposals/write-offs of assets	(4,825)	(951)	(4,564)	(1,399)
Foreign exchange, indexation and finance charges	30,653	27,854	20,943	25,604
Deferred income taxes, net	1,452	(3,280)	4,071	(1,010)
Reclassification of cumulative translation adjustment and other comprehensive income	185	3,693	–	–
Revision and unwinding of discount on the provision for decommissioning costs	1,339	(2,591)	1,272	(2,601)
Gain on remeasurement of investment retained with loss of control	(698)		(698)	
Provision for the class action agreement	11,198		9,599	
Decrease (Increase) in assets				
Trade and other receivables, net	(3,140)	397	(26,711)	(22,470)
Inventories	(1,130)	(2,010)	(82)	515
Judicial deposits	(5,383)	(3,357)	(5,351)	(3,145)
Other assets	(723)	(1,214)	(990)	(2,961)
Increase (Decrease) in liabilities				
Trade payables	(160)	(4,154)	(2,695)	(3,302)
Other taxes payable	9,455	3,216	7,715	539
Income taxes paid	(2,544)	(1,284)	(1,429)	–
Pension and medical benefits	(2,944)	(2,634)	(2,793)	(2,465)
Other liabilities	(2,916)	2,072	(3,062)	(486)
Net cash provided by operating activities	86,467	89,709	33,302	37,261
Cash flows from Investing activities				
Capital expenditures	(43,614)	(49,289)	(29,977)	(33,512)
Investments in investees	(239)	(455)	(26,783)	(26,782)
Proceeds from disposal of assets - Divestment	9,907	7,231	8,303	4,304
Divestment (Investment) in marketable securities (*)	(2,722)	842	(2,475)	(1,652)

Dividends received (**)	1,450	1,607	6,040	3,859
Net cash used in investing activities	(35,218)	(40,064)	(44,892)	(53,783)
Cash flows from Financing activities				
Investments by non-controlling interest	69	122	–	–
Proceeds from financing	86,467	64,786	114,008	105,886
Repayment of principal	(115,091)	(105,832)	(98,907)	(91,877)
Repayment of interest (**)	(22,295)	(25,563)	(13,379)	(7,773)
Dividends paid to non-controlling interests	(538)	(239)	–	–
Proceeds from sale of interest without loss of control	4,906	–	4,906	–
Net cash used in financing activities	(46,482)	(66,726)	6,628	6,236
Effect of exchange rate changes on cash and cash equivalents	619	(11,656)	–	–
Net increase / (decrease) in cash and cash equivalents	5,386	(28,737)	(4,962)	(10,286)
Cash and cash equivalents at the beginning of the year	69,108	97,845	6,267	16,553
Cash and cash equivalents at the end of the period	74,494	69,108	1,305	6,267

(*) In the Parent Company, includes amounts relating to changes in the investment in FIDC-NP (receivables investment fund).

(**) The Company classifies dividends/interests received and interests paid as investing activities and operating activities, respectively.

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Statement of Changes in Shareholders' Equity

December 31, 2017 and 2016 (In millions of reais, unless otherwise indicated)

			Accumulated other comprehensive income				Profit reserves				
	Share capital (net of share issuance costs)	Capital transactions	Cumulative translation adjustment	Actuarial gains (losses) on defined benefit pension plans	Cash flow hedge - highly probable future exports	Other comprehensive income (loss) and deemed cost	Legal	Statutory	Tax incentives	Profit retention	Retai earni
	205,432	237	33,785	(14,800)	(58,291)	(4,028)	16,524	4,503	1,393	69,976	–
Balance at January 1, 2016	205,432	237				(43,334)				92,396	–
Realization of deemed cost						(12)					12
Capital transactions		1,014									
Net income (loss)											(14,8
Other comprehensive income			(11,209)	(13,958)	33,173	1,303					
Appropriations:											
Transfer to reserves										(14,812)	14,81
Dividends											
Balance at December 31, 2016	205,432	1,251	22,576	(28,758)	(25,118)	(2,737)	16,524	4,503	1,393	55,164	–
	205,432	1,251				(34,037)				77,584	–
Realization of deemed cost						(10)					10
Capital transactions		1,422									
Net income (loss)											(446)
Other comprehensive income			1,854	5,147	5,276	502					
Appropriations:											
Transfer to reserves										(436)	436
Dividends											

Balance at December 31, 2017	205,432	2,673	24,430	(23,611)	(19,842)	(2,245)	16,524	4,503	1,393	54,728	–
	205,432	2,673				(21,268)				77,148	–

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Statement of Added Value

December 31, 2017 and 2016 (In millions of reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2017	2016	2017	2016
Income				
Sales of products, services provided and other revenues	378,852	373,081	320,584	307,808
Gains and losses on impairment of trade receivables	(2,271)	(3,843)	(1,306)	(1,072)
Revenues related to construction of assets for own use	34,753	49,476	31,235	36,710
	411,334	418,714	350,513	343,446
Inputs acquired from third parties				
Materials consumed and products for resale	(64,102)	(65,864)	(43,470)	(42,210)
Materials, power, third-party services and other operating expenses	(68,389)	(72,846)	(65,289)	(56,412)
Tax credits on inputs acquired from third parties	(22,193)	(19,766)	(20,474)	(17,880)
Impairment of property, plant and equipment, intangible and other assets	(3,862)	(20,297)	(3,220)	(11,119)
Inventory write-down to net realizable value (market value)	(211)	(1,320)	–	–
	(158,757)	(180,093)	(132,453)	(127,621)
Gross added value	252,577	238,621	218,060	215,825
Depreciation, depletion and amortization	(42,478)	(48,543)	(32,159)	(37,150)
Net added value produced by the Company	210,099	190,078	185,901	178,675
Transferred added value				
Share of profit of equity-accounted investments	2,149	(629)	6,714	(4,576)
Finance income	3,337	3,638	2,917	2,418
Rents, royalties and others	429	358	893	860
	5,915	3,367	10,524	(1,298)
Total added value to be distributed	216,014	193,445	196,425	177,377
Distribution of added value				
Personnel and officers				
Direct compensation				
Salaries	16,673	18,685	12,726	14,445
Profit sharing	487	–	393	–
	17,160	18,685	13,119	14,445
Benefits				
Short-term benefits (**)	332	4,629	(51)	4,313
Pension plan	5,117	5,069	4,880	4,304
Medical plan	5,013	4,821	4,428	4,359
	10,462	14,519	9,257	12,976
FGTS	1,244	1,273	1,077	1,118

	28,866	34,477	23,453	28,539
Taxes				
Federal (*)	72,411	50,141	66,407	44,449
State	45,608	49,565	27,160	31,352
Municipal	576	690	202	301
Abroad (*) (***)	(1,282)	5,351	–	–
	117,313	105,747	93,769	76,102
Financial institutions and suppliers				
Interest, and exchange and indexation charges	41,249	36,819	29,384	32,605
Rental and affreightment expenses	28,209	29,447	50,265	54,955
	69,458	66,266	79,649	87,560
Shareholders				
Non-controlling interests	823	1,779	–	–
Absorbed losses	(446)	(14,824)	(446)	(14,824)
	377	(13,045)	(446)	(14,824)
Added value distributed	216,014	193,445	196,425	177,377

(*) Includes government holdings.
(**) In 2017, it includes R$ 757 (R$ 35 in 2016), relating to the reversal of expenses relating to Voluntary Separation Incentive Plans - PIDV.
(***) In 2017, it includes R$ 2,740 (R$ 348 in 2016) relating to deferred income taxes on tax credits of PIBBV.

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of Reais, unless otherwise indicated)

1. The Company and its operations

Petróleo Brasileiro S.A. (Petrobras), hereinafter referred to as “Petrobras” or “Company,” is a partially state-owned enterprise, controlled by the Brazilian Federal Government, of indefinite duration, governed by the terms and conditions under the Brazilian Corporate Law (Law 6,404 of December 15, 1976) and its Bylaws.

The Company is dedicated 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.

Petrobras may perform any of the activities related to its corporate purpose, directly, through its wholly owned subsidiaries, controlled companies, alone or through joint venture with third parties, in Brazil or abroad.

Petrobras may have its activities, provided they are in compliance with its corporate purpose, guided by the Brazilian Federal Government to contribute to the public interest that justified its creation, aiming at meeting the objective of the national energy policy.

The Brazilian Federal Government may only guide the Company to assume obligations or responsibilities, including the implementation of investment projects and the assumption of specific operating costs/results, such as those relating to the sale of fuels, as well as any other related activities, under conditions different from those of any other private sector company operating in the same market, when:

I – established by law or regulation, as well as under provisions of agreements with a public entity that is competent to establish such obligation, abiding by the broad publicity of such instruments; and

II – the cost and revenues thereof have been broken down and disseminated in a transparent manner, including in the accounting plan.

Moreover, in the event of the Brazilian Federal Government guide the Company to meet the public interest under conditions different from market conditions, the Company’s Finance Committee and Minority Shareholders Committee, exercising their advisory role to the Board of Directors, shall assess and measure the difference between such market conditions and the operating result or economic return of the transaction, based on technical and economic criteria for investment valuation and specific operating costs and results under the Company's operations, In this case, for every financial year, the Federal Government shall compensate the Company.

2. Basis of preparation and presentation of financial statements

The consolidated and individual (Parent Company) financial statements have been prepared and are presented in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting

Standards Board (IASB), and with the pronouncements issued by the Brazilian Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis - CPC) and released by the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários – CVM).

All relevant information related to financial statements, and only them, are presented and corresponds to the information used by the Company’s Management.

The consolidated financial statements have been prepared under the historical cost convention, except for 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 preparation of the financial statements requires the use of estimates and assumptions for certain transactions and their impacts in assets, liabilities revenues and expenses. Although our management uses assumptions and judgments that are periodically reviewed, the actual results could differ from these estimates. For further information on accounting estimates, see note 5.

The annual consolidated financial statements were approved and authorized for issue by the Company’s Board of Directors in a meeting held on March 14, 2018.

2.1. Statement of added value

The Brazilian corporate law requires the release of the Statement of added value as an integral part of the financial statements. This statement is presented as supplementary information under IFRS and was prepared in accordance with CPC 09 – Statement of Added Value, released by the CVM.

The purpose of the statement of added value is to present information relating to the wealth created by the Company and how it has been distributed.

2.2. Functional currency

The functional currency of Petrobras and all of its Brazilian subsidiaries is the Brazilian Real, which is the currency of its primary economic environment of operation. The functional currency of most of the entities that operate in the international economic environment is the U.S. dollar.

The income statements and statement of cash flows of non-Brazilian Real functional currency subsidiaries, joint ventures and associates in stable economies are translated into Brazilian Real using the monthly average exchange rates prevailing during the year. Assets and liabilities are translated into Brazilian Real at the closing rate at the date of the financial statements and the equity items are translated using the exchange rates prevailing at the dates of the transactions.

All exchange differences arising from the translation of the financial statements of non-Brazilian Real subsidiaries, joint ventures and associates are recognized as cumulative translation adjustments (CTA) within accumulated other comprehensive income in the shareholders' equity and transferred to profit or loss in the periods at the disposal of the investments.

3. The "Lava Jato (Car Wash) investigation" and its effects on the Company

In 2009, the Brazilian Federal Police (Polícia Federal) began an investigation called "Lava Jato" (Car Wash) aimed at criminal organizations engaged in money laundering in several Brazilian states. The Lava Jato investigation 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.

Beginning in 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 former Petrobras personnel. Based on the information available to Petrobras, the payment scheme involved a group of 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 contractors and suppliers personnel, 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". The Company did not make any improper payment.

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

Certain former executives of Petrobras were arrested, denounced and in certain cases charged for crimes such as money-laundering and passive corruption. Other former executives of the Company as well as executives of Petrobras contractors and suppliers were or may be charged as a result of the investigation.

The amounts paid by Petrobras related to contracts with contractors and suppliers involved in the payment scheme were included in historical costs of its property, plant and equipment. However, the Company believes that, under International Accounting Standard IAS 16 – Property, Plant and Equipment, the portion of the payments made to these companies and used by them to make improper payments, which represents additional charges incurred as a result of the payments scheme, should not have been capitalized. Thus, in the third quarter of 2014, the Company wrote off R$ 6,194 (R$ 4,788 in the Parent Company) of capitalized costs representing amounts that Petrobras overpaid for the acquisition of property, plant and equipment in prior years.

Petrobras will continue to 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 below should be adjusted, Petrobras will evaluate whether the adjustment is material and, if so, recognize it.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of Reais, unless otherwise indicated)

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

As it is not possible to specifically identify the amounts of each overpayment to contractors and suppliers, or periods over which such payments occurred, 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.

As it is impracticable to identify the periods and amounts of overpayments incurred, the Company developed a methodology to estimate the adjustment incurred in property, plant and equipment in the third quarter of 2014 using the five steps described below:

1) Identify contractual counterparties: the Company listed all the companies identified as cartel members, and using that information the Company identified all of the contractors and suppliers that were either so identified or were part of consortia including entities so identified.

2) Identify the period: the Company concluded from 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 mentioned 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.

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.

For more information on the approach adopted by the Company to estimate the write-off for overpayments incorrectly capitalized, see note 3 to the Company's audited consolidated financial statements for 2014.

Petrobras has continuously monitored the progress of both the investigation by Brazilian authorities and the independent law firm. As a result, on the preparation of the financial statements for the year ended December 31, 2017, the Company has not identified any additional information that would impact the adopted calculation methodology and consequently require additional write-offs. The Company will continue to monitor these investigations for additional information and will review their potential impact on the adjustment made.

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

The Company has been closely monitoring the investigations and cooperating fully with the Brazilian Federal Police (Polícia Federal), the Brazilian Public Prosecutor's Office (Ministério Público Federal), Federal Auditor's Office (Tribunal de Contas da União – TCU), the Ministry of Transparency (Ministério da Transparência) and the General Federal Inspector's Office (Controladoria Geral da União) in the investigation of all crimes and irregularities. We have responded to numerous requests for documents and information from these authorities.

The Company has also cooperated with the U.S. Securities and Exchange Commission (SEC) and the United States Department of Justice (DOJ), which, since November 2014, have been investigating potential violations of U.S. law based on information disclosed as a result of the Lava Jato investigation.

We have been formally recognized as a victim of the crimes identified under the Lava Jato investigation by the Brazilian Federal Prosecutor's Office, the lower court hearing the case and also by the Brazilian Supreme Court. As a result, we have entered into 45 criminal proceedings as an assistant to the prosecutor. In addition, we have entered into four criminal proceedings as an interested party. We have also renewed our commitment to continue cooperating with authorities to clarify the issues and report them regularly to our investors and to the public in general.

We do not tolerate corrupt practices and illegal acts perpetuated by any of our employees. Accordingly, since 2015, the Company continued to implement several measures as a response to the facts uncovered in the "Lava Jato" investigation and to improve its corporate governance and compliance systems.

As part of the process of strengthening integrity procedures to prevent and detect frauds or any illegal act, the Company has taken continuous measures aiming at enhancing its corporate governance and compliance systems, thereby applying corporate governance best practices aligned with new corporate governance requirements.

In this respect, among other measures, in 2016, the Company approved its new Corporate Compliance Policy, performed training programs with personnel and executives focused on the prevention of corruption, reviewed the "Compliance Agents" initiative and adapted its findings to the new organization structure. In 2017, the Company created the position of Deputy Officer for Governance and Compliance, reviewed its Code of Best Practices, released the Annual Letter of Public Policies and Corporate Governance, implemented the Manager Training Program and continued to conduct integrity due diligence procedures of suppliers of goods and providers of services (conducted nearly 17,000 through 2017), as well as integrity background checks as part of the decision making for appointing personnel to key positions. By reviewing its Bylaws, the Company also extended the Minority Committee duties with the aim of higher transparency in related party transactions assessment, indications to key management personnel and determination of investment thresholds under the public policies scope.

The continuous process of strengthening corporate governance practices resulted in the certification of Petrobras in the State Governance Highlight (Destaque em Governança das Estatais) program. Petrobras also obtained the maximum score in the IG-SEST governance index for state-owned companies of the Ministry of Planning and enabled the Company to require the adherence to a market tier in the Brazilian stock exchange (B3) for companies with high level of corporate governance (B3 governance level 2).

Internal investigations are still in progress and are being carried out by two independent firms hired in October 2014, which report directly to a Special Committee that serves as a reporting line to the Board of Directors. The Special Committee is composed of our Governance and Compliance Officer, João Adalberto Elek Junior and two other independent and recognized experts: Ellen Gracie Northfleet, former Chief Justice of the Brazilian Supreme Court, who is recognized internationally as a jurist with great experience in analyzing complex legal issues; and Andreas Pohlmann from Germany, former Chief Compliance Officer of Siemens AG (2007-2010), who has broad experience in compliance and corporate governance matters.

In addition, the Company has been taking the necessary procedural steps to seek compensation for damages suffered from the improper payments scheme, including those related to its reputation.

Accordingly, the Company joined 15 public civil suits addressing acts of administrative misconduct filed by the Brazilian Public Prosecutor's Office and the Federal Government, including demands for compensation for reputation damages.

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, the Company may be entitled to receive a portion of such funds. Nevertheless, the Company is unable to reliably estimate further recoverable amounts at this moment. Any recoverable amount will be recognized as income when received or when their economic benefits become virtually certain.

The total funds collected through December 31, 2017, with respect to compensation for damages resulting from leniency agreements, amount to R$ 1,476, recorded as other income and expenses (R$ 661 until December 31, 2016).

3.3. Investigations involving the Company

Petrobras is not a target of the Lava Jato investigation and is formally recognized as a victim of the improper payments scheme by the Brazilian Authorities.

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 with respect to, among other things, the Lava Jato investigation and any allegations regarding a violation of the U.S. Foreign Corrupt Practices Act. The U.S. Department of Justice (DoJ) is conducting a similar inquiry, and the Company is cooperating with both investigations 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.

The internal investigation and related government inquiries concerning these matters remain ongoing, and to date it is not possible to estimate the duration, scope or results of the internal investigation or related inquiries by relevant authorities. As a result, the Company is unable to make a reliable estimate about amounts and probability of penalties that may be required or if other financial relief may be provided in connection with any SEC or DoJ investigation.

On December 15, 2015, the State of São Paulo Public Prosecutor’s Office issued the Order of Civil Inquiry 01/2015, establishing a civil proceeding to investigate the existence of potential damages caused by Petrobras to investors in the stock market. The Company has provided all relevant information required by the authorities.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of Reais, unless otherwise indicated)

3.4. Legal proceedings involving the Company

Note 30 provides information about class actions and other material legal proceedings.

4. Summary of significant accounting policies

The accounting policies set out below have been consistently applied to all periods.

4.1. Basis of consolidation

The consolidated financial statements include the financial information of Petrobras and the entities it controls (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, by using accounting policies consistent with those adopted by Petrobras.

Note 11 sets out the consolidated entities and other direct investees, not including investments structured through a separate vehicle.

Investments structured through a separate vehicle are conceived so that the voting rights, or similar rights, are not the dominant factor to determine who controls the entity.

At December 31, 2017, Petrobras controls and consolidates the following structured entities:

Structured Entities	Country	Main segment
Charter Development LLC – CDC	U.S.A	E&P
Companhia de Desenvolvimento e Modernização de Plantas Industriais – CDMPI	Brazil	RT&M
Fundo de Investimento em Direitos Creditórios Não-padronizados do Sistema Petrobras	Brazil	Corporate

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. Reportable segments

The information related to the Company's operating segments is prepared based on available financial information directly attributable to each segment, or items that can be allocated to each segment on a reasonable basis. This information is presented by business activity, as used by the Company's Board of Executive Officers (Chief Operating Decision Maker – CODM) on the decision-making process of resource allocation and performance evaluation.

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's operating segments comprises 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 and abroad, for the primary purpose of supplying its domestic refineries and the sale of surplus crude oil and oil products produced in the natural gas processing plants to the domestic and foreign markets. The E&P segment also operates through partnerships with other companies;
b) Refining, Transportation and Marketing (RT&M): this segment covers the refining, logistics, transport and trading of crude oil and oil products activities in Brazil and abroad, exports of ethanol, extraction and processing of shale, as well as holding interests in petrochemical companies in Brazil;

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c) Gas and Power: this segment covers the activities of transportation and trading of natural gas produced in Brazil and abroad, 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; and
e) Distribution: this segment covers the activities of Petrobras Distribuidora S.A, which sells oil products, ethanol and vehicle natural gas in Brazil. This segment also includes distribution of oil products operations abroad (South America).

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.

Assets and the statement of income by business area are presented in note 29.

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, classified and subsequently measured as set out below:

- Fair value through profit or loss – includes financial instruments purchased and held for trading in the short term. These instruments are 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 clear intention and ability to hold to maturity. These instruments are measured at amortized cost using the effective interest rate method.
- Available-for-sale – includes non-derivative financial instruments that are 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 measured at fair value and changes are recognized in other comprehensive income, in the shareholders' equity and recycled to the statement of income when the instruments are derecognized or realized.

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 method, less any impairment loss on uncollectible receivables.

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 presented in the statement of income within selling expenses.

4.3.4. Loans and financing (Debt)

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

When a debt instrument is replaced by another one, between the same parties, but containing substantially different terms, the original financial instrument is derecognized and a new one is recognized. Similarly, substantial changes to the terms of the existing financial instrument, or part of it, are accounted as extinction of the original financial liability and recognition of a new financial liability.

The terms of the financial instrument are considered substantially modified if the present value of their cash flows under the new terms, including any commissions paid (net of any commissions received) and discounted using the original effective interest rate method, is at least 10% different from the present value of the remaining cash flows of the original financial instrument.

Changes in the terms of the financial instrument that are not considered substantial do not affect the statement of income at the moment they occur. In this case, the effective interest rate of the instrument is recalculated and applied prospectively.

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. Cash flow hedge accounting

The Company qualifies certain transactions for cash flow hedge accounting.

Hedging relationships qualify for cash flow hedges when they involve the 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 forecasted transaction that may impact the statement of income.

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 immediately recognized in the statement of income.

When the hedging instrument expires or settled in advance, 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 is recorded separately 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 shareholders' equity to the statement of income.

In addition, when a financial instrument designated as a hedging instrument expires or settled, the Company may replace it with another financial instrument in a manner such that the hedge relationship continues to occur. Likewise, whenever a hedged transaction effectively occurs, its financial instrument previously designated as a hedging instrument may be designate for a new hedge relationship.

4.4. Inventories

Inventories are determined by the weighted average cost method and mainly comprise crude oil, intermediate products and oil products, as well as natural gas, LNG, fertilizers and biofuels, adjusted to the net realizable value when it is lower than its carrying amount.

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.

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.

Materials, supplies and others mainly comprise production supplies and operating materials used in the operations of the Company, stated at the average purchase cost, not exceeding replacement cost.

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

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 polices. 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 related to the arrangement, while in a joint venture the parties have rights to the net assets of the arrangement. Certain of the Company's activities in the E&P segment are conducted through joint operations.

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 assets, liabilities and related income and expenses.

In the parent company’s financial statements, investments in associates, subsidiaries and joint ventures are accounted for by the equity method from the date on which they become an associate, a joint venture or a subsidiary. In the parent company’s financial statements, only joint operations structured through separate vehicles are accounted for by the equity method. For other joint operations 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 adjusted, 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 accounted for at cost.

The acquisition method requires that the identifiable assets acquired and the liabilities assumed be measured at the acquisition-date fair value, with limited exceptions.

Goodwill is measured as the excess of the aggregate amount of: (i) the consideration transferred; (ii) the amount of any non-controlling interest in the acquiree; and (iii) in a business combination achieved in stages, the fair value of the acquirer’s previously held equity interest in the acquiree at the acquisition-date; over the net of the amounts of the identifiable assets acquired and the liabilities assumed. When this aggregate amount is lower than the net of the amounts of the identifiable assets acquired and the liabilities assumed, a gain on a bargain purchase is recognized in the statement of income.

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, including directly attributable costs, 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 and development of crude oil and natural gas production 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 as intangible assets and are transferred to property, plant and equipment once the technical and commercial feasibility can be demonstrated.

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- Costs directly attributable to exploratory wells, including their equipment and installations, pending determination of proved reserves are capitalized within property, plant and equipment. In some cases, exploratory wells have discovered oil and gas reserves, but at the moment the drilling is completed they are not yet able to be classified as proved. In such cases, the expenses 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 the Company reviews these conditions monthly for each well, by analysis of geoscience and engineering data, existing economic conditions, operating methods and government regulations. For additional information on proved reserves estimates, see note 5.1.
- Costs related to exploratory wells drilled in areas of unproved reserves are charged to expense when determined to be dry or uneconomic by the aforementioned internal commission.
- 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.

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 and 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 the performance of regular major inspections and maintenance. Those expenditures are capitalized if a maintenance campaign is expected to occur, at least, 12 months later. Otherwise, they are expensed when incurred. The capitalized costs are depreciated over the period through the next major maintenance date.

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.

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 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. In general, the Company suspends capitalization of borrowing to the extent investments in a qualifying asset hibernates during a period greater than one year or whenever the asset is prepared for its intended use.

Whenever an asset is directly associated to oil and gas production and its estimated lifecycle is equal or greater than the estimated length of reserves depletion, the depreciation of this asset will be accounted for pursuant to the unit-of-production method.

Assets depreciated based on the straight line method include: (i) assets related to oil and gas production with useful lives shorter than the life of the field; (ii) floating platforms; and (iii) assets that are unrelated to oil and gas production.

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) is recognized using the unit-of-production method, computed based on the units of monthly 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 over its useful life. Note 12.2 provides further information on the estimated useful life by class of assets. The useful life is reviewed at each year end.

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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 concessions and production sharing agreements for exploration and production 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 crude oil and natural gas are initially capitalized within intangible assets and are transferred to property, plant and equipment when the technical and commercial feasibility can be demonstrated. They are not amortized before their transference to property, plant and equipment. 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. In the event a signature bonus encompasses an area in which exploration activities occur in different locations, whenever the technical and commercial feasibility can be demonstrated for a specific location, a portion of the signature bonus is transferred to property, plant and equipment based on the ratio between the oil in place at this location and total reservoir volume of the area.

Internally-generated intangible assets are not capitalized and are expensed as incurred, except for development costs that meet the recognition criteria related to the 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. Their useful lives are reviewed annually.

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

Property, plant and equipment and intangible assets with definitive lives are tested for impairment when there is an indication that the carrying amount may not be recoverable. Assets are assessed for impairment at the smallest identifiable group that generates largely independent cash inflows from other assets or groups of assets (the cash-generating unit - CGU).

Assets related to development and production of oil and gas and (fields or group of fields) 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, or when any indication of impairment occurs.

The impairment test is performed through the 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 existing synergies between the Company’s assets and businesses, as well as the expectation of the use of its assets for their remaining useful lives, 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, 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 business and management plan and 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.

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

4.11. Impairment of associates and joint ventures (equity-accounted investments)

The Company assesses its investments in associates and joint ventures (equity-accounted investments) for impairment whenever there is an indication that their carrying amounts may not be recoverable.

By performing impairment testing of an equity-accounted investment, goodwill, if exists, is also considered part of the carrying amount to be compared to the recoverable amount.

Except when specifically indicated, value in use is generally used by the Company for impairment testing purposes in the proportion to the Company's interests in the present value of future cash flow projections via dividends and other distributions.

Reversals of previously recognized impairment losses are permitted.

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4.12. Leases

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

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.

4.13. Assets classified as held for sale

Non-current 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 the sale transaction rather than through continuing use.

The Company has an active divestment program and is considering opportunities for divestments in several areas where it operates. The divestment portfolio is dynamic because changes in market conditions and/or in the Company’s evaluation of its different businesses may affect any ongoing negotiation or potential transaction.

The condition for classification as held for sale is 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 and there is the expectation that the sale will occur within 12 months after its classification as held for sale. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of its classification as held for sale. However, an extended 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 the Company 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.

4.14. Decommissioning costs

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

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.

Decommissioning costs estimates for oil and natural gas producing properties are initially recognized after a field is declared to be commercially viable.

The part of the cost of an asset relating to decommissioning costs estimates is depreciated on the same basis of its corresponding property, plant and equipment. Unwinding of the discount on the corresponding liability is recognized as a finance expense, when incurred. Decommissioning costs estimates are revised annually, at least.

4.15. Provisions, contingent assets and contingent liabilities

Provisions are recognized when there is a present obligation 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 and liabilities are not recognized, but contingent liabilities are disclosed whenever the likelihood of loss is considered possible, including those for which the amount outflow of resources are not reasonably estimable.

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4.16. Income taxes

Income tax expense for the period includes current and deferred taxes.

a) Current income taxes

Current income taxes are computed based on taxable profit for the year, determined in accordance with the rules established by the taxation authorities, using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Current income taxes are offset when they relate to income taxes levied on the same taxable entity and by the same tax authority, when there is a legal right and the entity has the intention to set off current tax assets and current tax liabilities, simultaneously, and they are recognized in the statement of income of the period, except to the extent that the tax arises from a transaction or event which is recognized directly in equity.

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. When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, a deferred tax is recognized to the extent that it is probable that the entity will have sufficient taxable profit in future periods, based on projections approved by management and supported by the Company’s Business and Management Plan.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that have been enacted or substantively enacted by the end of the reporting period, and they are offset when they relate to income taxes levied on the same taxable entity, when a legally enforceable right to set off current tax assets and current tax liabilities exists and when the deferred tax assets and deferred tax liabilities relate to taxes levied by the same tax authority on the same taxable entity.

4.17. 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 (updating 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, from which the obligations are to be directly settled.

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 shareholders' equity, in other comprehensive income, and comprises: (i) actuarial gains and losses and; (ii) the return on plan assets, 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 of salaries.

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4.18. 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 distributions to shareholders, such dividends and interest on capital are 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.

4.19. Other comprehensive income

Other comprehensive income includes: i) changes in fair value of available-for-sale financial instruments; ii) effective portion of cash flow hedge; iii) remeasurement of defined benefit plans; and iv) cumulative translation adjustment.

4.20. 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.

4.21. Recognition of revenue

Revenue from the sale of goods, including, among others, crude oil, oil products, natural gas, biofuels, electric energy, is recognized when all the following conditions are satisfied:

(a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, which usually happens at the delivery, in accordance with the terms of the sales contract;

(b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The amount of revenue can be measured reliably, consisting of 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;

(c) it is probable that the economic benefits associated with the transaction will flow to the Company; and

(d) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable for sales of products or services rendered, net of discounts, sales taxes and returns.

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 significant judgment or involve a higher degree of complexity in the application of the accounting policies and that could materially affect the Company's financial condition and results of operations is set out as follows:

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, impairment testing, decommissioning costs estimates and for projections of high probable future exports subject to cash flow hedge.

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These estimates require the application of judgment and are reviewed at least annually 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.

The Company determines its oil and gas reserves both pursuant to the U.S. Securities and Exchange Commission - SEC and 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 (ANP/SPE establishes the use of the Company's forecasted price, while SEC determines the use of an average price considering each first day of the last 12 months); concession period (ANP permission for the use of reserve quantities after the concession period). Additionally, pursuant to the SEC criteria, only proved reserves are determined, 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 those quantities of oil and gas which, by analysis of geoscientific 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 regulation. Proved reserves are subdivided into developed and undeveloped reserves.

Proved developed oil and gas reserves are those that can be expected to be recovered through: (i) existing wells with existing equipment and operating methods; (ii) extraction technology installed and operational at the time of the reserves estimate, extracting oil and gas in other ways than using wells.

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.

Detailed information on reserves is presented as unaudited supplementary information.

a) Impacts of oil and gas reserves on 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. Reviews 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, considering all other variables being constant, 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.

Notes 4.8 and 12 provide more detailed information on depreciation, amortization and depletion.

b) Impacts of oil and gas reserves on 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.

c) Impacts of oil and gas reserves on decommissioning costs estimates

The timing of abandonment and dismantling of on shore and offshore areas is based on the length of reserves depletion, in accordance with ANP/SPE definitions.

Therefore, the review of the timing of reserves depletion may impact the provision for decommissioning cost estimates.

d) Impacts of oil and gas reserves on highly probable future exports subject to cash flow hedge accounting

The Company estimates highly probable future exports in accordance with future exports forecasted in the scope of its Business and Management Plan - BMP and its Strategic Plan projections, which are driven by proved and probable reserves estimates. Reviews in such reserves may impact future exports forecasts and, consequently, hedge relationship designations may also be impacted. For example, whenever future exports for which a hedging relationship has been designated are no longer considered as highly probable, the Company revokes this designation and the cumulative foreign exchange gains or losses recognized in other comprehensive income remain in shareholders' equity until the forecast exports occur. Additionally, if the future exports are also no longer expected to occur, the cumulative foreign exchange recognized in other comprehensive income is immediately recycled from shareholders' equity to the statement of income.

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5.2. Main assumptions for impairment testing

Impairment testing involves uncertainties mainly related to its key assumptions: average Brent prices and Real/U.S. dollar average exchange rate. These assumptions are relevant to virtually all of the Company's operating segments and a significant number of interdependent variables are derived from these key assumptions and there is a high degree of complexity in their application in determining value in use for impairment tests.

The markets for crude oil and natural gas have a history of significant price volatility and although prices can drop precipitously, industry prices over the long term tends to continue being driven by market supply and demand fundamentals.

Projections relating to the key assumptions are derived from the Business and Management Plan for the first five years and consistent with the Strategic Plan for the following years. These assumptions are consistent with market evidence, such as independent macro-economic forecasts, industry commentators and experts. Back testing analysis and feedback process in order to continually improve forecast techniques are also performed.

The Company's oil price forecast model is based on a nonlinear relationship between variables reflecting market supply and demand fundamentals. This model also takes into account other relevant factors, such as historical idle capacity, industry costs, oil and gas production forecasted by specialized firms, the relationship between the oil price and the U.S. dollar exchange rate, as well as the impact of OPEC on the oil market.

Changes in the economic environment may result in changing assumptions and, consequently, the recognition of impairment charges on certain assets or CGUs. For example, the Brent price directly impacts the Company's sales revenue and refining margins, while the Real/U.S. dollar exchange rate mainly impacts our capital and operating expenditures.

Changes in the economic and political environment may also result in higher country risk projections that would increase discount rates for impairment testing.

In addition, changes in reserve volumes, production curve expectations and lifting costs could trigger the need for impairment assessment, as well as capital expenditure decisions, which are also affected by the Company's plan to reduce its leverage, may result in postponement or termination of projects, reducing their economic feasibility.

The recoverable amount of certain assets was not substantially in excess of their carrying amounts and, therefore, it is reasonably possible that outcomes in future periods that are different from the current assumptions may result in the recognition of additional impairment charges on these assets, as described in note 14.1.1.

5.3. Identifying cash-generating units for impairment testing

Identifying cash-generating units (CGUs) requires management assumptions and judgment, based on the Company's business and management model. Changes in the aggregation of assets into Cash-Generating units (CGUs) could result in additional impairment charges or reversals. Such changes may occur due to a review of investment, strategic or operational factors result in changes in the interdependencies between those assets and, consequently, alter the aggregation or breakdown of assets into CGUs. The assumptions set out below have been consistently applied by the

Company:

a) Exploration and Production CGUs:
i) Crude oil and natural gas producing properties CGU: comprises exploration and development assets related to crude oil and natural gas fields and groups of fields in Brazil and abroad. At December 31, 2017, the Guriatã and Guriatã Sul fields were grouped as one CGU, the Guriatã group, since both fields share the same reservoir. Based on the same reason, Canário da Terra and Canário da Terra Sul fields were also groped in a single CGU, so named Canário da Terra group. In addition, on November 30, 2017, the company submitted to the ANP the declaration of commerciality of the Mero field and it has been regarded as a single CGU. Accordingly, E&P CGUs include 40 groups of fields comprising 179 fields.

The drilling rigs are not part of any grouping of assets and are assessed for impairment separately.

b) Refining, transportation and marketing CGUs:

i) Downstream CGU: comprises refineries and associated assets, terminals and pipelines, as well as logistics assets operated by Transpetro, with a combined and centralized operation of logistical and refining assets in Brazil. These assets are managed with a common goal of achieving efficiency, profitability and strategic value long term on a nationwide basis. They are not operated for the generation of profit by asset/location. The operational planning is made in a centralized manner and these assets are not managed, measured or evaluated by their individual results. The refineries do not have autonomy to choose the oil to be processed, the mix of oil products to produce, the markets in which these products will be traded, which amounts will be exported, which intermediaries will be received and to decide the sales prices of oil products. The operational decisions are analyzed through an integrated model of operational planning for market supply. This model evaluates the solutions to supply the market considering all the options for production, importing, exporting, logistics and inventories seeking a comprehensive optimum of Petrobras and not the profit of each unit. The decision regarding a new investment is not based on the profitability of the project for the asset where it will be installed, but for the Petrobras Group. The model in which the entire planning is based, used in the studies of technical and economic feasibility of new investments in refining, may, in its indications, allocate a lower economic kind of oil to a certain refinery or define a lower economic mix of products to it, or even force it to supply more distant markets (area of influence), leading it to operate with reduced margins if seen individually, in case this is the best for the integrated system as a whole. Pipelines and terminals are an integral part and interdependent portion of the refining assets, required to supply the market.

ii) CGU Comperj – comprises assets under construction of the first refining unit of Petrochemical Complex of Rio de Janeiro. In 2014, the Company decided to postpone this project for an extended period of time;

iii) CGU Second Refining Unit of RNEST – comprises assets under construction of the second refining unit of Abreu e Lima refinery. In 2014, the Company decided to postpone this project for an extended period of time;

iv) Petrochemical CGU: This CGU was composed of the PetroquímicaSuape and Citepe petrochemical plants until November 2016. Since December 2016, these assets have not been aggregated as a CGU following their reclassification to assets held for sale.

v) Transportation CGU: comprises assets relating to Transpetro’s fleet of vessels. In December 2017, Transpetro's management decided to postpone the completion of three vessels under construction that were PANAMAX class (EI-512, EI-513 and EI-514) for an indefinite period of time and, thus, these assets are no longer part of Transportation CGU and were reviewed and tested for impairment separately;

vi) Hidrovia CGU: comprises the fleet of vessels of the Hidrovia project (transportation of ethanol along the Tietê River) that are under construction. In 2016, they were removed from the Transportation CGU since the project was delayed for an extended period of time;

vii) SIX CGU: shale processing plant; and

viii) Other operations abroad defined as the smallest group of assets that generates independent cash flows.

c) Gas & Power CGUs:
i) Natural gas CGU: comprises natural gas pipelines and natural gas processing plants. Reflecting the Business and Management Plan – BMP 2018-2022 approved in December 2017 that foresees the entire withdrawal from petrochemical interests, along with the lower expectation of a successful sale of fertilizers and nitrogen products plants, all of the nitrogen products plants that were still grouped into this CGU started to be assessed for impairment separately;

ii) CGU UFN III: comprises assets under construction of the fertilizer plant Unidade de Fertilizantes e Nitrogenados III (UFN III). Since 2014, the Company has decided to postpone this project for an extended period of time;

iii) Power CGU: comprises the thermoelectric power generation plants; and

iv) Other CGUs: operations abroad defined as the smallest group of assets that generates largely independent cash flows.

d) Distribution CGU:
Mainly comprises the distribution assets related to the operations of Petrobras Distribuidora S.A.

e) Biofuels CGUs:
i) Biodiesel CGU: An integrated unit of biodiesel plants defined based on the production planning and operation process, that takes into consideration domestic market conditions, the production capacity of each plant, as well as the results of biofuels auctions and raw materials supply.

ii) Quixadá CGU: comprises the assets of Quixadá Biofuel Plant. In September 2016, it was removed from the Biodiesel CGU following the decision to discontinue its operations.

Investments in associates and joint ventures, including goodwill, are assessed for impairment separately.

Further information on impairment testing is set out in notes 4.10, and 14.

5.4. 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 the projected growth rates based on per capita health care benefits paid over the last five years, which are used as a basis for projections, converged to the general price inflation index within 30 years.

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.

5.5. Estimates related to contingencies and legal proceedings
The Company is defendant in arbitrations and in legal and administrative proceedings involving civil, tax, labor and environmental issues arising from the normal course of its business, and makes use of estimates to recognize the amounts and the probability of outflow of resources, based on reports and technical assessments from legal advisors and on the management's assessment.

These estimates are performed individually, or aggregated if there are cases with similar characteristics, primarily considering factors such as assessment of the plaintiff's demands, consistency of the existing evidence, jurisprudence on similar cases and doctrine on the subject. Specifically for actions of outsourced employees, the Company estimates the expected loss based on a statistical procedure, due to the amount of actions with similar characteristics.

Arbitral, legal and administrative decisions against the Company, new jurisprudence and changes on the existing evidences can result in changes regarding the probability of outflow of resources and on the estimated amounts, according to the assessment of the legal basis.

Note 30 provides further detailed information about contingencies and legal proceedings.

5.6. Decommissioning costs estimates

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 since: i) the obligations are long-term; ii)the contracts and regulations contain subjective definitions of the removal and remediation practices and criteria involved when the events actually occur; and iii) asset removal technologies and costs are constantly changing, along with regulations, environmental, safety and public relations considerations.

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

Notes 4.14 and 20 provide further detailed information about the decommissioning provisions.

5.7. Deferred income taxes

The recognition of deferred tax liabilities and deferred tax assets involves significant estimates and judgments by the Company. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized or it is probable that the entity will have sufficient taxable profit in future periods. In evaluating whether it will have sufficient taxable profit in future periods to support the recognition of deferred tax assets, the Company uses future projections and estimates based on its Business and Management Plan (BMP), which is approved by the Board of Directors annually. Future taxable profits projections are mainly based on the following assumptions: i) Brent crude oil prices; ii) foreign exchange rates; and iii) the Company's projected net finance expenses (income).

Changes in deferred tax assets and liabilities are presented in note 21.5.

5.8. Cash flow hedge accounting involving the Company's future exports

The Company determines its future exports as "highly probable future exports" based on its Business and Management Plan - BMP and its Strategic Plan. The highly probable future exports are determined by a percentage of projected exports revenue over the mid and long term, taking into account the Company's operational and capital expenditure optimization model, limited to a threshold based on a historical percentage of the oil production that is usually sold abroad. Future exports forecasts are reviewed whenever the Company reviews its BMP and Strategic Plan assumptions. The approach for determining exports as highly probable future exports is reviewed annually, at least.

See note 33.2 for more detailed information about cash flow hedge accounting and a sensitivity analysis of the cash flow hedge involving future exports.

5.9. Write-off – overpayments incorrectly capitalized

As described in note 3, in the third quarter of 2014, the Company wrote off R$ 6,194 of capitalized costs representing the estimated amounts that Petrobras had overpaid for the acquisition of property, plant and equipment.

To account for these overpayments, the Company developed an estimation methodology, as set out in note 3. Petrobras acknowledges the degree of uncertainty involved in the estimation methodology and continues 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 modified, it will evaluate materiality and, if so, adjust.

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.

5.10. Allowance for impairment of trade receivables

Allowance for impairment of trade receivables is recognized when there is objective evidence that trade receivables are impaired. 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.

6. New standards and interpretations

6.1. International Accounting Standards Board (IASB)

IFRS 9 – Financial Instruments

The International Financial Reporting Standard 9 - Financial Instruments (IFRS 9), issued by the IASB, is mandatorily effective for annual periods beginning on or after January 1, 2018 and supersedes IAS 39 – Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 sets out, among others, new requirements for: classification and measurement of financial assets, measurement and recognition of expected credit losses on financial assets, changes in the terms of financial assets and financial liabilities, hedge accounting and related disclosures.

As permitted by IFRS 9, the company does not intend to restate prior periods with respect to classification and measurement (including impairment and modification of financial assets and liabilities) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognized in retained earnings at January 1, 2018. New hedge accounting requirements should generally be applied prospectively.

The impacts arising from IFRS 9 on the Company's equity at January 1, 2018 are immaterial. The principal impacts that IFRS 9 will have on the Company's financial statements are shown below:

Classification and measurement

IFRS 9 establishes a new classification approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics.

Modification of contractual cash flow of financial assets and liabilities

IFRS 9 establishes that if a financial asset or liability measured at amortized cost has its terms modified and this change is not substantial, its gross carrying amount should reflect the discounted present value of its cash flows under the new terms using the original effective interest rate.

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model.

The Company will apply the practical expedient of calculating the expected credit losses on short-term trade receivables using a provision matrix.

Hedge Accounting

IFRS 9 provides for new requirements with respect to hedge accounting such as the prohibition of voluntary discontinuation of the hedge accounting, changes in the measurement of hedge effectiveness that must take into account the time value of money, as well as certain disclosure requirements were expanded.

All cash flow hedging relationships of highly probable future exports designated under IAS 39 also qualify for hedge accounting under IFRS 9 and are regarded as continuing hedging relationships.

IFRS 9 does not change the criteria for accounting for cash flow hedge.

IFRS 15 – Revenue from Contracts with Costumers

On January 1, 2018, the International Financial Reporting Standard 15 - Revenue from Contracts with Customers (IFRS 15) became effective. This Standard, issued by the IASB, supersedes a number of Standards and Interpretations, including IAS 18 - Revenue.

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. This Standard should be applied to all contracts with customers, except to non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers, or when the transaction is within the scope of another Standard.

The requirements of IFRS 15 establish a comprehensive approach to determine when and in what amount of revenue from a contract with a customer that should be recognized. To achieve this, the newly enacted standard uses the following five step approach: 1) identify the contract with a customer; 2) identify the separate performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the separate performance obligations in the contract, 5) recognize revenue when the entity satisfies a performance obligation. A performance obligation is satisfied when the customer obtains control of that good or service.

For the purposes of the transition requirements an entity shall apply this Standard using one of the following two methods: (i) retrospectively to each prior reporting period presented in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, subject to the practical expedients; or (ii) retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application. The company intends to apply the second method as of January 1, 2018, and so far no cumulative effects have been identified to be recognized.

The changes in the Company's accounting policies arising from IFRS 15 only affect the way certain revenues from contracts with customers are disclosed within the statement of income and do not impact net income/loss. In 2017, it would be equivalent to a 1.7% reduction in revenues. The main changes are the following:

The Company acting as an agent

In accordance with accounting policies at December 31, 2017, the Company is regarded as the principal in certain transactions. Therefore, the revenues from these sales, cost of the product sold and sales expenses are presented separately in the statement of income. However, under the new standard’s requirements, the company acts as an agent because it does not obtain control of goods or services provided by another party before it is transferred to the customer. From January 1, 2018, revenues from these sales will be presented in the statement of income net of their cost of sales and sales expenses.

Non-exercised right Income (breakage)

In accordance with accounting policies at December 31, 2017, the Company regards the income from rights not exercised by customers in certain take or pay and ship or pay contracts as penalties revenue and presents it as other income and expenses in the statement of income. However, according to the new standard’s requirements, the Company will account for and present its income from rights not exercised by customers as sales revenues in the statement of income, as from January 1, 2018.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

As of January 1, 2018, the IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration (IFRIC 22), issued by the IASB, became mandatorily applicable.

IFRIC 22 applies to a foreign currency transaction (or part of it) when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income (or part of it). IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Based on the transition provisions of IFRIC 22, the Company will apply the new requirements prospectively from the effective date of the interpretation and did not identified any material impact on its financial statements.

IFRS 16 – Leases

On January 13, 2016, the IASB issued IFRS 16 "Leases", which will become effective for the financial report period beginning on or after January 1, 2019, superseding the following standards and related interpretations: IAS 17 - Leases; IFRIC 4 - Determining whether an Arrangement contains a Lease; SIC-15 - Operating Leases – Incentives; and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, from the lessees and lessors' perspectives. This Standard shall be applied to all leases, except for:

- Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
- Leases of biological assets within the scope of IAS 41 Agriculture held by a lessee;
- Service concession arrangements within the scope of IFRIC 12 Service Concession Arrangements;
- Licenses of intellectual property granted by a lessor within the scope of IFRS 15 Revenue from Contracts with Customers; and
- Rights held by a lessee under licensing agreements within the scope of IAS 38 Intangible Assets for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

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Among the changes for lessees, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17. Instead, it introduces a single lessee accounting model, in which all leases result in the recognition of a right to use an asset at the start of the lease. If lease payments are made over time, a financial liability will also be recognized. Accordingly, the adoption of IFRS 16 may cause a significant increase in assets and liabilities presented in statement of financial position.

Following the adoption of IFRS 16, lease payments under operating leases will not be charged to results on accrual basis. Instead, depreciation of the right to use a leased asset, as well as the finance expenses and foreign exchange gains or losses over the finance liability will affect the results. Finance expenses may qualify for borrowing costs capitalization in accordance with IAS 23 and foreign exchange gains and losses may be first recognized within equity if designated as hedge instrument, as set out in IFRS9.

For lessors, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company is assessing the impacts that IFRS 16 will have on its financial statements and is unable to make a reasonable estimation of those impacts at this stage of the implementation process. Once the estimated impact can be evaluated with sufficient reliability, it may result in the need to renegotiate the terms of certain debt instrument with BNDES (Brazilian Development Bank) and other financial institutions, especially regarding the covenants clauses related to debt level.

6.2. Brazilian Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis - CPC)

The CPC issue accounting pronouncements and interpretations equivalent to the IFRS issued by IASB. The following table sets out the main pronouncements and interpretations issued by the CPC not effective as of December 31, 2017, which the Company did not adopt them in advance:

CPC	Equivalent IFRS	Effective date
CPC 47 - Receita de Contrato com Cliente	IFRS 15 - Revenue from Contracts with Customers	January 1, 2018
CPC 48 - Instrumentos Financeiros	IFRS 9 – Financial Instruments	January 1, 2018
ICPC 21 - Transação em Moeda Estrangeira e Adiantamento	IFRIC 22 – Foreign Currency Transactions and Advance Consideration	January 1, 2018
CPC 06 (R2) - Operações de Arrendamento Mercantil	IFRS 16 - Leases	January 1, 2019

The transitional provisions and the effects of the initial adoption of the aforementioned pronouncements and interpretations are the same presented in note 6.1.

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7. Cash and cash equivalents and Marketable securities

7.1. Cash and cash equivalents

	Consolidated		Parent Company	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Cash at bank and in hand	5,193	1,926	8	17
Short-term financial investments				
- In Brazil				
Brazilian interbank deposit rate investment funds and other short-term deposits	3,889	3,845	1,050	849
Other investment funds	57	427	10	1
	3,946	4,272	1,060	850
- Abroad				
Time deposits	20,632	10,053	–	–
Automatic investing accounts and interest checking accounts	37,337	31,875	237	5,400
U.S. Treasury bills	–	17,004	–	–
Other financial investments	7,386	3,978	–	–
	65,355	62,910	237	5,400
Total short-term financial investments	69,301	67,182	1,297	6,250
Total cash and cash equivalents	74,494	69,108	1,305	6,267

The principal uses of funds in 2017 were for debt service obligations (R$ 137,386) including pre-payment of debts, and for capital expenditures (R$ 43,614), and they were principally provided by operating activities (R$ 86,467), proceeds from financing (R$ 86,467) and disposal of assets (R$ 14,813).

Short-term financial investments in Brazil primarily consist of investments in funds holding Brazilian Federal Government Bonds and related repo investments that mature within three months as of the date of their acquisition. Short-term financial investments abroad comprise time deposits that mature in three months or less from the date of their acquisition, highly-liquid automatic investment accounts, interest checking accounts and other short-term fixed income instruments.

7.2. Marketable securities

	Consolidated				Parent Company	
	12.31.2017			12.31.2016	12.31.2017	12.31.2016
	In Brazil	Abroad	Total	In Brazil	Total	Total
Trading securities	3,531	–	3,531	2,556	3,531	2,487
Available-for-sale securities	505	2,015	2,520	1	42	1
Held-to-maturity securities	397	–	397	292	162	285
Total	4,433	2,015	6,448	2,849	3,735	2,773

Current	4,222	2,015	6,237	2,556	3,531	2,487
Non-current	211	–	211	293	204	286

Trading securities refer mainly to investments in Brazilian Federal Government Bonds. These financial investments have maturities of more than three months and are mostly classified as current assets due to their maturity or the expectation of their realization in the short term.

Available-for-sale securities in Brazil refer substantially to São Martinho's common shares granted to the wholly-owned subsidiary Petrobras Biocombustível S.A. - PBIO (24 million shares) as consideration for PBIO's shares in Nova Fronteira. For further information on this transaction see note 10.3. Available-for-sale securities abroad refer to UK government bonds amounting to GBP 475 million and maturing in March 2018.

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8. Trade and other receivables

8.1. Trade and other receivables, net

	Consolidated		Parent Company	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Third parties	23,138	19,972	9,898	7,585
Related parties				
Investees (note 19.7)	1,752	1,809	14,874	20,304
Investments in the Receivables Investment Fund - FIDC-NP (note 19.4)	–	–	14,222	11,301
Receivables from the electricity sector (note 8.4) (*)	17,362	16,042	13,467	5,995
Petroleum and alcohol accounts - receivables from Brazilian Government (note 19.8)	829	875	829	875
Finance lease receivables	1,818	3,986	–	–
Receivables from divestment in Nova Transportadora do Sudeste (note 10.1)	2,885	–	2,885	–
Other receivables	5,449	5,373	2,109	2,951
	53,233	48,057	58,284	49,011
Allowance for impairment of trade and other receivables	(19,667)	(17,682)	(8,834)	(7,676)
Total	33,566	30,375	49,450	41,335
Current	16,446	15,543	34,239	31,073
Non-current	17,120	14,832	15,211	10,262

(*) Includes the amount of R$ 795 at December 31, 2017 (R$ 817 at December 31, 2016) regarding finance lease receivable from AME-D. The variation in the Parent Company is due to the restructuring of BR Distribuidora, as set out in note 10.3.

8.2. Trade receivables overdue - Third parties

	Consolidated		Parent Company	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Up to 3 months	1,972	1,313	1,465	609
From 3 to 6 months	171	218	101	90
From 6 to 12 months	275	1,339	146	412
More than 12 months	11,819	8,637	4,540	4,332
Total	14,237	11,507	6,252	5,443

8.3. Changes in the allowance for impairment of trade and other receivables

	Consolidated		Parent Company	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Opening balance	17,682	14,274	7,676	6,514
Additions	2,697	4,532	1,384	1,400
Write-offs	(349)	(28)	(147)	–
Reversals	(428)	(595)	(79)	(238)
Cumulative translation adjustment	65	(501)	–	–
Closing balance	19,667	17,682	8,834	7,676
Current	6,842	6,551	4,632	4,414
Non-current	12,825	11,131	4,202	3,262

As established in IFRS 9, from 2018 onwards, impairment of trade receivables will be based on the expected credit loss model, no longer on the incurred loss, as set out in note 6.

8.3.1. Allowance for impairment of receivable relating to the Vitória 10,000 drilling rig

On May, 22 2017, the Company terminated a finance lease agreement relating to the Vitória 10,000 drilling rig, owned by the indirect wholly-owned subsidiary Drill Ship International BV – DSI BV and leased to the Deep Black Drilling LLP – DBD, an entity from Schahin group. On July 19, 2017, a court ruling confirmed this contract termination and, shortly after, Schahin filed a request to suspend its effects, which was denied by the court on July 28, 2017.

Due to the finance lease agreement termination, the Company assessed the value in use of the drilling rig based on the cash flows projected to arise from its commitment to certain Petrobras Group projects, and compared it to the carrying amount of the finance lease receivable at June 30, 2017. As result, the Company wrote-down R$ 818 as other income and expenses in the second quarter of 2017.

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In addition, on August 9, 2017, measures were adopted to obtain possession of this drilling rig, which effectively occurred on August 16, 2017. As a result of this matter, in the third quarter of 2017 the Company added R$ 76 to the allowance for impairment due to additions to the finance lease receivable and contractual fine, as well as derecognized the finance lease receivable and recognized the drilling rig as equipment within property, plant and equipment in the amount of R$ 1,224.

8.4. Trade receivables – electricity sector (isolated electricity system in the northern region of Brazil)

Consolidated

	12.31.2016	Sales	Amounts received	Transfers (*)	Write-offs	Allowance for impairment, net of reversals	Inflation indexation	12.31.2017
Related parties (Eletrobras Group)								
Eletrobras Distribuição Amazonas - AME-D	8,065	789	(1,752)	1,300		(889)	967	8,480
Centrais Elétricas de Rondônia - CERON	1,201	–	(68)	–		–	111	1,244
Others	313	151	(160)	–	(55)	80	37	366
Subtotal	9,579	940	(1,980)	1,300	(55)	(809)	1,115	10,090
Third parties								
Cia de Gás do Amazonas - Cigás	468	2,533	(1,251)	(1,300)		(8)	25	467
Centrais Elétricas do Pará - Celpa	–	336	(413)		(25)	111	–	9
Others	15	670	(627)		(61)	25	6	28
Subtotal	483	3,539	(2,291)	(1,300)	(86)	128	31	504
Trade receivables, net	10,062	4,479	(4,271)	–	(141)	(681)	1,146	10,594
Trade receivables - Eletrobras Group	16,042	940	(1,980)	1,300	(55)		1,115	17,362
(-) Allowance for impairment	(6,463)					(809)		(7,272)
Subtotal	9,579	940	(1,980)	1,300	(55)	(809)	1,115	10,090
Trade receivables - Third parties	1,683	3,539	(2,291)	(1,300)	(86)		31	1,576
(-) Allowance for impairment	(1,200)	–	–		–	128	–	(1,072)
Subtotal	483	3,539	(2,291)	(1,300)	(86)	128	31	504
Trade receivables - Total	17,725	4,479	(4,271)	–	(141)	–	1,146	18,938

(-) Allowance for impairment	(7,663)	–	–	–	–	(681)	–	(8,344)
Trade receivables, net	10,062	4,479	(4,271)	–	(141)	(681)	1,146	10,594

(*) Transfer of overdue receivables from Cigás to AME-D, pursuant to the purchase and sale agreement of natural gas (upstream and downstream) entered into by Petrobras, Cigás and AME-D.

The Company supplies fuel oil, natural gas, and other products to entities that operate in the city of Manaus and in the isolated electricity system in the northern region of Brazil, such as thermoelectric power plants controlled by Eletrobras, state-owned natural gas distribution companies and independent electricity producers (Produtores Independentes de Energia – PIE). The isolated electricity system provides the public service of electricity distribution in the northern region of Brazil, as the Brazilian National Interconnected Power Grid (Sistema Interligado Nacional) has not yet met the demand for electricity.

The total cost of power generation to Manaus and the isolated electricity system includes the costs to products supplied by the Company. Local consumers partially cover these costs based on a threshold comprising the average cost of the energy and potency traded in the Regulated Procurement Environment (Ambiente de Contratação Regulada – ACR). Most of the funds for the payment for these costs comes from the Fuel Consumption Account (Conta de Consumo de Combustível – CCC), a component of the Brazilian Energy Development Account (Conta de Desenvolvimento Energético CDE).

The regulation of CCC and CDE underwent some changes in the last few years, notably the ones arising from Provisional Measure 579/2012, signed into Law No. 12,783/2013, and to Provisional Measure 735/2016, signed into Law No. 13,360/2016.

These changes, along with supervision procedures carried out run by the Brazilian National Electricity Agency (Agência Nacional de Energia Elétrica - ANEEL) over these accounts and its beneficiaries (power plants controlled by Eletrobras) caused instability and decrease in amount of funds transferred from CCC since 2013, which increased the default rate of those customers to the Company, notably relating to Eletrobras Distribuição Amazonas (AME-D).

The Company intensified negotiations with the state-owned natural gas distribution companies, the independent electricity producers (PIEs), other private companies and entities controlled by Eletrobras. As a result, on December 31, 2014, the Company entered into debt acknowledgement agreements with subsidiaries of Eletrobras with respect to the balance of its receivables as of November 30, 2014. Eletrobras acknowledged it owed R$ 8,601 to the Company, of which R$ 7,380 were collateralized by payables from the CDE to the CCC. This amount has been adjusted by the Selic interest rate (Brazilian short-term interest rate) on a monthly basis and the first of 120 monthly installments was paid in February 2015.

The contractual amortization clauses in the debt acknowledgement agreements establish the payment of 15% of the amount of renegotiated debt within 36 months and the remaining 85% to be paid in 84 installments beginning in January 2018. Therefore, the Company expects the balance of trade receivables from the electricity sector will decrease from 2018 onwards, which did not happen until December 31, 2017 due to the characteristics of its initial amortizations along with its indexation. Despite some periodic delays, these payments have continued.

Considering the restructuring of the electricity sector and the expected effects arising from the Normative Instruction 679/2015 enacted by ANEEL, the Company expected a decrease on these defaults rates, which actually had not occurred.

Accordingly, the Company has adopted measures to reduce the default rate, mainly:

- Judicial collection of overdue receivables from companies of Eletrobras Group, with respect to fuel oil, natural gas and other liquid fuels;
- Suspension of fuels supply on credit;
- Register of entities controlled by Eletrobras as delinquent companies in the Brazilian public sector records of overdue receivables; and
- Register of AME as a delinquent company in ANEEL records from April 2016 to May 2017. In May 2017, ANEEL canceled this registration alleging fuel purchases are non intra sector debt. The Company appealed the ANEEL decision.

In 2017, the Company accounted for allowances for impairment of trade receivables, net of reversals, totaling R$ 681 (R$ 1,242 in 2016) primarily due to partial defaults relating to supplies of natural gas, partially offset by overdue receivables paid by CELPA.

Moreover, the Company has negotiated with Eletrobras the settlement of the receivables relating to Eletrobras Group. The Company is assessing the provisions approved at Eletrobras' Shareholder's General Meeting, held on February 8, 2018, primarily the segregation of operating segments and the privatization of companies controlled by Eletrobras.

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9. Inventories

	Consolidated		Parent Company	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Crude oil	12,065	11,485	10,197	9,961
Oil products	9,309	8,634	7,347	7,091
Intermediate products	2,027	2,281	2,027	2,281
Natural gas and LNG (*)	222	435	66	310
Biofuels	572	686	64	74
Fertilizers	83	85	80	66
Total products	24,278	23,606	19,781	19,783
Materials, supplies and others	3,803	4,053	3,384	3,755
Total	28,081	27,659	23,165	23,538
Current	28,081	27,622	23,165	23,500
Non-current	–	37	–	38

(*) LNG - Liquefied Natural Gas

The amount of inventories is presented net of R$ 4 reducing inventories to net realizable value (R$ 92 as of December 31, 2016), primarily due to changes in international prices of crude oil and oil products. In 2017, the Company recognized as cost of sales R$ 211 reducing inventories to net realizable value, net of reversals (R$ 1,320 in 2016).

At December 31, 2017, the Company had pledged crude oil and oil products volumes as collateral for the Terms of Financial Commitment (TFC) signed by Petrobras and Petros in 2008, in the amount of R$ 13,454 (R$ 6,449 at December 31, 2016), as set out in note 22. In the third quarter of 2017, the amount of collateral was revised and updated in order to reflect the increase in commitments undertaken under TCF.

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10. Disposal of Assets and other changes in organizational structure

The Company has an active partnership and divestment program which takes into account opportunities for divestments in several areas in which it operates. The divestment portfolio is dynamic, meaning that market conditions, legal matters and negotiations may affect the Company's evaluation of ongoing and potential transactions. This program is an essential initiative in the Company's 2018-2022 Business and Management Plan (2018-2022 BMP) which, along with other initiatives, will enable the Company to reduce and improve its indebtedness and debt profile, respectively. For the period 2017-2018, the target of proceeds from divestments is US$ 21 billion.

On December 7, 2016, the Brazilian Federal Auditor's Office (Tribunal de Contas da União – TCU) filed a civil action prohibiting the Company from commencing additional divestment projects and entering into sales agreements, except for transactions in their final stages at that time.

After the TCU's assessment of the divestments decision-making methodology and the Company's review of its divestment policies, the TCU's civil action was dismissed, allowing the partnership and divestment program to continue based on the Company's revised methodology.

Accordingly, the Company's Executive Board approved the new divestment portfolio on March 30, 2017, consisting of projects that follow the revised divestment methodology in compliance with the TCU's decision.

10.1. Disposal of assets

Disposal of distribution assets in Chile

On July 22, 2016, the Company signed a sale and purchase agreement with the Southern Cross Group for the sale of 100% of Petrobras Chile Distribución Ltda (PCD), a group entity from the distribution business segment, held through Petrobras Caribe Ltda.

This transaction was concluded on January 4, 2017 and the net proceeds from this sale were US$ 470 million, of which US$ 90 million was received via distribution of dividends after taxes on December 9, 2016 and the remaining US$ 380 million was paid by Southern Cross Group at the transaction closing. Accordingly, the Company recognized a gain of R$ 2 as other income and expenses, in the first quarter of 2017, taking into account the impairment of R$ 266 at December 31, 2016.

In addition, a R$ 248 loss was recycled from shareholders' equity to other income and expenses within the income statement, reflecting the reclassification of cumulative translation adjustments resulting from the depreciation of the Chilean Peso against the U.S. Dollar from the time of the acquisition of this investment to its disposal (see note 23.4).

Disposal of interest in Nova Transportadora do Sudeste (NTS) and related changes in organizational structure

On September 22, 2016, the Company's Board of Directors approved the sale of a 90% interest in Nova Transportadora do Sudeste - NTS, a group entity from the gas and power business segment, to Brookfield Infrastructure Partners (BIP) and its affiliates, through a Private Equity Investment Fund (FIP) whose other shareholders are British Columbia Investment Management Corporation (BCIMC), CIC Capital Corporation (wholly-owned subsidiary of China Investment Corporation - CIC) and GIC Private Limited (GIC). The disposal occurred after a corporate restructuring intended to concentrate the transportation assets of the southeastern region in NTS.

The corporate restructuring of NTS comprised an increase in its share capital in the amount of R$ 2,310, through net assets of the Company's subsidiary Transportadora Associada de Gás S.A. – TAG. Subsequently TAG had a reduction in its share capital, in the amount of its investment in NTS (R$ 2,600), which was transferred to Petrobras. This restructuring maintained the same terms of the Firm Gas Transportation Agreements associated to the assets involved on the transaction.

On April 4, 2017, after performing all conditions precedent and adjustments provided for in the purchase and sale agreement, this transaction was completed in the amount of US$ 5.08 billion upon the payment of US$ 4.23 billion on this date, made up of: US$ 2.59 billion from the sale of shares, of which US$ 109 million was allocated to an escrow account pledged as collateral for charges associated with the repair of pipelines; and US$ 1.64 billion relates to the issuance of convertible debentures by NTS, maturing in 10 years, as a replacement of the debt to PGT. The remaining balance (US$ 850 million, also relating to the sale of shares) will be paid in the fifth year, bearing annual interests at a fixed rate, as established in the purchase and sale agreement.

At the transaction closing, the Company recognized a gain on this transaction in the amount of R$ 6,977 accounted for as other income and expenses, which includes a R$ 698 gain on the remeasurement at fair value of the remaining 10% interest in NTS.

On October 10, 2017, the final price adjustment was settled, in the amount of R$ 63, totaling a gain of R$ 7,040 on this transaction.

Disposal of Guarani

On December 28, 2016, the Company's wholly-owned subsidiary Petrobras Biocombustível S.A. (PBIO), in the biofuels business segment, disposed of its interests in the associate Guarani S.A. (45.97% of share capital) to Tereos Participations SAS, an entity of the French group Tereos.

On February 3, 2017, this transaction was concluded pursuant to the payment of US$ 203 million, after all conditions precedent were performed by Tereos Participations S.A. In, 2016, impairment losses amounting to R$ 578 were accounted for as results in equity-accounted investments with respect to Guarani.

Additionally, a gain of R$ 132 was recycled from shareholders' equity to other income and expenses within the income statement, reflecting the reclassification of cumulative translation adjustment resulting from the appreciation of Mozambican Metical against the Brazilian Real from the acquisition of this investment to its disposal (see note 23.4). This gain was partially offset by a R$ 69 loss also recycled from shareholders' equity to other income and expenses, reflecting cumulative losses relating to cash flow hedge accounting.

Disposal of Liquigás

On November 17, 2016 the Company's Board of Directors approved the disposal of its wholly-owned subsidiary Liquigás Distribuidora S.A, a group entity from the RT&M business segment (Refining, Transportation and Marketing), to Companhia Ultragaz S.A., a subsidiary of Ultrapar Participações S.A. In January 2017, this sale was approved at Ultrapar's and Petrobras' Shareholders' Meetings in the amount of R$ 2,666.

According to an official statement released by the General Superintendence of CADE (SG) on June 30, 2017, additional diligence was required in order to make a decision regarding on market concentration aspects of this sale. On August 28, 2017, the SG reported some concerns about market concentration that may result from this transaction and submitted its opinion to the CADE court.

Based on pending conditions precedent to the transaction, including CADE approval, the related assets and liabilities remained classified as held for sale as of December 31, 2017.

On February 28, 2018, the CADE court ruled on this matter and dismissed this sale. This decision is object to a termination clause within the sales and purchase agreement that provides for compensation to the Company, received on March 13, 2018, amounting to R$ 286.

Disposal of Suape and Citepe petrochemical plants

On December 28, 2016, the Company's Board of Directors approved the disposal of the interests in the wholly-owned subsidiaries Companhia Petroquímica de Pernambuco (PetroquímicaSuape) and Companhia Integrada Têxtil de

Pernambuco (Citepe), both from the RT&M business segment, to Grupo Petrotemex S.A. de C.V. and to Dak Americas Exterior, S.L., both subsidiaries of Alpek, S.A.B. de C.V., which is a company from Grupo Alfa S.A.B. de C.V. (a Mexican public company), in the amount of US$ 385 million, which will be fully disbursed at the transaction closing. This amount remains subject to adjustments relating to working capital, net debt and recoverable taxes.

On February 21, 2017, the transaction was approved at the Grupo Alfa's Board of Directors Meeting and, on March 27, 2017, at Petrobras' Shareholders' Meeting.

According to an official statement released by the General Superintendence of CADE (SG) on October 10, 2017, additional diligence was required in order to conclude on market concentration aspects of this sale. On December 15, 2017, the SG concluded its opinion, recommending to the CADE Court the approval of this transaction subject to the execution of an Agreement on Concentration of Control (Acordo de Controle de Concentração – ACC).

Due to some customary conditions precedent to its closing, including the CADE approval, the related assets and liabilities remained classified as held for sale at December 31, 2017.

On February 7, 2018, the CADE approved this transaction, however, other customary conditions precedent are still pending to date.

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Strategic alliance with Total

On December 21, 2016, the Company entered into a master agreement with Total, in connection with the Strategic Alliance established in the Memorandum of Understanding signed on October 24, 2016. Accordingly, certain E&P assets were classified as held for sale at December 31, 2016 due to the share of interests established in this agreement, as described below:

- Transfer of the Company's 22.5% stake in the concession area named as Iara, comprising Sururu, Berbigão and West of Atapu fields, which are subject to unitization agreements with Entorno de Iara (an area under the Assignment Agreement in which the Company holds 100% and is located in the Block BM-S-11). The Company will continue to operate the block;
- Transfer of the Company's 35% stake in the concession area of Lapa field, located in the Block BM-S-9. Total will also become the operator and the Company will retain a 10% interest in this area; and
- Transfer of the Company's 50% interests in Termobahia S.A, including the power plants Celso Furtado and Rômulo Almeida. In 2016, the Company recognized an impairment loss on this transaction in the amount of R$ 156.

On February 28, 2017, the Company and Total signed purchase and sale agreements with respect to the aforementioned assets. Total will pay to the Company the amount of US$ 1,675 million in cash for assets and services, subject to price adjustments, as well as contingent payments in the amount of US$ 150 million, associated with the production volume in Lapa field. In addition, a long-term line of credit in the amount of US$ 400 million will be provided by Total, which may be used to fund the Company's investments in the Iara fields.

The aforementioned agreements supplement the ones already executed on December 21, 2016, such as: (i) the Company's preemptive right to purchase a 20% interest in block 2 of the Perdido Foldbelt area, in the Mexican sector of the Gulf of Mexico, (ii) the joint exploration studies in the exploratory areas of Equatorial Margin and in Santos Basin; and (iii) the Technological partnership agreement in the areas of digital petrophysics, geological processing and subsea production systems.

At December 31, 2017, these transactions were still subject to approval by the relevant authorities, the potential exercise of preemptive rights by current Iara partners, and other customary conditions precedent. Accordingly, the related assets and liabilities were classified as held for sale at December 31, 2017.

On January 15, 2018, Petrobras and Total closed the aforementioned transfers of interests of Iara and Lapa fields, after performing all conditions precedent to this transaction.

This transaction totaled US$ 1.95 billion, including price adjustments, but not including the long-term line of credit and the contingent payments.

The closing of the power plants deal is still subject to approval by the relevant authorities and other customary conditions precedent.

Initial public offering (IPO) of Petrobras Distribuidora (BR)

On July 11, 2017, the Company's Board of Directors approved an IPO of its subsidiary Petrobras Distribuidora (BR) through a secondary public offering of common shares, aiming at joining the market tier in the Brazilian stock exchange that requires the highest level of corporate governance, so named New Market (Novo Mercado).

Accordingly, on September 5, 2017, the Extraordinary General Shareholder's Meeting of BR approved the changes in its bylaws taking into account relevant rules governing the requirements needed to join the New Market tier (Law 13,303/2016 and Decree 8,945/2016).

On December 14, 2017, the Brazilian Securities and Exchange Commission (CVM) accepted the registration of the public offering of secondary distribution of common shares for Petrobras Distribuidora (BR), held the following day in Brazil, in the non-organized over-the-counter market, pursuant to applicable rules.

The Final Prospectus of the Offering reported the sale of 291,250,000 common shares ("Base Lot") at the price of R$ 15.00 per share. This offering was increased by an additional lot of 43,687,500 shares, as allowed for in the Final Prospectus, under the same conditions and at the same price of issue as initially offered ("Additional Lot").

The offering was closed on December 22, 2017, with a total distribution of 334,937,500 shares, in the total amount of R$ 5,024, representing a 28.75% stake of BR equity. Considering the book value of the investment, in the proportion of the disposed shares, and the transaction costs, the final gain totaled R$ 2,399, R$ 1,597 net of tax, accounted for in equity within additional paid in capital, since the Company keeps the control of BR, as set out in note 23.2.

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	Base Lot	Additional Lot	Total
% of disposed stake	25.00%	3.75%	28.75%
Number of shares	291,250,000	43,687,500	334,937,500
Offering price of common shares (in U.S. dollars)	15.00	15.00	15.00
Value of the offering	4,368	655	5,023
Book value of the disposed shares	(2,180)	(327)	(2,507)
Transaction costs	(102)	(15)	(117)
Gain accounted for in equity	2,086	313	2,399

Sale of Azulão field

On November 22, 2017, the Company entered into an agreement with Parnaíba Gás Natural S.A., a subsidiary of Eneva S.A, concerning the assignment of its entire participation in the Azulão Field (Concession BA-3), located in the state of Amazonas. The total amount of the operation is US$ 54.5 million and will be paid at the transaction closing.

The completion of this deal is subject to the fulfillment of usual conditions precedent, including approval by ANP. Accordingly, the related assets and liabilities were classified as held for sale at December 31, 2017.

Strategic alliance with Statoil

On December 18, 2017, the Company entered into agreements with the Norwegian company Statoil relating to the assets of the strategic partnership, in continuity with the Heads of Agreement ("HoA") signed and disclosed on September 29, 2017. The main signed contracts are:

(i) Strategic Alliance Agreement ("SAA") - agreement describing all documents related to the strategic partnership, covering all negotiated initiatives.

(ii) Sale and Purchase Agreement ("SPA") - sale of 25% of Petrobras' interest in the Roncador field to Statoil.

(iii) Strategic Technical Alliance Agreement ("STAA") - strategic agreement for technical cooperation aiming at maximizing the value of the asset and focusing on increasing the recoverable oil volume (recovery factor), including the extension of the useful life of the field;

(iv) Gas Term Sheet - Statoil may hire a certain processing capacity of natural gas at the Cabiúnas Terminal (TECAB) for the development of the BM-C-33 area, where the companies already are partners and Statoil is the operator.

The strategic alliance, among other goals, aims at applying the Statoil's expertise in mature fields in the North Sea towards increasing the recovery factor of Roncador field. Accordingly, the parties signed the STAA for technical cooperation and the joint development of projects.

The SPA has a total amount of US$ 2.9 billion, made up of US$ 117.5 million paid at the signature date of the agreement, contingent payments relating to investments in projects to increase the recovery factor of the field, limited to US$ 550 million, and the remaining amount will be paid at the transaction closing. Accordingly, the related assets and liabilities remained classified as held for sale at December 31, 2017 and, as a result, an impairment charge was recognized, as set out in note 14.1.

On March 13, 2018, the CADE approved this transaction. However, its closing still depends on the fulfillment of other conditions precedent, such as the approval of ANP.

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10.2. Assets classified as held for sale

The major classes of assets and liabilities classified as held for sale are shown in the following table:

	Consolidated 12.31.2017					12.31.2016
	E&P	Distribution	RT&M	Gas & Power	Total	Total
Assets classified as held for sale						
Cash and Cash Equivalents	–	–	26	–	26	355
Trade receivables	4	–	536	–	540	667
Inventories	–	–	423	–	423	560
Investments	–	–	17	–	17	1,233
Property, plant and equipment	14,301	2	944	315	15,562	14,409
Others	–	–	1,024	–	1,024	1,445
Total	14,305	2	2,970	315	17,592	18,669
Liabilities on assets classified as held for sale						
Trade Payables	95	–	239	–	334	440
Finance debt	–	–	–	–	–	45
Provision for decommissioning costs	563	–	–	–	563	170
Others	–	–	398	–	398	950
Total	658	–	637	–	1,295	1,605

At December 31, 2017, the amounts mainly refer to assets and liabilities transferred following the approvals of the disposal of Liquigás, Petroquímica Suape and Citepe, interests in the concession areas named as Iara and Lapa, as well as interests in the thermoelectric power generation plants Rômulo Almeida and Celso Furtado, 25% interest in Roncador field and 100% interest in Azulão field. At December 31, 2016, the amounts also comprise assets and liabilities transferred following the approvals of the disposals of NTS, Petrobras Chile Distribución Ltda (PCD), Guarani and Nova Fronteira.

10.3. Other changes in organizational structure

Corporate restructuring in Petrobras Distribuidora (BR)

In preparation for the IPO of BR, on August 25, 2017, the Company's Board of Directors approved the corporate restructuring of BR through the following transactions:

- On August 31, 2017, Petrobras Parent Company increased the share capital of BR by R$ 6,313, in order to prepay borrowings owned by BR and unconditionally guaranteed by Petrobras (note 11.2); and
- Partial split-off of BR into the wholly-owned subsidiary Downstream Participações Ltda. (“Downstream”). The split-off relates to the collateralized receivables held by BR resulting from debt acknowledgement agreement with the Eletrobras group and other receivables from other entities of Petrobras Group also held by BR, totaling the same amount of the aforementioned capital increase. These assets were incorporated by Downstream on August 31, 2017.

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Sale and merger of Nova Fronteira Bioenergia

On December 15, 2016, the Company's wholly-owned subsidiary PBIO (biofuels business segment) entered into an agreement with the São Martinho group to merge PBIO's interests in Nova Fronteira Bioenergia S.A. (49%) into São Martinho.

On February 23, 2017, São Martinho granted to PBIO additional 24 million of its common shares, corresponding to 6.593% of its total capital. These shares were accounted for as available-for-sale securities, as set out in note 7.

On December 27, 2017, the Extraordinary General Shareholder's Meeting of PBIO approved the sale of these shares through a block trade.

On February 16, 2018, PBIO disposed, through a public auction held in the Brazilian stock exchange, these 24 million of shares, at the share price of R$ 18.51. The settlement of the transaction occurred on February 21, 2018, closing the complete disposal of PBIO's interests in São Martinho's capital.

Incorporation of Downstream

On November 7, 2017, Extraordinary General Meeting of Petrobras approved the incorporation of Downstream Participações Ltda ("Downstream") in Petrobras Parent Company, without share capital increase.

10.4. Cash flows from sales of interest with loss of control

As shown in note 10.1, among other transactions in the scope of the Divestment and Venture Plan, in 2017 the Company disposed of its interest in certain subsidiaries over which control was lost. The following table summarizes cash flows arising from losing control in subsidiaries:

	Cash received	Cash in subsidiary before losing control	Net Proceeds
NTS	7,917	(282)	7,635
Petrobras Chile Distribución	1,556	(328)	1,228
Total	9,473	(610)	8,863

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11. Investments

11.1. Information about direct subsidiaries, joint arrangements and associates (Parent Company)

	Main business segment	% Petrobras' ownership	% Petrobras' voting rights	Shareholders' equity (deficit)	Net income (loss) for the year	Country
Consolidated entities						
Subsidiaries						
Petrobras Netherlands B.V. - PNBV (i)	E&P	100.00	100.00	89,713	8,202	Netherlands
Petrobras Distribuidora S.A. - BR	Distribution	71.25	71.25	8,826	1,151	Brazil
Petrobras International Braspetro - PIB BV (i) (ii)	Several segments (iii)	100.00	100.00	27,116	(5,429)	Netherlands
Petrobras Transporte S.A. - Transpetro	RT&M	100.00	100.00	4,227	121	Brazil
Petrobras Logística de Exploração e Produção S.A. - PB-LOG	E&P	100.00	100.00	3,934	789	Brazil
Transportadora Associada de Gás S.A. - TAG	Gas & Power	100.00	100.00	12,457	2,334	Brazil
Petrobras Gás S.A. - Gaspetro	Gas & Power	51.00	51.00	1,953	257	Brazil
Petrobras Biocombustível S.A.	Biofuels	100.00	100.00	1,490	159	Brazil
Petrobras Logística de Gás - Logigás	Gas & Power	100.00	100.00	621	312	Brazil
Liquigás Distribuidora S.A.	RT&M	100.00	100.00	971	106	Brazil
Araucária Nitrogenados S.A.	Gas & Power	100.00	100.00	175	(485)	Brazil
Termomacaé Ltda.	Gas & Power	100.00	100.00	86	(600)	Brazil
Braspetro Oil Services Company - Brasoil (i)	Corporate	100.00	100.00	581	29	Cayman Islands
Breitener Energética S.A.	Gas & Power	93.66	93.66	726	45	Brazil
Companhia Integrada Têxtil de Pernambuco S.A. - CITEPE	RT&M	100.00	100.00	269	(177)	Brazil
Termobahia S.A.	Gas & Power	98.85	98.85	614	61	Brazil
Companhia Petroquímica de Pernambuco S.A. - PetroquímicaSuape	RT&M	100.00	100.00	(9)	(84)	Brazil
Baixada Santista Energia S.A.	Gas & Power	100.00	100.00	324	96	Brazil
Petrobras Comercializadora de Energia Ltda. - PBEN	Gas & Power	99.91	99.91	94	13	Brazil
Fundo de Investimento Imobiliário RB Logística - FII	E&P	99.20	99.20	150	43	Brazil

Petrobras Negócios Eletrônicos S.A. - E-Petro	Corporate	100.00	100.00	37	3	Brazil
Termomacaé Comercializadora de Energia Ltda	Gas & Power	99.99	99.99	10	–	Brazil
5283 Participações Ltda.	Corporate	100.00	100.00	1	–	Brazil
PDET Offshore S.A.	Corporate	100.00	100.00	(169)	(171)	Brazil
Joint operations						
Fábrica Carioca de Catalizadores S.A. - FCC	RT&M	50.00	50.00	256	69	Brazil
Ibiritermo S.A.	Gas & Power	50.00	50.00	187	39	Brazil
Joint Ventures						
Logum Logística S.A.	RT&M	17.14	17.14	1,043	(150)	Brazil
Cia Energética Manauara S.A.	Gas & Power	40.00	40.00	129	7	Brazil
Petrocoque S.A. Indústria e Comércio	RT&M	50.00	50.00	184	60	Brazil
Refinaria de Petróleo Riograndense S.A.	RT&M	33.20	33.20	179	106	Brazil
Brasympe Energia S.A.	Gas & Power	20.00	20.00	84	5	Brazil
Brentech Energia S.A.	Gas & Power	30.00	30.00	87	2	Brazil
Metanol do Nordeste S.A. - Metanor	RT&M	34.54	34.54	28	5	Brazil
Eólica Mangue Seco 4 - Geradora e Comercializadora de Energia Elétrica S.A.	Gas & Power	49.00	49.00	44	5	Brazil
Eólica Mangue Seco 3 - Geradora e Comercializadora de Energia Elétrica S.A.	Gas & Power	49.00	49.00	42	4	Brazil
Eólica Mangue Seco 1 - Geradora e Comercializadora de Energia Elétrica S.A.	Gas & Power	49.00	49.00	40	3	Brazil
Eólica Mangue Seco 2 - Geradora e Comercializadora de Energia Elétrica S.A.	Gas & Power	51.00	51.00	39	3	Brazil
Companhia de Coque Calcinado de Petróleo S.A. - Coquepar	RT&M	45.00	45.00	(6)	(9)	Brazil
Participações em Complexos Bioenergéticos S.A. - PCBIOS	Biofuels	50.00	50.00	–	–	Brazil
Associates						
Sete Brasil Participações S.A. (iv)	E&P	5.00	5.00	(22,460)	(258)	Brazil
Fundo de Investimento em Participações de Sondas - FIP Sondas	E&P	4.59	4.59	(1)	(2)	Brazil
Braskem S.A. (v)	RT&M	36.20	47.03	7,779	3,697	Brazil
UEG Araucária Ltda.	Gas & Power	20.00	20.00	522	(50)	Brazil
Deten Química S.A.	RT&M	27.88	27.88	393	60	Brazil
Energética SUAPE II	Gas & Power	20.00	20.00	324	122	Brazil
	Gas & Power	20.00	20.00	109	1	Brazil

Termoelétrica Potiguar S.A. - TEP						
Nitroclor Ltda.	RT&M	38.80	38.80	1	–	Brazil
Bioenergética Britarumã S.A.	Gas & Power	30.00	30.00	–	–	Brazil
Nova Transportadora do Sudeste - NTS	Gas & Power	10.00	10.00	3,943	1,381	Brazil

(i) Companies abroad with financial statements prepared in foreign currency.
(ii) 5283 Participações Ltda holds a 0.0034% interest.
(iii) Cover segments abroad in E&P, RTM, Gas & Power and Distribution segments.
(iv) Despite the negative amount of net assets, allowance for losses was not recognized as the Company's obligations with Sete Brasil are limited to the investments made in this associate.
(v) Equity and net income at September 30, 2017, most recent information disclosed.

The main investees of PNBV are: Tupi BV (65%), Guará BV (45%), Agri Development BV (90%), Libra (40%), Papa Terra BV (62.5%). They are dedicated to construction and lease of equipment and platforms for Brazilian E&P consortiums and are incorporated under the law of The Netherlands. PNBV’s interests in these entities comprise the voting rights. In addition, Tupi BV and Guará BV have 100% interest in Iara BV and Lapa BV, respectively.

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The main investees of PIB BV are the wholly-owned subsidiaries Petrobras Global Trading B.V. – PGT, Petrobras Global Finance B.V. - PGF; Petrobras America Inc. – PAI. PGT is incorporated under the law of The Netherlands and is dedicated to the trade of oil, oil products, biofuels and LNG (liquefied natural gas), as well as to the funding of its activities in light of Petrobras Group. PGF also is incorporated under the law of The Netherlands and is the finance subsidiary of Petrobras Group, raising funds through bonds issued in the international market. PAI is incorporated under the law of United Sates and is dedicated to E&P and refining activities (Pasadena). In addition, Petrobras Oil & Gas B.V. – PO&G is a joint venture incorporated under the law of The Netherlands dedicated to E&P business in Africa, of which PIB BV has 50% stake.

Petrobras has a 51% stake of Gaspetro, which holds interests in several state distributors of natural gas in Brazil that carry out, by means of concessions, public service of distribution of piped natural gas.

11.2. Changes in investments (Parent Company)

	Balance at 12.31.2016	Investments	Restructuring, capital decrease and others	Results in equity-accounted investments (*)	Cumulative translation adjustments (CTA)	Other comprehensive results	Dividends	Balance at 12.31.2017
Subsidiaries								
PNBV	68,167	9,261	80	8,045	1,540	–	–	87,093
PIB BV	20,076	10,345	–	(5,525)	410	(16)	–	25,290
TAG	8,494	4,015	(842)	1,082	–	1,275	(1,677)	12,347
BR Distribuidora (see note 10.3)	7,294	6,313	(8,846)	1,019	–	401	(195)	5,986
Downstream	3,879	–	–	124	18	134	(53)	4,102
PB-LOG	3,348	–	–	649	–	–	(1,060)	2,937
PBIO	1,350	38	–	160	(132)	74	–	1,490
Logigás	1,190	–	(523)	312	–	3	(361)	621
Gaspetro	952	–	–	122	–	–	(80)	994
Termomacaé Ltda	705	–	–	(599)	–	–	(20)	86
Breitener	633	–	–	48	–	–	(3)	678
Araucária Nitrogenados	194	529	–	(556)	–	8	–	175
Downstream (see note 10.3)	3	–	(59)	56	–	–	–	–
Other subsidiaries	805	1	169	118	(1)	(11)	(41)	1,041
Joint operations	233	–	–	54	–	–	(64)	223
Joint ventures	314	210	3	(206)	–	4	(61)	264
Associates								
	–	–	1,150	138	–	–	(194)	1,094

Nova Transportadora do Sudeste - NTS (**)								
Other associates	3,535	–	(177)	1,507	19	410	(378)	4,916
	121,172	30,712	(9,045)	6,548	1,854	2,282	(4,187)	149,337
Other investments	19	–						19
Total investments	121,191	30,712	(9,045)	6,548	1,854	2,282	(4,187)	149,356
Provision for losses in subsidiaries				(86)				
Results in investees transferred to assets held for sale				251				
Results in equity-accounted investments and other comprehensive income				6,714				

(*) It Includes unrealized profits from transactions between companies.
(**) Remaining 10% stake in NTS (R$ 452), including remeasurement by fair value (R$ 698).

The investments were made, mainly, for debt repayments (PIB BV), investment projects (PNBV), BR Distribuidora restructuring as set out in note 10.3, and loan repayment to BNDES (TAG).

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11.3. Changes in investments in joint ventures and associates (Consolidated)

	Balance at 12.31.2016	Investments	Restructuring, capital decrease and others	Results in equity-accounted investments	Cumulative translation adjustments (CTA)	Other comprehensive income	Dividends	Balance at 12.31.2017
Joint Ventures								
Petrobras Oil & Gas B.V. - PO&G	4,654	–	–	425	63	–	(478)	4,664
State-controlled natural gas distributors	1,076	–	–	255	–	–	(191)	1,140
Compañia Mega S.A. - MEGA	115	–	–	81	4	–	(37)	163
Petrochemical joint ventures	83			26	–		(14)	95
Other joint ventures	337	322	(9)	(258)	–	5	(51)	346
Associates								–
Nova Transportadora do Sudeste - NTS	–	–	1,150	138			(194)	1,094
Petrochemical associates	3,464	–	(177)	1,478	19	410	(361)	4,833
Other associates	169	–	(10)	41	(7)	–	(35)	158
Other investments	50	13	(2)	–	–	–	–	61
Total	9,948	335	952	2,186	79	415	(1,361)	12,554
Results in investees transferred to assets held for sale				(37)				
Results in equity-accounted investments				2,149				

11.4. Investments in non- consolidated listed companies

	Thousand-share lot			Quoted stock exchange prices (R$ per share)		Market value	
Company	12.31.2017	12.31.2016	Type	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Associate							
Braskem S.A.	212,427	212,427	Common	43.50	29.99	9,241	6,371
Braskem S.A.	75,762	75,762	Preferred A	42.87	34.25	3,248	2,595
						12,489	8,966

Since July 2017, the Company has begun negotiations with Odebrecht S.A. to revise the terms and conditions of the Braskem S.A. Shareholder's Agreement, signed on February 8, 2010. This revision aims to improve Braskem's corporate governance and the corporate relationship between the parties, with the purpose of creating value for all Braskem shareholders. The negotiations are in still in their preliminary stages and they aim at a corporate restructuring with a unification of Braskem's shares classes.

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

The main estimates used in the cash flow projections to determine the value in use of Braskem are set out in Note 14 to the Financial Statements as of December 31, 2017.

11.5. Non-controlling interest

The total amount of non-controlling interest at December 31, 2017 is R$ 5,624 (R$ 2,513 in 2016), primarily comprising R$ 2,620 of Petrobras Distribuidora, R$ 957 of Gaspetro (R$ 917 in 2016), R$ 251 of TBG (R$ 213 in 2016), and R$ 940 refers to Consolidated Structured Entities (R$ 570 in 2016).

Condensed financial information is set out as follows:

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	Gaspetro		Structured entities(*)		TBG		BR Distribuidora
	2017	2016	2017	2016	2017	2016	2017
Current assets	263	269	2,407	2,429	463	1,073	10,703
Long-term receivables	246	275	3,658	5,452	2	2	6,754
Investments	1,343	1,279	–	–	–	–	35
Property, plant and equipment, net	3	3	–	277	1,964	2,087	5,816
Other noncurrent assets	295	304	–	–	11	9	453
	2,150	2,130	6,065	8,158	2,440	3,171	23,761
Current liabilities	78	150	749	1,657	821	1,284	4,413
Non-current liabilities	119	109	4,374	5,931	1,107	1,228	10,523
Shareholders' equity	1,953	1,871	942	570	512	659	8,825
	2,150	2,130	6,065	8,158	2,440	3,171	23,761
Sales revenues	356	334	–	–	1,332	1,476	84,567
Net Income for the year	238	252	338	1,002	542	847	1,151
Net change in cash and cash equivalents	48	3	181	40	228	652	(172)

(*) Comprises Charter Development LLC - CDC and Companhia de Desenvolvimento e Modernização de Plantas Industriais - CDMPI S.A. At December 31, 2016 also includes PDET Offshore S.A., which became a subsidiary in 2017.

Petrobras Distribuidora (BR) is a company which has as its corporate purpose the distribution, transportation, trade and industrialization of oil products, other fuels and several forms of energy, and is controlled by Petrobras, which holds a 71.25% interest. See note 10.1 for information on the public offering of BR in December 2017.

TBG is an indirect subsidiary which operates in natural gas transmission activities mainly through Bolivia-Brazil Gas Pipeline. The Company holds 51% of interests in this indirect subsidiary.

11.6. 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:

	2017				2016			
	Joint ventures			Associates	Joint ventures			Associates
			Other companies				Other companies	
	In Brazil	PO&G	abroad	In Brazil	In Brazil	PO&G	abroad	In Brazil
Current assets	3,104	2,068	237	18,952	3,311	2,722	497	16,992
Non-current assets	1,659	236	4	4,810	1,818	115	67	5,369

Property, plant and equipment, net	2,968	12,261	25	30,904	2,826	10,767	60	30,452
Other non-current assets	2,397	1	–	3,240	2,346	4	–	3,121
	10,128	14,566	266	57,906	10,301	13,608	624	55,934
Current liabilities	3,324	914	96	19,758	3,997	1,273	273	14,002
Non-current liabilities	2,114	7,268	2	53,498	1,627	5,928	3	60,663
Shareholders' equity	4,690	6,384	168	(14,522)	4,677	6,407	348	(15,609)
Non-controlling interest	–	–	–	(828)	–	–	–	(3,122)
	10,128	14,566	266	57,906	10,301	13,608	624	55,934
Sales revenues	10,244	1,780	463	50,421	9,411	2,688	1,156	49,407
Net Income (loss) for the year	510	869	83	4,274	647	219	237	(4,510)
Ownership interest - %	20 to 83%	50%	34% to 50%	5% to 49%	20 to 83%	50%	34% to 50%	5% to 49%

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12. Property, plant and equipment

12.1. By class of assets

	Consolidated					Parent Company
	Land, buildings and improvement	Equipment and other assets (*)	Assets under construction (**)	Exploration and development costs (oil and gas producing properties) (***)	Total	Total
Balance at January 1, 2016	23,821	288,539	146,861	170,610	629,831	442,439
Additions	361	3,223	41,337	720	45,641	33,657
Additions to / review of estimates of decommissioning costs	–	–	–	3,113	3,113	2,868
Capitalized borrowing costs	–	–	5,982	–	5,982	4,470
Write-offs	(210)	(465)	(4,689)	(153)	(5,517)	(5,210)
Transfers (****)	1,479	16,645	(55,069)	20,570	(16,375)	(5,516)
Depreciation, amortization and depletion	(1,479)	(26,102)	–	(20,422)	(48,003)	(36,742)
Impairment recognition	(1,036)	(12,652)	(1,510)	(6,357)	(21,555)	(13,709)
Impairment reversal	–	2,511	–	584	3,095	2,514
Cumulative translation adjustment	(180)	(15,128)	(7,210)	(1,818)	(24,336)	–
Balance at December 31, 2016	22,756	256,571	125,702	166,847	571,876	424,771
Cost	32,589	415,663	125,702	262,886	836,840	624,946
Accumulated depreciation, amortization and depletion	(9,833)	(159,092)	–	(96,039)	(264,964)	(200,175)
Balance at December 31, 2016	22,756	256,571	125,702	166,847	571,876	424,771
Additions	6	3,720	35,232	98	39,056	26,930
Additions to / review of estimates of decommissioning costs	–	–	–	14,617	14,617	14,366
Capitalized borrowing costs	–	–	6,299	–	6,299	4,593
Write-offs	(47)	(19)	(1,745)	(113)	(1,924)	(1,708)
Transfers (****)	1,007	10,406	(24,259)	9,766	(3,080)	546

Depreciation, amortization and depletion	(1,393)	(23,383)	–	(17,115)	(41,891)	(31,793)
Impairment recognition	(470)	(3,041)	(1,842)	(2,895)	(8,248)	(6,516)
Impairment reversal	169	2,698	536	2,247	5,650	4,347
Cumulative translation adjustment	20	1,156	733	93	2,002	–
Balance at December 31, 2017	22,048	248,108	140,656	173,545	584,357	435,536
Cost	32,795	425,419	140,656	286,112	884,982	664,479
Accumulated depreciation, amortization and depletion	(10,747)	(177,311)	–	(112,567)	(300,625)	(228,943)
Balance at December 31, 2017	22,048	248,108	140,656	173,545	584,357	435,536
Weighted average of useful life in years	40 (25 to 50) (except land)	20 (3 to 31)		Units of production method		

(*) It is composed of platforms, refineries, thermoelectric power plants, natural gas processing plants, pipelines, rights of use and other operating, storage and production plants, also including exploration and production assets depreciated based on the units of production method.
(**) See note 29 for assets under construction by business area.
(***) It includes exploration and production assets depreciated based on the units of production method.
(****) In 2017, it includes R$ 11,687 (R$ 20,433 in 2016) transferred to assets held for sale, in the consolidated, and R$ 5,968 (R$ 2,538 in 2016), in the Parent Company.

In 2017, additions to property, plant and equipment primarily relate to E&P projects in pre-salt fields of Santos basin, such as Búzios, Lula and Atapu as well as Libra block. The Company also made investments aiming at maintaining the production in mature fields and at improving operational efficiency of the production, especially in Campos basin, and in projects relating to the infrastructure for transporting and processing natural gas from the pre-salt layer in the Santos Basin (Route 1, 2 and 3).

Moreover, important platforms started operating in 2017, such as the FPSOs Libra Pioneer, in Mero field, and P-66, in South of Lula field, as well as the interconnection of new wells to FPSOs Cidade de Saquarema, Cidade de Maricá and Cidade de Itaguaí, in pre-salt fields of Santos basin.

In addition to the capital commitments previously reported and in line with the investments foreseen in the Strategic Plan and the 2017-2021 Business and Management Plan, in 2017, the Company entered into agreements for the acquisition and construction of property, plant and equipment, especially the contract for the conclusion of the hull conversion of FPSO P-76, in the amount of R$ 1,644, and the contract for the supply of flexible pipelines for the production, gas lifting and water injection in many pre-salt projects, in the total amount of R$ 1,970, expiring in March 2018 and May 2022, respectively.

At December 31, 2017, consolidated and Parent Company property, plant and equipment include assets under finance leases of R$ 390 and R$ 5,969, respectively (R$ 407 and R$ 6,004 at December 31, 2016).

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12.2. Estimated useful life – Consolidated

	Buildings and improvements, equipment and other assets		
Estimated useful life	Cost	Accumulated depreciation	Balance at 12.31.2017
5 years or less	13,287	(9,583)	3,704
6 - 10 years	38,347	(22,629)	15,718
11 - 15 years	4,561	(2,343)	2,218
16 - 20 years	128,882	(48,167)	80,715
21 - 25 years	62,451	(20,304)	42,147
25 - 30 years	46,258	(12,887)	33,371
30 years or more	79,492	(21,951)	57,541
Units of production method	83,783	(50,194)	33,589
	457,061	(188,058)	269,003
Buildings and improvements	31,642	(10,747)	20,895
Equipment and other assets	425,419	(177,311)	248,108

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

Petrobras and the Brazilian Federal Government entered into the Assignment Agreement in 2010, which grants the Company the right to carry out prospecting and drilling activities for oil, natural gas and other liquid hydrocarbons located in the pre-salt area, subject to a maximum production of five billion barrels of oil equivalent. The agreement has a term of forty years and is renewable for a further five years subject to certain conditions. As of December 31, 2017, the Company’s property, plant and equipment include the amount of R$ 74,808 related to the Assignment Agreement.

Petrobras has already declared commerciality in fields of all six blocks under this agreement: Franco (Búzios), Florim (Itapu), Nordeste de Tupi (Sépia), Entorno de Iara (Norte de Berbigão, Sul de Berbigão, Norte de Sururu, Sul de Sururu, Atapu), Sul de Guará (Sul de Sapinhoá) and Sul de Tupi (Sul de Lula).

The agreement establishes that its review procedures will commence immediately after the declaration of commerciality for each area and must be based on reports by independent experts engaged by Petrobras and the ANP.

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

The information gathered after drilling over 50 exploratory wells and performing extended well tests in this area, as well as the extensive knowledge acquired on the pre-salt layer of Santos Basin, made possible the identification of volumes exceeding five million barrels of oil equivalent.

The formal review procedures for each block are based on costs incurred over the exploration phase, and estimated costs and production for the development period. The review of the Assignment Agreement may result in renegotiation of: (i) the amount of the agreement; (ii) the total volume (in barrels of oil) to be produced; (iii) the term of the agreement; and (iv) the minimum percentages of local content.

In November 2017, the Company set up an internal commission responsible for the negotiation with the Brazilian Federal Government, composed of representatives of the Chief Exploration and Production Officer and the Chief Financial Officer.

In January 2018, the Brazilian Federal Government established, through the Interministerial Ordinance No. 15/2018, the Interministerial Commission responsible to negotiate and conclude the terms of this review, within 60 days, extendable for the same period.

The negotiations are ongoing and have taken into account appraisals by independent experts engaged by both parties and their respective reports. As at the date of issue of these financial statements, the final amount to be established for this agreement is not defined.

The Company considers that this surplus provides an opportunity to enter into an agreement concerning the compensation to the Company arising from this review. Therefore, aiming to support an eventual negotiation where this compensation would be paid through the right over exceeding volume, the Company is complementing its assessment based on reports issued by the independent experts it has engaged.

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This review process of the Assignment Agreement has been monitored by the Minority Shareholders Committee, which is composed of two board members elected by the minority shareholders and by a third independent member with knowledge in technical-financial analysis of investment projects. This Committee will provide support to the board's decisions through opinions about related matters.

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

In 2017 the following oil and gas fields were returned to ANP: Mosquito, Siri and Saíra. These fields were returned to ANP mainly due to their economic feasibility. However, due to impairment losses recorded for these assets in prior years, these write-offs amounted to R$ 240 thousand.

In 2016 the following oil and gas fields were returned to ANP: Tiziu, Japuaçu, Rio Joanes, part of Golfinho and part of Tambuatá. These fields were returned to ANP mainly due to their uneconomic feasibility and, as a consequence, the Company wrote off the amount of R$ 12 as other income and expenses, in addition to impairments recognized in prior years.

13. Intangible assets

13.1. By class of assets

	Consolidated					Parent Company
		Software				
	Rights and Concessions	Acquired	Developed in-house	Goodwill	Total	Total
Balance at January 1, 2016	9,516	308	1,131	1,117	12,072	9,133
Addition	39	53	204	–	296	208
Capitalized borrowing costs	–	–	14	–	14	14
Write-offs	(523)	–	(4)	–	(527)	(177)
Transfers	(44)	(15)	(1)	(332)	(392)	(7)
Amortization	(78)	(120)	(342)	–	(540)	(407)
Impairment recognition	(7)	–	–	–	(7)	–
Cumulative translation adjustment	(178)	(4)	(4)	(67)	(253)	–
Balance at December 31, 2016	8,725	222	998	718	10,663	8,764
Cost	9,367	1,587	3,941	718	15,613	12,459
Accumulated amortization	(642)	(1,365)	(2,943)	–	(4,950)	(3,695)
Balance at December 31, 2016	8,725	222	998	718	10,663	8,764
Addition	3,035	51	194	–	3,280	3,145
Capitalized borrowing costs	–	–	14	–	14	14
Write-offs	(256)	–	(8)	–	(264)	(34)
Transfers	(5,376)	5	–	–	(5,371)	(5,257)
Amortization	(64)	(91)	(323)	–	(478)	(366)
Impairment recognition	(108)	(1)	–	–	(109)	(2)

Cumulative translation adjustment	3	–	–	2	5	–
Balance at December 31, 2017	5,959	186	875	720	7,740	6,264
Cost	6,637	1,638	4,055	720	13,050	10,266
Accumulated amortization	(678)	(1,452)	(3,180)	–	(5,310)	(4,002)
Balance at December 31, 2017	5,959	186	875	720	7,740	6,264
Estimated useful life in years	(*)	5	5	Indefinite		

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

During 2017, the Company participated on bids realized by ANP, with the following accomplishments:

- On September 27, 2017, the Company acquired seven blocks in the fourteenth round of bids under the concession regime, six of which are offshore and one is onshore. The Company will be the operator in all blocks. In the offshore blocks, Petrobras will hold a 50% interest in partnership with ExxonMobil. In the onshore blocks, the Company will hold the entire interest. The total amount of signature bonus payed by the Company was R$ 1,798. The contracts were signed on January 29, 2018.
- On October 27, 2017, the Company acquired three offshore blocks in the second and third rounds of bids under the production sharing regime, in partnership with Shell, British Petroleum (BP), Repsol and CNODC Brasil Petróleo e Gás. The total amount of signature bonus payed by the Company was R$ 1,140. The contracts were signed on January 31, 2018.

Following the determination of economic feasibility of the Northwest area of Libra block, which resulted in declarations of commerciality such as the one relating to Mero field, a portion of signature bonus thereof, in the amount of R$ 5,240, was transferred from intangible assets to property, plant and equipment.

At December 31, 2017, no impairment was identified on goodwill.

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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 2017, totaling R$ 10 (R$ 27 in 2016) are set out below:

Area	Exploratory phase	
	Exclusive	Partnership
Sergipe-Alagoas Basin	1	
Jequitinhonha Basin		1

13.3. Exploration rights - production sharing contract

Following the first pre-salt public auction held in October, 2013, the Libra consortium, composed of Petrobras (40% interest), Shell (20% interest), Total (20% interest), CNPC (10% interest), CNOOC (10% interest) and the Pré-Sal Petróleo S.A. (PPSA) as the manager of the agreement, entered into a production sharing contract with the Federal Government on December 2, 2013.

The Libra P1 contract granted rights and obligations to explore and operate oil and gas production in a strategic pre-salt area known as the Libra block, comprising an area of around 1,550 km2, 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.

The signature bonus (acquisition cost) of R$ 15 billion was paid by the consortium. The Company paid R$ 6 billion relating to its 40% share of the acquisition cost paid by the consortium, recognized in its intangible assets as Rights and Concessions.

Within the initial stage of the exploration phase (4 years), the minimum work program was concluded in 2017, when the extended well test (EWT) was performed. In addition to EWT, the minimum work program also includes a 3D seismic acquisition for the whole block, and the drilling of two exploratory wells.

The EWT has been performed by the FPSO Libra Pioneer, which continues to produce on the same well after the declaration of commerciality, through an early production system. In the second half of 2018, this FPSO is expected to move to another location and to produce on another well. In January 2018, the Company performed the first loading of oil from Libra.

On November 30, 2017, ANP was informed about the declaration of commerciality of the Northwest area of Libra, confirming the potential of the area and its economic viability. In total, twelve wells have been drilled in Libra block, of which nine in the Northwest area. Following the declaration of commerciality, the Northwest area of Libra is now named Mero field (Campo de Mero). The results confirmed oil reservoirs at thickness of up to 410 meters with high porosity and permeability. The production tests confirmed the high productivity and oil quality of these reservoirs.

Following this declaration of commerciality, R$ 5,240 was transferred to property, plant and equipment with respect to a portion signature bonus relating to the Northwest area of Libra.

In December 2017, the Company charted the FPSO of Mero 1 for the Northwest area, with expected start-up in 2021 and capacity of producing 180 thousands of barrels per day and processing 12 million cubic meters of gas.

The consortium was granted by the Ministry of Mines and Energy with an extension of the exploration phase by 27 months to the Central and Southeast areas of the block, where new assessments will be performed to evaluate the economic viability of these areas.

13.4. Service concession agreement - Distribution of piped natural gas

As of December 31, 2017, intangible assets include service concession agreements related to piped natural gas distribution in Brazil, in the amount of R$ 565 (R$ 578 in 2016), maturing between 2029 and 2043, which may be renewed. According to the distribution agreements, service is 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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On February 2, 2016, the state of Espírito Santo enacted the Law No. 10,493/2016 under which the service concession agreements related to piped natural gas distribution are considered ineffective pursuant Brazilian Federal Law 8,987/1995. The law states that a bidding process is required for this concession, or the establishment of a state-run company to provide this service, which would receive compensation pursuant to this law, which was appealed by the Company.

Accordingly, the Company entered into an agreement with the State of Espírito Santo, through a Memorandum of Understanding signed on August 12, 2016, aiming to evaluate the establishment of a state-run company of that state, to provide the public service of distributing piped natural gas. The evaluation is ongoing as of December 31, 2017.

This concession is accounted for as intangible assets totaling R$ 270 as of December 31, 2017 (R$ 274 as of December 31, 2016) and the Company has not recognized any provision on this matter based on indemnity established by law.

14. Impairment

The Company annually tests its assets for impairment on December 31 or when there is an indication that their carrying amount may not be recoverable. In 2017, impairment losses and reversals were primarily recognized in the last quarter following the management of investment portfolio and updates of mid and long-term assumptions used in the recent Company’s Business and Management Plan (BMP 2018-2022) concluded and approved in December 2017.

The enhanced risk perception of Brazilian market (Brazil’s risk premium) decreased the discount rates applied for impairment testing purposes, and along with the better operational efficiency of certain E&P fields, resulted in reversals of impairment previously recognized following the 2017 annual review, mainly for the North Group CGU in Campos basin.

The Company accounted for impairment losses for certain assets in the scope of the partnership and divestment program, mainly with respect to oil and gas production and drilling equipment in Brazil and to the sale of a portion of Roncador field in Campos basin. The higher costs of raw materials and the lower refining margin, as set forth in BMP 2018-2022, were the main reasons for impairment losses on Second refining unit in RNEST.

The work in progress relating to the infrastructure shared by Comperj’s first refining unit and the natural gas processing plant (UPGN), as well as the decision of hibernating the hulls construction of 3 vessels of PANAMAX project, that triggered their separate impairment testing from the Transportation, also resulted in impairment losses in 2017. In addition, the Company’s plan to withdrawal its entire interest in petrochemical business, as set forth in BMP 2018-2022, along with the lower expectation of a successful sale of fertilizers and nitrogen products plants, triggered an impairment testing for these assets separately form the Natural Gas CGU in the last quarter of 2017, thereby accounting for impairment losses with respect to them.

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The table below shows the impairment losses, net of reversals, recognized within the statement of income in 2017 and 2016:

	Consolidated				
Assets or CGUs, by nature (*)	Carrying amount	Recoverable amount	Impairment (**)	Business segment	Comments
	2017				
Property, plant and equipment and intangible assets					
Producing properties relating to oil and gas activities in Brazil (several CGUs)	39,119	53,160	(2,824)	E&P - Brazil	item (a1)
Transpetro's fleet of vessels	5,554	5,565	(11)	RTM - Brazil	item (b1)
Second refining unit in RNEST	5,677	4,170	1,507	RTM - Brazil	item (c1)
Fertilizer Plants	1,337	–	1,337	Gas & Power - Brazil	item (d)
Oil and gas production and drilling equipment in Brazil	1,190	12	1,178	E&P - Brazil	item (e1)
Producing properties relating to oil and gas activities Abroad (several CGUs)	710	296	414	E&P - Abroad	item (f)
Panamax vessels - Transpetro	364	–	364	RTM - Brazil	item (g1)
Araucária	226	–	226	Gas & Power - Brazil	item (h1)
Comperj	167	–	167	RTM - Brazil	item (i1)
Conecta and DGM	122	–	122	Distribution - Abroad	item (j)
Others	610	380	230	Several segments	
			2,710		
Assets classified as held for sale					
Producing properties relating to oil and gas activities in Roncador	10,465	9,151	1,314	E&P - Brazil	item 14.2
Others	1,049	1,211	(162)	Several segments	
Total			3,862		
	2016				

Property, plant and equipment and intangible assets					
Producing properties relating to oil and gas activities in Brazil (several CGUs)	41,584	34,855	7,381	E&P - Brazil	item (a2)
Oil and gas production and drilling equipment in Brazil	2,980	208	2,772	E&P - Brazil	item (e2)
Second refining unit in RNEST	8,077	5,546	2,531	RTM - Brazil	item (c2)
Suape Petrochemical Complex	3,569	1,558	2,011	RTM - Brazil	item (k)
Comperj	1,315	–	1,315	RTM - Brazil	item (i2)
Transpetro's fleet of vessels	5,822	5,024	798	RTM - Brazil	item (b2)
Fertilizer Plant - UFN III	1,699	1,202	497	Gas & Power - Brazil	item (l)
Araucária (fertilizers plant)	638	185	453	Gas & Power - Brazil	item (h2)
Others	2,099	1,390	709	Several segments	
			18,467		
Assets classified as held for sale					
Suape Petrochemical Complex	2,689	1,255	1,434	RTM - Brazil	item 14.2
Petrobras Chile Distribución	1,773	1,507	266	Distribution - abroad	item 14.2
Power Plants Celso Furtado and Rômulo Almeida	394	238	156	RTM - Brazil	item 14.2
Others	315	341	(26)	Several segments	
Total			20,297		

(*) It only includes carrying amounts and recoverable amounts of impaired assets or assets for which reversals were recognized.
(**) The recoverable amounts of assets for impairment computation were their value in use, except for oil and gas production and drilling equipment that were based on their fair value.
(***) Reversals are presented in brackets.

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

For impairment testing of its property, plant and equipment and intangible assets, assessed individually or grouped into cash-generating units – CGUs, the Company bases its cash flow projections on:

- The estimated useful life of the asset or assets grouped into the CGU, based on the expected use of those assets, considering the Company's maintenance policy;
- Assumptions and financial budgets/forecasts approved by management for the period corresponding to the expected life cycle of each different business; and

• A pre-tax discount rate derived from the Company's post-tax weighted average cost of capital (WACC).

Information on key assumptions for impairment testing and the definition of Company's CGUs are presented in notes 5.2 and 5.3, respectively. Management assumptions and judgements, which are based on the Company's business and management model, are required on these matters.

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The cash flow projections used to measure the value in use of the CGUs in 2017 were mainly based on the following estimates of key assumptions for impairment testing:

	2018	2019	2020	2021	2022	Long term average
Average Brent (US$/bbl)	53	58	66	70	73	71
Average Brazilian Real (excluding inflation) - Real /U.S. dollar exchange rate	3.44	3.47	3.47	3.46	3.49	3.40

For comparative purposes, estimates of key assumptions for impairment testing in 2016 are shown below:

	2017	2018	2019	2020	2021	Long term average
Average Brent (US$/bbl)	48	56	68	71	71	70
Average Brazilian Real (excluding inflation) - Real / U.S. dollar exchange rate	3.46	3.54	3.48	3.42	3.38	3.36

Information on the main impairment losses and reversals of property, plant and equipment and intangible assets are described below:

a1) Producing properties in Brazil – 2017

Impairment assessment for producing properties in Brazil under the concession regime for oil and gas resulted in a net reversal of impairment losses of R$ 2,824. Cash flow projections were based on financial budgets/forecasts approved by management and the post-tax discount rates (excluding inflation) derived from the WACC for the E&P business of 7.6% p.a. at December 31, 2017. This amount comprises:

- Reversals of impairment totaling R$ 5,627 primarily from North group (R$ 2,961), Espadarte field (R$ 406), Papa-Terra field (R$ 396), Uruguá group (R$ 325), Pampo field (R$ 296), Fazenda Alegre group (R$ 146), Cidade de São Mateus group (R$ 142), Riachuelo field (R$ 131), Fazenda Imbé group (R$ 91), Fazenda Bálsamo field (R$ 83), Peroá group (R$ 80), São Mateus group (R$ 62) and Riacho da Forquilha field (R$ 58). These reversals substantially reflected the lower post-tax real discount rate, the approval of investments in enhancing recovery of mature fields and the lower tax burden set forth in the new tax rules applicable to the oil and gas industry (see note 21.4).
- Impairment losses totaling R$ 2,803 mainly related to CGUs Piranema (R$ 737), Salgo (R$ 339) Ceara Mar group (R$ 309), Cvit group (R$ 204), Miranga group (R$ 190), Fazenda Belém group (R$ 159), Frade (R$ 131), Dom João

(R$ 87) and Candeias (R$ 60). These losses were substantially driven by an expected acceleration of production cessation reflecting an optimization of investment portfolio, as well as by a lower risk-adjusted discount rate for decommissioning costs, which also increased the costs of assets related to the abandonment and dismantling of these areas.

a2) Producing properties in Brazil – 2016

Impairment losses of R$ 7,381 were recognized for certain oil and gas fields in Brazil under E&P concessions. Cash flow projections were based on: financial budgets/forecasts approved by Management and the post-tax discount rates (excluding inflation) derived from the WACC for the E&P business of 9.1% p.a. at December 31, 2016. The impairment losses were related primarily to the following fields and groups of fields: North group (R$ 3,823), Ceará Mar Group (R$ 693), Guaricema (R$ 415), Bijupirá and Salema (R$ 317), Dourado (R$ 284), Maromba (R$ 281), Papa-Terra (R$ 234), Trilha (R$ 228), Pampo (R$ 216), Frade (R$ 213), Uruguá group (R$ 196), Badejo (R$ 183), Bicudo (R$ 160), Riachuelo (R$ 146), Fazenda Bálsamo (R$ 135) and Água Grande group (R$ 101). These impairment losses were mainly due to the appreciation of the Brazilian Real against the U.S. Dollar, price assumptions review, Company’s annual reviews of oil and gas reserves and decommissioning cost estimates, as well a higher discount rate following the increase in Brazil’s risk premium. In addition, an impairment reversal relating to Centro Sul group, amounting to R$ 1,347, was recognized due to increased estimate of reserves and production, as well as lower operating expenses estimates based on a review of its fields operations, as set forth in 2017-2021 BMP, considering the decommissioning of a unit which had high operational costs and replacing another unit with an investment in a new processing plant which was committed to during the third quarter of 2016.

b1) Transpetro’s fleet of vessels - 2017

An impairment reversal of R$ 11 was recognized for Transpetro’s fleet of vessels. Cash flow projections were based on: financial budgets/forecasts set forth in BMP 2018-2022; taking into account operating and unused vessels and vessels under construction; and post-tax discount rates (excluding inflation) ranging from 4.11% p.a. to 9.19% p.a. derived from the WACC for the transportation industry, considering financial leverage and the respective tax benefits.

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b2) Transpetro's fleet of vessels - 2016

An impairment loss of R$ 798 was recognized for Transpetro's fleet of vessels. Cash flow projections were based on: financial budgets/forecasts approved by Management; and post-tax discount rates (excluding inflation) ranging from 4.53% p.a. to 9.97% p.a. derived from the WACC for the transportation industry, considering financial leverage and the respective tax benefits. The impairment loss recognized in the third quarter mainly relates to a group of support vessels of Hidrovias project that were removed from this CGU due to the postponements and suspension of constructions projects, as well as the use of a higher discount rate. In the last quarter of 2016, additional impairment charges were accounted for due to the commencement of construction on 5 vessels after securing the projects funding, which avoided the possibility of future claims by alleging breach of contracts, as well as a further increase in discount rate.

c1) Second refining unit in RNEST - 2017

An impairment loss of R$ 1,507 was recognized for the second refining unit in RNEST. Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 7.7% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the refining business, reflecting a specific risk premium for the postponed project. The impairment loss was mainly attributable to: (i) higher costs of raw materials and ii) lower refining margin, as set forth in BMP 2018-2022.

c2) Second refining unit in RNEST - 2016

An impairment loss of R$ 2,531 was recognized for the second refining unit in RNEST. Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 8.7% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the refining business, reflecting a specific risk premium for the postponed project. The impairment loss was mainly attributable to: (i) the use of a higher discount rate and (ii) a delay in expected future cash inflows to 2023 resulting from postponing the project, considering the completion of this project with the Company's own capital resources as set forth in the 2017-2021 Business and Management Plan.

d) Fertilizer Plants

Following the Company's plan to withdrawal its entire interest in petrochemical business, as set forth in BMP 2018-2022 approved in December 2017, along with the lower expectation of a successful sale of fertilizers and nitrogen products plants, triggered an impairment testing for these assets separately form the Natural Gas CGU in the last quarter of 2017. As a result, impairment losses amounting to R$ 1,337 were recognized.

e1) Oil and gas production and drilling equipment in Brazil – 2017

In 2017, impairment losses for oil and gas production and drilling equipment in Brazil that were not directly related to oil and gas producing properties amounted to R$ 1,178 , as a result of: i) lower fair value of certain equipment related to the FPSO P-72 and P- 73 that could not be committed to other projects, when compared to their carrying amount (R$ 413); ii) decommissioning of a crane and launch ferry (R$ 370) and iii) hibernation of equipment of Inhaúma

Shipyard excluded from the initial scope of Inhaúma logistic center (R$ 407).

e2) Oil and gas production and drilling equipment in Brazil – 2016

Impairment losses of R$ 2,772 were recognized for oil and gas production and drilling equipment which were not directly related to oil and gas producing properties. Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 9.9% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the oil and gas services and equipment industry. These impairment losses were mainly related to uncertainties over the ongoing hulls construction of the FPSOs P-71, P-72 and P-73, amounting to R$ 1,925 as set out in note 14.4.

f) Producing properties abroad – 2017

In 2017, impairment losses of R$ 414 were recognized for E&P assets located in the United States, principally reflecting the expected cessation of production and definitive abandonment of operation in Hadrian South field. Cash flow projection were based on: financial budgets/forecasts approved by Management; 5.7% p.a. post-tax real discount rate (5.5% p.a. in 2016) derived from the WACC for the E&P business in United States.

g) Panamax vessels – Transpetro

In December 2017, the decision to hibernate the construction of three vessels of PANAMAX project (EI-512, EI-513 and EI-514) triggered their removal from the Transpetro's fleet of vessels CGU. These assets were assessed for impairment separately and, as a result, the Company accounted for an impairment loss for the total carrying amounts of these assets (R$ 364).

h1) Araucária - 2017

Indications of impairment were identified during this period, such as lower sales volume and prices, as well as higher production costs. Therefore, the Company assessed the related assets for impairment and, as a result, an impairment charge of R$ 226 was recognized primarily in the second quarter of 2017 due to negative cash flow projections that were based on financial budget and forecasts approved by the management and a post-tax real discount rate of 6.6% p.a. derived for the weighted average cost of capital (WACC) for the fertilizer business.

h2) Araucária - 2016

An impairment loss of R$ 453 was recognized for Araucária Nitrogenados S.A. Cash flow projections were based on: financial budgets/forecasts approved by Management; and a 7.8% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the fertilizer business. The impairment loss was mainly attributable to (i) the use of a higher discount rate, (ii) the appreciation of Brazilian Real against the U.S. Dollar and (iii) an increase in estimated production costs.

i1) Comperj - 2017

As set out in BMP 2018-2022, the resumption of the Comperj project still depends on new partnerships. However, the construction of Comperj's first refining unit facilities that will also support the natural gas processing plant (UPGN) are in progress as the facilities are part of the infrastructure for transporting and processing natural gas from the pre-salt layer in Santos Basin. Nevertheless, due to the interdependence between such infrastructure and Comperj first refining unit, the Company recognized additional impairment charges, totaling R$ 167 in 2017.

i2) Comperj - 2016

Following a reassessment of COMPERJ project in the second quarter of 2016 confirming the postponement of its first refining unit until December 2020, with continuous efforts to seek new partnerships to resume the project, the Company recognized an impairment charge on the remaining balance of this project. However, the construction of Comperj's first refining unit facilities that will also support the natural gas processing plant (UPGN) are still in progress as the facilities are part of the infrastructure for transporting and processing natural gas from the pre-salt layer in Santos Basin. Nevertheless, due to the interdependence between such infrastructure and Comperj first refining unit, the Company recognized additional impairment charges, totaling R$ 1,315 of impairment losses in 2016.

j) Conecta and DGM – 2017

Following prices forecast and current agreements of natural gas supply in Uruguay, the Company recognized impairment losses for intangible assets, in the amount of R$ 122, with respect to concession agreements for natural gas distribution carried out by the subsidiaries Conecta and DGM.

k) Suape Petrochemical Complex - 2016

An impairment loss of R$ 2,011 was recognized for Companhia Integrada Têxtil de Pernambuco S.A. - CITEPE and Companhia Petroquímica de Pernambuco S.A. – PetroquímicaSuape at September 30, 2016. Cash flow projections were based on: financial budgets/forecasts approved by Management; and a 7.5% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the petrochemical business. The impairment loss was mainly attributable to lower market projections and the appreciation of Brazilian real against the U.S. dollar. Following the disposal of Suape Petrochemical Complex in December 2016, the Company recognized an additional impairment charge as set out in note 14.2.

l) Fertilizer Plant - UFN III - 2016

An impairment loss of R$ 497 was recognized for the fertilizer plant UFN III (Unidade de Fertilizantes e Nitrogenados III). Cash flow projections were based on: financial budgets/forecasts approved by Management; and an 8.3% p.a. post-tax discount rate (excluding inflation) derived from the WACC for the fertilizer business, reflecting a specific risk premium for the postponed projects. This impairment loss mainly relates to: (i) the use of a higher discount rate, (ii) the appreciation of the Brazilian Real against the US Dollar.

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14.1.1. Assets most sensitive to future impairment

As set out in note 4.10, whenever the recoverable amount of an asset or CGU falls below the carrying amount, an impairment loss is recognized to reduce the carrying amount to the recoverable amount. The following table presents the assets and CGU most sensitive to future impairment losses as their recoverable amounts were close to their current carrying amount. Changes in material assumptions for impairment testing may result in the recognition of additional impairment charges on such assets in future periods.

			Consolidated	
	12.31.2017			
	Business segment	Carrying amount	Recoverable amount	Sensitivity (*)
Producing properties relating to oil and gas activities in Brazil (3 CGUs)	E&P	556	584	(31)

(*) It is based on a 10% reduction in the recoverable amount of CGUs.

For information on the main assumptions for impairment testing, see note 5.2.

14.2. Assets classified as held for sale

Following the Company's Board of Director approvals of disposal of certain assets in 2017, as described in note 10, impairment losses amounting to R$ 1,152 for assets held for sale were recognized, primarily attributable to the sale of 25% interest in Roncador field.

This transaction is aligned with the Company's business and management plan and is part of the Strategic Alliance with Statoil for sharing technology and increasing the recovery factor of the field. Impairment loss of R$ 1,314 was recognized on this transaction, as its sales price was lower than carrying amount thereof.

In 2016, the Company recognized impairment losses amounting to R$ 1,935 due to certain sales of interests in investees approved by the Board of Directors, mainly related to Suape Petrochemical Complex (R$ 1,434), Petrobras Chile Distribución (R$ 266) and Power plants Romulo Almeida and Celso Furtado (R$ 156).

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

Value in use is generally used for impairment test of investments in associates and joint ventures (including goodwill). 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, 2017 are set out below:

Investment	Segment	% Post-tax discount rate (excluding inflation) p.a.	Value in use	Carrying amount
Braskem S.A. (*)	RTM	9.6	18,895	4,791
Natural Gas Distributors	Gas & Power	5.9	1,715	943

(*) The discount rate of Braskem is CAPM of petrochemical segment, as the value in use considers the cash flow projections via dividends.

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

Braskem's shares are publicly traded on stock exchanges in Brazil and abroad. As of December 31, 2017 the quoted market value of the Company's investment in Braskem was R$ 12,489 based on the quoted values of both Petrobras' interest in Braskem's common stock (47% of the outstanding shares), and preferred stock (22% of the outstanding shares). However, there is extremely limited trading of the common shares, since non-signatories of the shareholders' agreement hold approximately 3% of the common shares.

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.

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Cash flow projections to determine the value in use of Braskem were based on the following key assumptions:

- Estimated average exchange rate of R$ 3.44 to U.S.$1.00 in 2018 (converging to R$ 3.40 in the long run);
- Average Brent crude oil price at US$ 53 in 2018, converging to US$ 71 in the long run;
- Prices of feedstock and petrochemical products reflecting projected international prices;
- Petrochemical products sales volume estimates reflecting projected Brazilian and global G.D.P growth; and
- Increases in the EBITDA margin during the growth cycle of the petrochemical industry in the next years and declining in the long run.

14.3.2. Impairment losses on equity-method investments

For 2017, the Company accounted for R$ 64 as results in equity-accounted investments, substantially attributable to the investees Logum, Belém Bioenergia Brasil and Refinaria de Petróleo Riograndense.

In 2016, impairment losses on equity-method investments in the amount of R$ 594 were as results in equity-accounted investments, substantially attributable to investees of biofuels segment, notably the former associate Guarani (R$ 578) and the former joint venture Nova Fronteira (R$ 100).

14.4. Construction of platform hulls by Ecovix and Enseada shipyards

The Company entered into contracts with the suppliers Ecovix-Engevix Construções Oceânicas S.A and Enseada Industria Naval S.A. for supplying eight hulls for the FPSOs P-66 to P-73 and for hulls conversion of four FPSOs (P-74 to P-77), respectively.

Considering the relevance of these assets in the context of the Business and Management Plan and due to the financial difficulties faced by the suppliers, escrow accounts relating to these projects were created in the last quarter of 2015 in order to ensure the ongoing performance of the services hired.

These escrow accounts have comprised funds transferred in advance for payments to be made by the shipyards, restricted to the scope of the contracts and limited to their total balance. The deposits would be offset to the extent that services rendered or equipment delivered, with the remaining balance being reimbursed. This strategy was considered effective as the projects achieved significant progress up to September 2016, enabling the delivery of P-67 hull to a shipyard in China for integration services, the recommence of the work in progress of P-69 hull also in China, the continuity of the work in progress of P-68 hull in Rio Grande shipyard, as well as the progress on priority activities for the conclusion of minimum scope of P-74 and P-76 hulls, delivering these units to shipyards in China for integration services and for setting up topsides.

During the third quarter of 2016, the Company reassessed the progress of the hulls project and the continuity of the escrow accounts related to the projects. Consequently, significant delays on projects progress were detected and the Company concluded that this strategy, which in its beginning avoided the work in progress discontinuation, was not as effective as it was previously.

Due to uncertainties regarding the FPSOs P-71, P-72 and P-73 hulls construction continuity after significant delays on projects progress, the Company recognized, in the third quarter of 2016, impairment charges amounting to R$ 1,925 as set out in note 14.1. Impacts in the Company’s production curve are not expected in case of the discontinuation of this work in progress, as the 2017-2021 Business and Management Plan includes other options and additional budget funds.

Based on management evaluation, in 2016 the Company recognized allowances for impairment amounting to R$ 2,353 within other expenses, net with respect to the remaining balance of advances to these suppliers in the context of the escrow accounts (R$ 1,256) and debts assumption relating to Ecovix and Enseada (R$ 1,097), in which legal procedures to recover them are being assessed.

In addition, the Company wrote-off, in 2016, capital expenditures related to the right of use the Rio Grande shipyard in the amount of R$ 505, as well as other investments related to the P-71, P-72 and P-73 amounting to R$ 480.

The FPSOs constructions have progressed significantly after restructuring the contracts and accessing the hull. The start -ups of P-67 to P-69 and P-74 to P-76 are expected to occur in 2018, while the start -ups of P-70 and P-77 are expected in the first semester of 2019. The P-66 have been in operation since May 2017. This scenario shows the effectiveness of the strategy to enable the continuity of the work in progress of these FPSOs with no impacts in the Company’s future production curve.

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The effects of the negotiation with each shipyard are presented below:

14.4.1. Negotiations with Ecovix

Pursuant the reassessment made by the Company in the third quarter of 2016 in order to verify the effectiveness of the escrow account approach implemented to ensure access to P-66 to P-73 hulls, a provision in the amount of R$ 375 was recognized within other expenses, net.

On December 9, 2016, the Company, through its investees TUPI BV and Petrobras Netherlands BV, entered into agreements with Ecovix Construções Oceânicas S.A establishing the termination of EPC contracts signed in 2010 for the construction of eight FPSO hulls. Therefore, the Company has assumed certain liabilities from Ecovix as the most adequate solution for Petrobras Group: ensure the access to the hulls of platforms P-66 to P-70 and the achievement of the 2017-2021 Business and Management Plan production targets. These debts were recognized in 2016 within other expenses, net in the amount of R$ 764.

Along with those agreements signed in the last quarter of 2016, the Company assessed investments carried out for the construction of the P-71, P-72 and P-73 hulls to determine the best option for their allocation. As a result, the amount of R$ 480 were written-off and accounted for as other expenses, net.

The negotiations with Ecovix in the last quarter of 2016 also resulted in a transfer of the right of use of Rio Grande shipyard from Ecovix to the Company pursuant to a finance lease agreement. The Company reassessed the recoverable amount of this right of use and related improvements totaling R$ 505 and, as a consequence, these assets were written-off.

14.4.2. Negotiations with Enseada

With the escrow accounts, the Company eliminated any risk of non-delivery of the P-74 to P-77 hulls. In 2016, PNBV transferred funds in advance amounting to R$ 881 for the payment in the name of Enseada of certain liabilities relating to the hull construction of these platforms. Due to financial difficulties faced by this supplier, the Company recognized a provision for impairment on this entire amount within other expenses, net.

In addition, as part of the Company’s strategy of ensuring the continuity of FPSOs P-75 and P-77 hulls construction, the Company approved the transfer of the contract entered into by Enseada and COSCO (Dalian) Shipyard Co., Ltd to its wholly-owned subsidiary Petrobras Netherlands B.V. (PNBV), resulting in the recognition of payables within the scope of this contract. As a result, the Company recognized a provision in the amount of R$ 333 within other expenses in the third quarter of 2016.

In 2016, the Company also assessed the recoverable amount of improvements made for the hulls conversion of FPSOs P-74 to P-77 in the Inhaúma Shipyard, as well as the right of use of this shipyard. Accordingly, the Company did not accounted for any additional write-off related to these assets at December 31, 2016 based on the use of this location as a logistic center mainly dedicated to Santos Basin operations. In 2017, following a review in the scope of this logistic center implementation, impairment losses of R$ 407 were recognized as shown in note 14.1.

15. Exploration and evaluation of oil and gas reserves

The exploration and evaluation activities include the search for oil and gas reserves 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 following table:

	Consolidated	
Capitalized Exploratory Well Costs / Capitalized Acquisition Costs (*)	12.31.2017	12.31.2016
Property, plant and equipment		
Opening Balance	16,728	20,310
Additions to capitalized costs pending determination of proved reserves	2,543	3,543
Capitalized exploratory costs charged to expense	(345)	(3,603)
Transfers upon recognition of proved reserves	(3,974)	(3,304)
Cumulative translation adjustment	5	(218)
Closing Balance	14,957	16,728
Intangible Assets	4,599	7,288
Capitalized Exploratory Well Costs / Capitalized Acquisition Costs	19,556	24,016

(*) Amounts capitalized and subsequently expensed in the same period have been excluded from this table.

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See note 13.1 for information on signatures bonuses paid and declarations of commerciality during 2017.

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

	Consolidated	
Exploration costs recognized in the statement of income	Jan-Dec/2017	Jan-Dec/2016
Geological and geophysical expenses	1,154	1,292
Exploration expenditures written off (includes dry wells and signature bonuses)	893	4,364
Contractual penalties	486	162
Other exploration expenses	30	238
Total expenses	2,563	6,056
Cash used in:		
Operating activities	1,185	1,529
Investment activities	5,776	3,778
Total cash used	6,961	5,307

In 2017, the Company recognized a provision in the amount of R$ 486 (R$ 162 in 2016), arising from potential contractual penalties for not complying with the minimum percentages of local content in 118 blocks which the exploratory phases are concluded.

15.1. Aging of Capitalized Exploratory Well Costs

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

Aging of capitalized exploratory well costs*	Consolidated	
	2017	2016
Exploratory well costs capitalized for a period of one year	367	2,628
Exploratory well costs capitalized for a period greater than one year	14,590	14,100
Ending balance	14,957	16,728
Number of projects relating to exploratory well costs capitalized for a period greater than one year	54	57

	Capitalized costs (2017)	Number of wells
2016	1,046	4
2015	2,933	19

2014	3,819	19
2013	1,971	11
2012 and previous years	4,821	27
Ending balance	14,590	80

(*) 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 greater than one year since the completion of drilling amount to R$ 14,590. Those costs relate to 54 projects comprising (i) R$ 13,772 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) R$ 818 relate to costs incurred to evaluate the reserves and their potential development.

16. Trade payables

	Consolidated		Parent Company	
	12.31.2017	12.31.2016	12.31.2017	12.31.2016
Third parties in Brazil	12,144	10,690	9,651	9,000
Third parties abroad	4,564	6,580	2,934	3,268
Related parties	2,369	1,511	9,594	12,116
Balance in current liabilities	19,077	18,781	22,179	24,384

17. Finance debt

In line with the Company’s Business and Management Plan and following its liability management strategy, recent funds have been raised in order to settle older debts, as well as aiming at improving the debt repayment profile taking into account its alignment with investments returns over the long run. These factors have enabled the use of cash flows from operating activities and from divestments and partnerships as the main source of funds for the investments portfolio.

The Company has covenants that were not in default at December 31, 2017 in its loan agreements and notes issued in the capital markets requiring, among other obligations i) the presentation of interim financial statements within 90 days of the end of each quarter (not reviewed by Independent Registered Public Accounting Firm) and audited financial statements within 120 days of the end of each fiscal year, with a grace period ranging from 30 to 60 days, depending on the agreement; ii) Negative Pledge / Permitted Liens clause; iii) clauses of compliance with the laws, rules and regulations applicable to the conduct of its business including (but not limited to) environmental laws; (iv) clauses in financing agreements that require both the borrower and the guarantor to conduct their business in compliance with anti-corruption laws and anti-money laundering laws and to institute and maintain policies necessary for such compliance; (v) clauses in financing agreements that restrict relations with entities or even countries sanctioned primarily by the United States (including, but not limited to, the Office of Foreign Assets Control (OFAC), Department of State and Department of Commerce), the European Union and United Nations; and vi) covenants with respect to debt level in some of its loan agreements with the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social - BNDES).

17.1. Prepayment of debts and new financings

In 2017, proceeds from financing amounted to R$ 86,647, principally reflecting: (i) global notes issued in the capital market in the amount of R$ 32,574 (US$ 10,218 million) maturing in 2022, 2025, 2027, 2028 and 2044; (ii) debentures issued in the domestic market amounting to R$ 4,989 and maturing in 2022 and 2024; and (iii) funds raised from the domestic and international banking market in the amount of R$ 41,645 with average term of five years.

In addition, the Company used R$ 137,386 for repayment of principal and interest, mainly attributable to: (i) R$ 24,356 (US$ 7,569 million) relating to repurchase of global bonds previously issued by the Company in the capital market maturing from 2018 to 2021, with premium paid to bond holders amounting to R$ 1,067 (ii) pre-payment of banking loans in the domestic and international market totaling R$ 52,000; (iii) pre-payment of finance debt with export credit agencies, in the amount of R$ 2,963; and (iv) pre-payment of R$ 9,531 with respect to financings with BNDES.

During this period, the Company also rolled over some debts through non-cash transactions, including: (i) exchange of old notes previously issued in the international capital market, maturing from 2019 to 2021, amounting to R$ 21,217 (US$ 6,768 million), to new notes with maturities in 2025 and 2028 in the amount of R$ 23,815 (US$ 7,597 million); (ii) exchange of some debts in the domestic and international banking market maturing from 2018 to 2020, to new similar financings amounting to R$ 13,577 (US$ 4,257 million) with maturities ranging from 2020 to 2024.

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17.2. Roll-forward schedule of current and non-current debt

	Consolidated					Parent Company
	Export Credit Agencies	Banking Market	Capital Market	Others	Total	Total
Current and Non-current						
In Brazil						
Opening balance at January 1, 2016	–	106,909	7,666	74	114,649	94,005
Cumulative translation adjustment (CTA)	–	(342)	–	–	(342)	–
Additions (new funding obtained)	–	1,635	–	–	1,635	45,051
Principal amortization	–	(4,993)	(519)	(6)	(5,518)	(48,261)
Interest amortization	–	(9,833)	(796)	(6)	(10,635)	(6,933)
Transaction costs during the period (*)	–	10,566	653	54	11,273	10,205
Foreign exchange/inflation indexation charges	–	(4,472)	383	5	(4,084)	(2,987)
Pre-payments	–	(22,456)	–	–	(22,456)	(12,572)
Transfer to liabilities associated with assets classified as held for sale	–	(45)	–	–	(45)	–
Balance as of December 31, 2016	–	76,969	7,387	121	84,477	78,508
Abroad						
Opening balance at January 1, 2016	22,773	135,277	217,365	2,583	377,998	204,348
Cumulative translation adjustment (CTA)	(2,819)	(18,532)	(33,930)	(321)	(55,602)	–
Additions (new funding obtained)	1,019	29,169	33,450	–	63,638	60,794
Principal amortization	(2,892)	(18,834)	(21,434)	(387)	(43,547)	(26,454)
Interest amortization	(435)	(3,314)	(10,411)	(91)	(14,251)	(5,783)
Transaction costs during the period (*)	559	3,858	10,334	69	14,820	7,996
Foreign exchange/inflation indexation charges	(759)	(3,993)	(1,782)	(86)	(6,620)	(33,377)
Pre-payments	–	(2,569)	(32,259)	–	(34,828)	(17,553)
Transfer to liabilities associated with assets classified as held for sale	–	(6)	(1,090)	–	(1,096)	–
Balance as of December 31, 2016	17,446	121,056	160,243	1,767	300,512	189,971
Total Balance as of December 31, 2016	17,446	198,025	167,630	1,888	384,989	268,479
Current					31,796	62,058
Non-current					353,193	206,421
Current and Non-current						
In Brazil						
Opening balance at January 1, 2017	–	76,969	7,387	121	84,477	78,508
Cumulative translation adjustment (CTA)	–	50	–	–	50	–
Additions (new funding obtained)	–	16,658	4,989	–	21,647	66,573
Principal amortization	–	(6,704)	(535)	(8)	(7,247)	(50,662)

Interest amortization	–	(6,677)	(642)	(5)	(7,324)	(4,977)
Transaction costs during the period (*)	–	6,715	593	18	7,326	6,998
Foreign exchange/inflation indexation charges	–	80	278	(2)	356	43
Pre-payments	–	(26,739)	–	–	(26,739)	(19,031)
Balance as of December 31, 2017	–	60,352	12,070	124	72,546	77,452
Abroad						
Opening balance at January 1, 2017	17,446	121,056	160,243	1,767	300,512	189,971
Cumulative translation adjustment (CTA)	129	545	2,861	14	3,549	–
Additions (new funding obtained)	727	26,341	32,574	391	60,033	47,435
Principal amortization	(2,914)	(10,365)	(3,048)	(151)	(16,478)	(30,276)
Interest amortization	(399)	(4,110)	(9,022)	(46)	(13,577)	(1,390)
Transaction costs during the period (*)	523	4,661	10,249	65	15,498	8,902
Foreign exchange/inflation indexation charges	33	429	2,975	2	3,439	2,368
Pre-payments	(3,403)	(35,137)	(25,111)	(1,147)	(64,798)	(26,345)
Balance as of December 31, 2017	12,142	103,420	171,721	895	288,178	190,665
Total Balance as of December 31, 2017	12,142	163,772	183,791	1,019	360,724	268,117
Current					23,160	74,724
Non-current					337,564	193,393

(*) It includes premium and discount over notional amounts and other related costs.

As shown in note 6.1, the IFRS 9 provisions will govern the accounting treatment for modification of contractual cash flow from January 1, 2018.

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17.3. Reconciliation between finance debt and cash flows from financing activities

	Consolidated						
	Balance as of December 31, 2016	Additions (new funding obtained)	Amortization (*)	Transaction costs during the period	Foreign exchange and indexation charges	Cumulative translation adjustment (CTA)	Balance as of December 31, 2017
Finance debt	384,989	81,680	(136,163)	22,824	3,795	3,599	360,724
Reconciliation to the Statement of Cash Flows							
Transfer to held for sale		5,200	(49)				
Purchase of property, plant and equipment on credit		(413)					
Expenses with debt restructuring			(1,067)				
Compensating balances			(171)				
Finance Leases			64				
Net cash used in financing activities		86,467	(137,386)				

(*) It includes principal, interest and pre-payments of debt.

17.4. Summarized information on current and non-current finance debt

	Consolidated							
Maturity in	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 years and onwards	Total (*)	Fair value
Financing in Brazilian Reais (R$):	4,828	9,192	13,573	10,099	15,377	18,060	71,129	61,194
Floating rate debt	2,553	7,723	12,167	8,708	14,123	14,011	59,285	
Fixed rate debt	2,275	1,469	1,406	1,391	1,254	4,049	11,844	
Average interest rate	6.6%	6.6%	6.8%	7.3%	6.8%	5.9%	6.6%	

Financing in U.S. Dollars (US$):	16,948	9,308	17,294	28,833	41,586	148,291	262,260	294,307
Floating rate debt	12,878	5,176	12,962	10,427	31,555	43,442	116,440	
Fixed rate debt	4,070	4,132	4,332	18,406	10,031	104,849	145,820	
Average interest rate	5.4%	5.8%	5.8%	5.7%	5.6%	6.5%	6.1%	
Financing in R$ indexed to US$:	281	271	271	271	260	–		