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

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 6-K

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

**For the month of April, 2015**

**Commission File Number 1-15106**

# PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

# Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

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

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

Form 20-F ___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____

**FOURTH QUARTER OF 2014**

**RESULTS**

**Rio de Janeiro – April 22, 2015 - (A free translation from the original in Portuguese).**

Petrobras announces today its audited consolidated results for 4Q-2014 and the full year 2014, stated in millions of *Reais*, prepared in accordance with International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board - IASB. In addition, the Company has published today its consolidated interim financial statements for 3Q-2014 and the nine-month period ended September 30, 2014 reviewed by the Company's independent auditors. Those interim financial statements, and the information in this release about the Company´s 3Q-2014 results, supersede the unreviewed information in Reais that the Company published on January 28, 2015.

The R$ 21,587 million loss in 2014 resulted from impairment charges in the amount of R$ 44,636 million. Write-offs of overpayments incorrectly capitalized in the amount of R$ 6,194 million were recognized in the 3Q-2014 related to the payment scheme uncovered by the investigations of the "Lava Jato (Car Wash) Operation" (referred to below as *write-offs of overpayments incorrectly capitalized*).

**Key events**

**Jan-Dec**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (21,587) | 23,570 | (192) | **Consolidated net income (loss) attributable to the shareholders of Petrobras** | (26,600) | (5,339) | (398) | 6,281 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,669 | 2,539 | 5 | **Total domestic and international crude oil and natural gas production (Mbbl/d)** | 2,799 | 2,746 | 2 | 2,534 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 59,140 | 62,967 | (6) | **Adjusted EBITDA** | 20,057 | 8,488 | 136 | 15,553 |

**The Company reported a R$ 26,600 million loss in the 4Q-2014, due mainly to the following key events:**

• Pre-tax impairment charges of R$ 44,345 million (R$ 32,089 million after taxes), mainly related to the following assets:

i) domestic refineries (R$ 30,976 million), resulting from testing the second refining unit of Refinaria Abreu e Lima (RNEST) and Complexo Petroquímico do Rio de Janeiro (COMPERJ) individually for impairment purposes, due to the postponement of these projects for an extended period of time as a result of the Company's measures to preserve cash and of the implications to the Company's suppliers of the "Lava Jato" investigation. The impairment charges are mainly attributable to project planning deficiencies, to the use of a higher discount rate (which included a risk premium related to the stand-alone view of the assets), to the impact of a delay in expected cash inflows and lower projected economic growth;

ii) assets related to exploration and production of crude oil and natural gas (R$ 10,002 million) attributable to lower international crude oil prices; and

iii) petrochemical assets (R$ 2,978 million) as a result of decreased demand and lower margins.

**In addition, the Company had the following key events for the 4Q-2014:**

• Diesel (5%) and gasoline (3%) price increases on November 7, 2014.

• Higher domestic crude oil and NGL production (a 3% increase, 60 thousand barrels/day) due to the ramp-up of P-55, P-62 and P-58 platforms and the ramp-up of FPSOs Cidade de São Paulo and Cidade de Paraty, as well as the production start-up of FPSOs Cidade de Mangaratiba and Cidade de Ilhabela. The Company reached a crude oil production monthly record level of 666 thousand barrels per day at the pre-salt layer in December 2014.

• A R$ 3,286 million gain on the disposal of the Company's interest in Petrobras Energia Peru S/A, with a R$ 6,691 million increase in cash and cash equivalents.

When compared to the financial statements published on January 28, 2015, which reported a R$ 3,087 million net income, 3Q-2014 financial statements report a R$ 5,339 million loss attributable to the shareholders of Petrobras, resulting from *the write-off of overpayments incorrectly capitalized* (R$ 6,194 million) and from an increase in the allowance for impairment of trade receivables from the electricity sector (R$ 1,602 million, after taxes). Restated information about the 3Q-2014 and the nine-month period ended September 30, 2014 is set out in "Additional Information".

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Comments from the CEO

Mr. Aldemir Bendine

Dear Shareholders and Investors,

Petrobras has overcome an important obstacle by publishing its 2014 audited financial statements, following a collective effort that highlights our ability to meet challenges under adverse circumstances. This experience has given me even more confidence to address the strategic issues that we face in pursuing the Company's business plan in an efficient manner that creates value for the Company.

We have developed a methodology to estimate the overpayments incorrectly capitalized related to the payment scheme uncovered by the investigations of the "Lava Jato (Car Wash) Operation." The write-offs related to those incorrectly capitalized overpayments were recognized in the third quarter 2014.

In addition, changes in Petrobras' business context, including the decline in oil prices, the appreciation of the U.S. Dollar and the need to reduce our level of indebtedness, have prompted a review of the Company´s future prospects and ultimately led to the reduction in the pace of the Company's capital expenditures.

As a result, the Company has decided to postpone the completion of some of the assets and projects in its 2014-2018 Business and Management Plan. The postponement of those projects had an impact on our impairment tests, and we recognized impairment charges in the fourth quarter of 2014.

Now that we have published our financial statements, we will turn our focus to our medium and long-term challenges. We are developing a new business plan, in which we will include financial assumptions that reflect current oil industry conditions.

We are revising our capital expenditure plans to prioritize oil and gas exploration and production activities, which is our most profitable business segment. We are focusing on building a sustainable business plan from a cash flow perspective, considering potential effects on our supply chain and, consequently, on our production curve.

I would like to conclude this message by emphasizing my strong belief that Petrobras is and will remain a profitable and efficient Company, which has made substantial improvements in its corporate governance and increased its dedication to generating returns for its shareholders and investors.

Aldemir Bendine, CEO.

**NOTE ABOUT "LAVA JATO OPERATION"**

The note below provides a general summary of the Lava Jato (Car Wash) operation and its impact on the Company. For a more detailed description, see Note 3 of the Company´s audited consolidated financial statements of the period ended December 31, 2014.

**The "Lava Jato (Car Wash) Operation" and its effects on the Company**

In the third quarter of 2014, the Company wrote off R$ 6,194 million of capitalized costs representing amounts that Petrobras overpaid for the acquisition of property, plant and equipment in prior years.

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

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

**Background**

Over the course of 2014, the investigations of the Lava Jato Operation, led by the Brazilian Federal Prosecutor's Office, 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 27 companies that, between 2004 and April 2012, colluded to obtain contracts with Petrobras, overcharge the Company under those contracts and use the overpayment received under the contracts to fund improper payments to political parties, elected officials or other public officials, individual contractor personnel, former Petrobras personnel and other individuals involved in the scheme. Petrobras refers to this scheme as the "payment scheme" and to the companies involved in the scheme as "cartel members." In addition to the payment scheme, the investigation pointed out specific cases where other companies also charged additional costs and allegedly used these values to fund payments to certain former employees of Petrobras, including a former director of the International area. These companies are not members of the cartel and acted individually.

As announced on January 28, 2015, the Company considered whether it could develop a surrogate or proxy to quantify the errors to be corrected. The proposed proxy would involve determining the fair value of each affected asset and estimating the amount of overcharges by contractors and suppliers as being the difference between the fair value of each affected asset and its carrying amount.

The difference between fair value and carrying amount would conceptually be attributed to improper payments. However, after the difference was measured, the Company concluded that the shortfall between the fair value and the carrying amount of the assets was significantly larger than any reasonable estimate of the improper payments uncovered in the context of the Lava Jato investigation. Fair value shortfalls originate not primarily from improper payments, but from different sources (both related to the method of measuring the fair value and to changes in the business context), including: the fair value of the assets was measured on a stand-alone basis and did not consider value that would be added to the assets when used in an integrated manner; the discount rate used by the appraisers considered a risk premium related to the acquisition of a single asset by a third party inside a market highly concentrated in a single large-scale player (Petrobras); changes in economic and financial variables (exchange rate, discount rate, risk metrics and cost of capital); changes in estimates of prices and margins of inputs; changes in projections of prices, margins and demand for products sold in light of recent changes in market conditions; changes in equipment and input prices, wages and other correlated costs; the impact of local content requirements; and project planning deficiencies (especially in the Engineering and Downstream areas).

Therefore, the Company concluded that using the fair value as a surrogate or proxy to adjust its property, plant and equipment would not have been appropriate.

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

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

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

1. Identify contractual counterparties: the Company listed all the companies identified in public testimony, and using that information the Company identified all of the contractors and suppliers that were either so identified or were consortia including entities so identified.

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2. Identify the period: the Company concluded from the testimony that the payment scheme was operating from 2004 through April 2012.

3. Identify contracts: the Company identified all contracts entered into with the counterparties identified in step 1 during the period identified in step 2, which included supplemental contracts when the original contract was entered into between 2004 and April 2012. It has identified all of the property, plant and equipment related to those contracts.

4. Identify payments: the Company calculated the total contract values under the contracts identified in step 3.

5. Apply a fixed percentage to the total contract values: 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.

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

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

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

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

As a result, at September 30, 2014, it is not possible for the Company to estimate the amounts that will ultimately be considered deductible or the timing for the deduction.

Accordingly no deferred tax assets were recognized for the writte-off of overpayments incorrectly capitalized.

Petrobras believes that this methodology produces the best estimate for the aggregate overstatement of its property, plant and equipment resulting from the payment scheme, in the sense that it represents the upper bound of the range of reasonable estimates.

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

The total impact of the adjustments by business area, in millions of Reais, is set out below.

**“Write-off – overpayments incorrectly capitalized”**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Payment scheme: | | | | | | | |
| Total contract amounts (*) | 62,679 | 110,867 | 21,233 | 757 | 752 | 3,322 | 199,610 |
| Estimated aggregate overpayments (3%) | 1,880 | 3,326 | 637 | 23 | 23 | 99 | 5,988 |
| Unrelated payments (outside the cartel) | 139 | 1 | 10 | − | − | − | 150 |
| | 2,019 | 3,327 | 647 | 23 | 23 | 99 | 6,138 |
| Reversal of depreciation of the affected assets | (87) | (198) | (52) | − | − | (9) | (346) |
| Impact on property, plant and equipment | 1,932 | 3,129 | 595 | 23 | 23 | 90 | 5,792 |
| Write-down of tax credits related to affected assets (**) | 37 | 298 | 57 | − | − | 10 | 402 |
| Write-off – overpayments incorrectly capitalized | 1,969 | 3,427 | 652 | 23 | 23 | 100 | 6,194 |

(*) Of this amount, R$ 44,115 million represents amounts scheduled to be paid after September 30, 2014.
(**) Write-down of tax credits that will not be applicable in the future.

**The Company's response to the facts uncovered in the investigation**

While the internal and external investigations are ongoing, the Company is taking the necessary procedural steps with Brazilian authorities to seek compensation for the damages it has suffered, including those related to its reputation. To the extent that any of the proceedings resulting from the Lava Jato investigation involve leniency agreements with cartel members or plea agreements with individuals pursuant to which they agree to return funds, Petrobras may be entitled to receive a portion of such funds. The proceedings will also include civil proceedings against cartel members, which Petrobras would have the right to join as a plaintiff, and it expects to do so. The civil proceedings typically result in three types of relief: effective damages, civil fines and moral damages. Petrobras would be entitled to any effective damages and possibly civil fines. Moral damages would typically be contributed to a federal fund, although Petrobras may seek to obtain moral damages once it joins the proceedings as a plaintiff.

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

- The Company has established several Internal Investigative Committees (*Comissões Internas de Apuração – CIA*) to investigate instances of non-compliance with corporate rules, procedures or regulations. We have provided the findings of the internal commissions that have been concluded to Brazilian authorities.

- On October 24 and 25, 2014, the Company engaged two independent law firms, U.S. firm Gibson, Dunn & Crutcher LLP and Brazilian firm Trench, Rossi e Watanabe Advogados, to conduct an independent internal investigation.

- The Company has been cooperating fully with the Brazilian Federal Police (Polícia Federal), the Brazilian Public Prosecutor's Office (Ministério Público Federal), the Brazilian Judiciary, and other Brazilian authorities (the Federal Audit Court – Tribunal de Contas da União – TCU, and the Federal General Controller – Controladoria Geral da União – CGU).

- The Company has established committees to analyze the application of sanctions against contractors and suppliers, and imposed a provisional ban on contracting with the cartel members (and entities related to them) mentioned in the testimony that has been made public.

- The Company has developed and implemented measures to improve corporate governance, risk management and control, which are documented in standards and minutes of management meetings that establish procedures, methods, responsibilities and other guidelines to integrate such measures into the Company's practices.

- The Company has created a position of Governance, Risk and Compliance Officer, with the aim of supporting the Company's compliance programs and mitigating risks in its activities, including fraud and corruption. The new Officer participates in the decisions of the Executive Board, and any matter submitted to the Executive Board for approval must previously be approved by this Officer as they relate to governance, risk and compliance.

- On January 13, 2015 the Board of Directors appointed Mr. João Adalberto Elek Junior to the position of Governance, Risk and Compliance Officer. Mr. João Adalberto Elek Junior took office on January 19, 2015. He will serve a three-year term, which may be renewable, and may only be removed by a vote of the Board of Directors, including the vote of at least one Board Member elected by the non-controlling shareholders or by the preferred shareholders.

- A Special Committee was formed to act independently and to serve as a reporting line to the Board of Directors for the firms conducting the independent internal investigation. The Special Committee is composed of Ellen Gracie Northfleet, retired Chief Justice of the Brazilian Supreme Court (as chair of the Committee), Andreas Pohlmann, Chief Compliance Officer of Siemens AG from 2007 to 2010, and the executive officer of Governance, Risk and Compliance, João Adalberto Elek Junior.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**Main Items and Consolidated Economic Indicators**

**Jan-Dec**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 85,040 | 88,377 | (4) | 81,028 | **Sales revenues** | 337,260 | 304,890 | 11 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 22,015 | 20,441 | 8 | 16,583 | **Gross profit** | 80,437 | 69,895 | 15 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (32,826) | (4,921) | (567) | 7,036 | **Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes** | (21,322) | 34,364 | (162) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (1,814) | (972) | (87) | (3,021) | **Net finance income (expense)** | (3,900) | (6,202) | 37 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (26,600) | (5,339) | (398) | 6,281 | **Consolidated net income (loss) attributable to the shareholders of Petrobras** | (21,587) | 23,570 | (192) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (2.04) | (0.41) | (398) | 0.48 | **Basic and diluted earnings (losses) per share [1]** | (1.65) | 1.81 | (191) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 127,506 | 229,723 | (44) | 214,688 | **Market capitalization (Parent Company)** | 127,506 | 214,688 | (41) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 26 | 23 | 3 | 20 | **Gross margin (%)** | 24 | 23 | 1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (39) | 1 | (40) | 9 | **Operating margin (%) [2]** | (4) | 11 | (15) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (31) | (6) | (25) | 8 | **Net margin (%)** | (6) | 8 | (14) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 20,057 | 8,488 | 136 | 15,553 | **Adjusted EBITDA [3]** | 59,140 | 62,967 | (6) |

**Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes by business segment**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 4,055 | 13,405 | (70) | 17,845 | **. Exploration & Production** | 50,172 | 64,415 | (22) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (32,185) | (11,840) | (172) | (8,213) | **. Refining, Transportation and Marketing** | (57,361) | (26,842) | (114) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 459 | (3,538) | 113 | (332) | **. Gas & Power** | (1,644) | 1,344 | (222) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (57) | (67) | 15 | (44) | **. Biofuel** | (262) | (315) | 17 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 669 | (295) | 327 | 558 | **. Distribution** | 1,868 | 2,814 | (34) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (2,776) | (18) | - | 264 | **. International** | (1,688) | 3,891 | (143) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (4,478) | (3,586) | (25) | (2,513) | **. Corporate** | (14,139) | (10,615) | (33) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 24,598 | 21,043 | 17 | 35,153 | **Capital expenditures and investments** | 87,140 | 104,416 | (17) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 76.27 | 101.85 | (25) | 109.27 | **Brent crude (US$/bbl)** | 98.99 | 108.66 | (9) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2.54 | 2.27 | 12 | 2.27 | **Average commercial selling rate for U.S. dollar** | 2.35 | 2.16 | 9 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2.66 | 2.45 | 8 | 2.34 | **Period-end commercial selling rate for U.S. dollar** | 2.66 | 2.34 | 13 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 8.4 | 11.3 | (3) | 5.0 | **Variation of the period-end commercial selling rate for U.S. dollar (%)** | 13.4 | 14.6 | (1) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 11.22 | 10.90 | − | 9.52 | **Selic interest rate - average (%)** | 10.86 | 8.19 | 3 |

**Average price indicators**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 228.81 | 224.52 | 2 | 215.33 | **Domestic basic oil products price (R$/bbl)** | 226.52 | 209.17 | 8 |

**Domestic Sales Price**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 66.49 | 90.73 | (27) | 96.92 | **. Crude oil (U.S. dollars/bbl) [4]** | 87.84 | 98.19 | (11) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 45.54 | 49.28 | (8) | 45.08 | **. Natural gas (U.S. dollars/bbl)** | 47.93 | 47.68 | 1 |

**International Sales Price**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 73.66 | 84.05 | (12) | 86.43 | **. Crude oil (U.S. dollars/bbl)** | 82.93 | 89.86 | (8) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 22.26 | 19.16 | 16 | 21.70 | **. Natural gas (U.S. dollars/bbl)** | 21.18 | 21.08 | – |

[1] Basic and diluted earnings (losses) per share calculated based on the weighted average number of shares.

[2] Operating margin calculated based on net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes, excluding *write-offs of overpayments incorrectly capitalized*.

[3] EBITDA + share of earnings in equity-accounted investments, impairment and *write-offs of overpayments incorrectly capitalized*.

[4] Average between the exports prices and the internal transfer prices from Exploration & Production to Refining, Transportation and Marketing.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**RESULTS OF OPERATIONS**

**2014 x 2013 Results:**

**Gross Profit**

Gross profit increased by 15% (R$ 10,542 million), mainly due to:

Ø Sales revenues of R$ 337,260 million, 11% higher, when compared to 2013, resulting from:

• Higher oil product prices in the domestic market attributable to diesel and gasoline price increases and to the impact of foreign currency depreciation (9%) on the price (in *reais*) of oil products that are adjusted to reflect international prices, as well as higher electricity and natural gas prices; and

• A 3% increase in the domestic demand for oil products, mainly diesel (2%), gasoline (5%) and fuel oil (21%), and an increase in crude oil export volumes (12%), partially offset by a decrease in oil product export volumes (15%).

Ø Cost of sales of R$ 256,823 million, 9% higher when compared to 2013, due to:

• Higher import costs and production taxes attributable to foreign currency depreciation;

• Domestic oil products sales volumes were 3% higher and increased LNG import volumes to meet the demand; and

• Higher electricity costs due to an increase in the electricity prices in the spot market.

**Net loss before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes**

Net loss before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes reached R$ 21,322 million in 2014, compared to a R$ 34,364 million net income of in 2013. This result reflects:

• Impairment charges (R$ 44,636 million);

• *Write-offs of overpayments incorrectly capitalized* (R$ 6,194 million);

• Allowance for impairment of trade receivables from the isolated electricity sector (R$ 4,511 million);

• Write-off of the capitalized costs of Premium I and Premium II refineries (R$ 2,825 million);

- The impact of the Company’s Voluntary Separation Incentive Plan - PIDV (R$ 2,443 million);

- A review of the Company’s estimates of decommissioning costs (R$ 1,128 million);

- Write-off of E&P areas returned to the Brazilian Agency of Petroleum, Natural Gas and Biofuelds - ANP (R$ 610 million); and

- The review of the Company’s pension and medical benefit obligations (R$ 505 million).

These effects were partially offset by a higher gross profit.

**Net finance expense**

Net finance expense of R$ 3,900 million, R$ 2,302 million lower when compared to 2013, resulting from:

- A decrease in foreign exchange variation charges on lower net liabilities in U.S. dollar;

- Foreign exchange gain attributable to the appreciation of the U.S. dollar compared to other currencies, mainly against the Euro;

- Inflation indexation gains on a contingent asset with respect to undue taxes paid on finance income – PIS and COFINS from February 1999 to December 2002; and

- Inflation indexation on debt confession agreements related to receivables of electricity sector.

Those effects were partially offset by higher interest expenses resulting from an increase in the Company’s finance debt.

**Net loss attributable to the shareholders of Petrobras**

Net loss attributable to the shareholders of Petrobras reached R$ 21,587 million in 2014, resulting mainly from impairment charges in refining, exploration and production of oil and natural gas and petrochemical assets.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**RESULTS OF OPERATIONS**

**4Q-2014 x 3Q-2014 Results:**

**Gross Profit**

Gross profit increased 8% (R$ 1,574 million), mainly due to:

Ø Sales revenues of R$ 85,040 million, 4% lower as a result of:

- Decreased crude oil export volumes and average prices resulting, respectively, from a higher domestic crude oil processing in the domestic refineries and lower international oil prices; and

- Lower domestic oil product demand (mainly diesel).

Those effects were partially offset by diesel (5%) and gasoline (3%) price increases on November 7, 2014.

Ø Costs of sales of R$ 63,025 million, 7% lower when compared to the 3Q-2014, due to lower domestic oil product sales volumes, as well as to a decrease in crude oil import costs and production taxes, resulting from a decrease in international prices.

**Net loss before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes**

Net loss before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes of R$ 32,826 million resulted from:

- Impairment charge of R$ 44,345 million, mainly on refining assets, exploration and production of crude oil and natural gas and petrochemical assets.

This effect was partially offset by:

- Gain on the disposal of the Company's interest in Petrobras Energia Peru S/A (R$ 3,286 million) ;

- Lower allowance for impairment of trade receivables from the electricity sector (R$ 3,003 million); and

- Higher gross profit.

In addition, a R$ 6,194 million *write-off of overpayments incorrectly capitalized* was recognized in the 3Q-2014 along with a R$ 2,707 million write-off of the capitalized costs of Premium I and Premium II refineries.

**Net finance expense**

Net finance expense of R$ 1,814 million was R$ 842 million higher than in the 3Q-2014, resulting from a exchange variation losses on decreased net liabilities in Euro, due to a 3.8% appreciation of the U.S. dollar against the Euro in the 4Q-2014 compared to a 7.7% appreciation in the 3Q-2014. Those effects were partially offset by a foreign exchange variation gain attributable to a lower 8.4% depreciation of the Real against the U.S. Dollar on net liabilities in U.S. Dollars (compared to a 11.3% depreciation in the 3Q-2014).

**Net loss attributable to the shareholders of Petrobras**

Net loss attributable to the shareholders of Petrobras was R$ 26,600 million, resulting mainly from impairment charges in refining, exploration and production of oil and natural gas and petrochemical assets.

**FINANCIAL AND OPERATING HIGHLIGHTS**

## NET INCOME BY BUSINESS SEGMENT

Petrobras is an integrated energy company and most of the crude oil and natural gas production from the Exploration & Production segment is transferred to other business segments of the Company. Our results by business segment include transactions carried out with third parties, transactions between companies of Petrobras's Group and transfers between Petrobras's business segments that are calculated using internal transfer prices defined through methodologies based on market parameters.

## EXPLORATION & PRODUCTION

**Jan-Dec**

**Net Income**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,672 | 8,145 | (67) | 11,733 | | 32,264 | 42,213 | (24) |

**(4Q-2014 x 3Q-2014):** The lower net income was due to a decrease in crude oil sales/transfer prices resulting from lower international prices and to impairment charges. These effects were partially offset by an increase in crude oil and NGL production (3%), by the impact of the depreciation of the Real against the U.S. dollar on crude oil sales/transfer prices and by lower exploration costs (mainly write-offs of dry and/or sub-commercial wells).

The spread between the average domestic oil price (sale/transfer) and the average Brent price decreased from U.S.$ 11.12/bbl in the 3Q-2014 to U.S.$ 9.78/bbl in the 4Q-2014.

**(2014 x 2013):** The lower net income was due to impairment charges, to *write-off of overpayments incorrectly capitalized*, to the impact of the Company’s voluntary separation incentive plan (PIDV), to a review of the Company’s estimated decommissioning costs, to write-off of E&P areas returned to the ANP and to higher operating costs, such as equipment depreciation, equipment maintenance, interventions on wells, oil platform chartering, materials and increased employee compensation costs. These effects were partially offset by the higher crude oil and NGL production (5%). This net result in 2014, when compared to 2013, is further impacted by the fact that in 2013 we recognized a gain on the disposal of Parque das Conchas offshore project (BC-10).

The spread between the average domestic oil price (sale/transfer) and the average Brent price increased from US$10.47/bbl in 2013 to US$ 11.15/bbl in 2014.

**Jan-Dec**

**Exploration & Production - Brazil (Mbbl/d) (*)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,150 | 2,090 | 3 | 1,960 | Crude oil and NGLs | 2,034 | 1,931 | 5 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 453 | 441 | 3 | 380 | Natural gas [5] | 426 | 389 | 10 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **2,603** | **2,531** | 3 | **2,340** | **Total** | **2,460** | **2,320** | 6 |

**(4Q-2014 x 3Q-2014):** The 3% increase in crude oil and NGL production is attributable to the ramp-up of P-55 (Roncador), P-62 (Roncador), P-58 (Parque das Baleias) and FPSOs Cidade de São Paulo (Sapinhoá) and Cidade de Paraty (Lula NE), as well as the production start-up of FPSOs Cidade de Mangaratiba (Iracema Sul) and Cidade de Ilhabela (Sapinhoá). Natural gas production increased by 3% due to a higher production in FPSOs Cidade de São Paulo (Sapinhoá) and Cidade de Paraty (Lula NE), as well as the production start-up of FPSOs Cidade de Mangaratiba (Iracema Sul) and Cidade de Ilhabela (Sapinhoá).

**(2014 x 2013):** Crude oil and NGL production increased by 5% in 2014 resulting from the start-up of platforms P-58 (Parque das Baleias) and P-62 (Roncador) and FPSOs Cidade de Mangaratiba (Iracema Sul) and Cidade de Ilhabela (Sapinhoá), as well as from the ramp-up of P-63 (Papa-Terra), P-55 (Roncador) production systems, FPSO Cidade de Itajaí (Baúna), Cidade de Paraty (Lula NE) and Cidade de São Paulo (Sapinhoá). The natural decline of certain fields partially offset these effects. The 10% increase in natural gas production is attributable to the production start-up of platforms P-58 (Parque das Baleias) and P-62 (Roncador) and of FPSOs Cidade de Mangaratiba (Iracema Sul) and Cidade de Ilhabela (Sapinhoá), as well as the ramp-up of P-55 (Roncador).

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(*) Not audited by independent auditor.

[5] Does not include LNG. Includes gas reinjection.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**Jan-Dec**

**Lifting Cost - Brazil (*)**

**U.S.$/barrel:**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 14.21 | 15.33 | (7) | 14.33 | Excluding production taxes | 14.57 | 14.76 | (1) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 25.72 | 31.37 | (18) | 33.10 | Including production taxes | 30.54 | 32.98 | (7) |

**R$/barrel:**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 36.12 | 35.18 | 3 | 32.66 | Excluding production taxes | 34.26 | 31.94 | 7 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 66.41 | 73.94 | (10) | 75.70 | Including production taxes | 72.04 | 71.66 | 1 |

**Lifting Cost - Excluding production taxes – U.S.$/barrel**

**(4Q-2014 x 3Q-2014):** Lifting cost excluding production taxes in U.S.$/barrel decreased by 7%. Excluding the impact of foreign exchange variation, it was flat in the period.

**(2014 x 2013):** Lifting cost excluding production taxes in U.S.$/barrel decreased by 1% in 2014, when compared to 2013. Excluding the impact of foreign exchange variation, it increased by 4% due to higher maintenance costs in platforms, higher engineering and subsea maintenance costs in the Campos Basin and to the start-up of the FPSOs Cidade de Mangaratiba (Iracema Sul) and Cidade de Ilhabela (Sapinhoá), which have higher costs per unit produced during the start-up period.

**Lifting Cost - Including production taxes – U.S.$/barrel**

**(4Q-2014 x 3Q-2014):** The 18% decrease in lifting cost including production taxes is attributable to a decrease in the average reference price for domestic crude oil in U.S. dollars (28%), which is used to calculate production taxes in Brazil, resulting from lower international crude oil prices.

**(2014 x 2013):** The 7% decrease in lifting cost including production taxes in 2014 when compared to 2013 is attributable to lower average reference price for domestic crude oil in U.S. dollars (a 10% decrease), which is used as parameter to calculate production taxes in Brazil, as a result of lower international crude oil prices in 2014 when compared to 2013.

(*) Not audited by independent auditor.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**REFINING, TRANSPORTATION AND MARKETING**

**Jan-Dec**

**Net Income**

| | | | | | | |
|---|---|---|---|---|---|---|
| (21,333) | (8,903) | (140) | (5,468) | (38,927) | (17,734) | (120) |

**(4Q-2014 x 3Q-2014):** The higher net loss results from impairment charges, partially offset by an increase in diesel (5%) and gasoline (3%) prices on November 7, 2014 and by a decrease in crude oil acquisition/transfer costs due to lower international crude oil and oil product prices.

**(2014 x 2013):** Net losses were higher in 2014 when compared to 2013, as a result of impairment charges, *write-off of overpayments incorrectly capitalized* and of the write-off of capitalized costs in Premium I and Premium II refineries and from the impact of the Company's Voluntary Separation Incentive Plan (PIDV). Those effects were partially offset by higher average oil product selling prices due to diesel and gasoline price increases in 2013 and 2014, and by an increase in oil product production (2%).

**Jan-Dec**

**Imports and Exports of Crude Oil and Oil Products (Mbbl/d) (*)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 371 | 303 | 22 | 354 | Crude oil imports | 392 | 404 | (3) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 412 | 410 | – | 426 | Oil product imports | 413 | 389 | 6 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **783** | **713** | 10 | **780** | **Imports of crude oil and oil products** | **805** | **793** | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 270 | 323 | (16) | 242 | Crude oil exports [6] | 232 | 207 | 12 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 123 | 168 | (27) | 160 | Oil product exports | 158 | 186 | (15) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **393** | **491** | (20) | **402** | **Exports of crude oil and oil products** | **390** | **393** | (1) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **(390)** | **(222)** | (76) | **(378)** | **Exports (imports) net of crude oil and oil products** | **(415)** | **(400)** | (4) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2 | 5 | (60) | 2 | Other exports | 3 | 2 | 50 |

**(4Q-2014 x 3Q-2014):** Higher crude oil imports due to the fact that the 3Q-2014 was impacted by the anticipation of crude oil processing in the 2Q-2014 to make use of economic indication.

Crude oil exports decreased due to higher domestic crude oil processing in the Brazilian refineries.

**(2014 x 2013):** Crude oil exports were higher in 2014, resulting from higher crude oil production, even considering the increase in the share of domestic crude oil processed in the Brazilian refineries. Oil product imports were higher in order to meet a higher domestic demand.

Fuel oil exports decreased because domestically produced fuel oil was sold to thermoelectric power plants for electricity generation.

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(*) Not audited by independent auditor.

[6] It includes crude oil exports volumes of Refining, Transportation and Marketing and Exploration & Production segments.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**Jan-Dec**

**Refining Operations**
**(Mbbl/d) (*)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,171 | 2,204 | (1) | 2,105 | Output of oil products | 2,170 | 2,124 | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,176 | 2,102 | 4 | 2,102 | Reference feedstock [7] | 2,176 | 2,102 | 4 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 98 | 100 | (2) | 95 | Refining plants utilization factor (%) [8] | 98 | 97 | 1 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,085 | 2,094 | − | 1,994 | Feedstock processed (excluding NGL) - Brazil [9] | 2,065 | 2,029 | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,127 | 2,138 | (1) | 2,039 | Feedstock processed - Brazil [10] | 2,106 | 2,074 | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 84 | 80 | 4 | 83 | Domestic crude oil as % of total feedstock processed | 82 | 82 | – |

**(4Q-2014 x 3Q-2014):** Daily feedstock processed remained relatively flat in the period. Reference feedstock increased when the first refining set of RNEST refinery started-up.

**(2014 x 2013):** Daily feedstock processed was 2% higher in 2014 when compared to 2013, resulting from a sustainable improvement of the performance of the Company’s refineries.

**Jan-Dec**

**Refining Cost - Brazil (*)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2.71 | 3.17 | (15) | 2.88 | Refining cost (U.S.$/barrel) | 2.90 | 3.09 | (6) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 6.90 | 7.33 | (6) | 6.62 | Refining cost (R$/barrel) | 6.82 | 6.67 | 2 |

**(4Q-2014 x 3Q-2014):** Refining cost, in US$/barrel, decreased by 15%. Refining cost, in R$/barrel, decreased by 6% due to lower employee compensation costs compared with the 3Q-2014, which was affected by the 2014 Collective Bargaining Agreement.

**(2014 x 2013):** Refining cost, in US$/barrel, decreased by 6%. Refining cost, in R$/barrel, increased by 2%, mainly attributable to higher maintenance and repair costs and from higher employee compensation costs arising from the 2014 Collective Bargaining Agreement.

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(*) Not audited by independent auditor.

[7] Reference feedstock or Installed capacity of primary processing considers the maximum sustainable feedstock processing reached at the distillation units at the end of each period, respecting the project limits of equipments and the safety, environment and product quality requirements. It is lower than the authorized capacity set by ANP (including temporary authorizations) and by environmental protection agencies.

[8] Refining plants utilization factor is the relation between the feedstock processed (excluding NGL) and the reference feedstock.

[9] Feedstock processed (excluding NGL) – Brazil is the volume of crude oil processed in the Company´s refineries and is factored into the calculation of the Refining Plants Utilization Factor.

[10] Feedstock processed – Brazil includes crude oil and NGL processing.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**GAS & POWER**

**Jan-Dec**

**Net Income**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 357 | (2,510) | 114 | (6) | | (936) | 1,256 | (175) |

**(4Q-2014 x 3Q-2014):** The net income in the 4Q-2014 resulted from an increase in electricity generation and to the higher average sales prices. These effects were partially offset by higher LNG import costs to meet thermoelectric demand and by the additional allowance for impairment of trade receivables from the electricity sector. The 3Q-2014 net loss was mainly attributable to the allowance for impairment of trade receivables from the electricity sector.

**(2014 x 2013):** Our net loss in 2014 is attributable to higher LNG and natural gas import costs to meet thermoelectric demand, to the impacts of an agreement as to the import of Bolivian natural gas, to an allowance for impairment of trade receivables from the electricity sector, to the *write-off of overpayments incorrectly capitalized* and to the effects of the Company's Voluntary Separation Incentive Plan (PIDV). These effects were partially offset by higher average electricity prices attributable to higher spot prices, as a result of lower water reservoir levels, and by a R$ 646 million gain from the disposal of 100% of the Company's interest in Brasil PCH S.A.

**Jan-Dec**

**Physical and Financial Indicators (*)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1,128 | 1,196 | (6) | 2,147 | Electricity sales (Free contracting market - ACL) - average MW | 1,183 | 2,056 | (42) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,671 | 2,671 | − | 1,798 | Electricity sales (Regulated contracting market - ACR) - average MW | 2,425 | 1,798 | 35 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 4,941 | 4,789 | 3 | 2,866 | Generation of electricity - average MW | 4,637 | 3,983 | 16 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 724 | 671 | 8 | 292 | Electricity price in the spot market - Differences settlement price (PLD) - R$/MWh [11] | 674 | 262 | 157 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 190 | 116 | 64 | 88 | Imports of LNG (Mbbl/d) | 144 | 98 | 47 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 201 | 210 | (4) | 199 | Imports of natural gas (Mbbl/d) | 205 | 198 | 4 |

**(4Q-2014 x 3Q-2014):** Electricity sales volumes were 6% lower on the Free Contracting Environment – ACL due to lower demand.

The 3% increase on electricity generation and the 8% increase on electricity prices in the spot market resulted from lower rainfall levels in the period.

The 64% increase on LNG imports was due to higher thermoelectric demand.

The 4% decrease in natural gas imports from Bolivia is due to a lower natural gas supply attributable to scheduled maintenances on producing fields in Bolivia.

**(2014 x 2013):** Electricity sales volumes were 42% lower in 2014 when compared to 2013 resulting from the shift of the sale of a portion of our available capacity (574 average MW) towards the Brazilian electricity regulated market (Ambiente de Contratação Regulada – ACR). The termination of our lease agreement for Araucária thermoelectric power plant, which reduced our availability of electricity for trading (349 average MW) also reduced our sales volumes.

Electricity generation was 16% higher and spot prices increased by 157% due to lower rainfall levels in the period.

LNG imports and natural gas imports from Bolivia were 47% and 4% higher, respectively, to meet a higher thermoelectric demand in Brazil.

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(*) Not audited by independent auditor.

[11] Weekly weighed prices per output level (light, medium and heavy), number of hours and submarket capacity.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**BIOFUEL**

**Jan-Dec**

**Net Income**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (67) | (90) | 26 | (36) | | (298) | (254) | (17) |

**(4Q-2014 x 3Q-2014):** Net losses were lower, due to a decrease in the share of losses from ethanol investees and by higher biodiesel average sales prices.

**(2014 x 2013):** Biofuel net losses were higher in 2014, when compared to 2013, mainly due to the higher share of losses from biodiesel investees and to the impact of the Company’s voluntary separation incentive plan (PIDV). These effects were partially offset by lower losses on biodiesel operations and by a decrease in inventory write-downs to net realizable value (market value).

**DISTRIBUTION**

**Jan-Dec**

| Net Income | | | | | | |
|---|---|---|---|---|---|---|
| 432 | (203) | 313 | 359 | 1,185 | 1,813 | (35) |

**(4Q-2014 x 3Q-2014):** Net income in the 4Q-2014 is attributable to higher sales volumes. The net loss in the 3Q-2014 was mainly attributable to an allowance for impairment of trade receivables from the electricity sector and to higher employee compensation costs arising from 2014 Collective Bargaining Agreement.

**(2014 x 2013):** Net income was lower due to higher selling expenses attributable to an allowance for impairment of trade receivables from the electricity sector and to the impact of the Company's Voluntary Separation Incentive Plan (PIDV), partially offset by an increase in sales volumes and higher average margins in fuel trading.

**Jan-Dec**

**Market Share (*)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 37.8% | 38.1% | – | 37.4% | | 37.9% | 37.5% | – |

**(4Q-2014 x 3Q-2014):** The Company's market share was lower mainly due to a decrease in the total volume sold in the diesel market, in which BR Distribuidora has a significant share. BR Distribuidora increased its market share in diesel volumes, however, the change in the sales mix led to an overall decrease in its market share.

**(2014 x 2013):** Our market share increased mainly due to higher sales volumes necessary to meet a higher thermoelectric demand from the Brazilian integrated electricity system.

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(*) Not audited by independent auditor.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**INTERNATIONAL**

**Jan-Dec**

**Net Income**

| | | | | | | |
|---|---|---|---|---|---|---|
| (4,131) | (219) | (1,786) | 640 | (3,204) | 3,648 | (188) |

**(4Q-2014 x 3Q-2014):** The 4Q-2014 result was affected by impairment charges recognized on E&P activities in the United States and Bolivia and on Japanese refining, mainly attributable to a decrease in international crude oil and oil product prices. An allowance for losses in investments in Venezuela and Africa was also recognized, in addition to higher inventory write-downs to net realizable value (market value) in the United States and in Japan. These effects were partially offset by a gain on the disposal of the Company's interest in Petrobras Energia Peru S/A, concluded in November 2014.

**(2014 x 2013):** Our net loss in 2014 is attributable to impairment charges recognized on E&P activities in the United States and Bolivia and on our Japanese refinery, mainly resulting from a decrease in international crude oil and oil product prices, a recognition of an allowance for losses in investments in Venezuela, Ecuador and Africa, higher inventory write-downs to net realizable value (market value) in Japan, as well as a lower gross profit, mainly in international E&P operations, due to divestments completed and to a decrease in international commodities prices. These effects were partially offset by a gain on disposal of the Company's interest in Peruvian operations and on onshore assets in Colombia, concluded in 2014.

The net result in 2014, when compared to 2013, was further affected by the fact that in 2013 we recognized a gain on the disposal of 50% of the Company's assets in Africa.

**Jan-Dec**

**Exploration & Production-International (Mbbl/d)[12] (*)**

**Consolidated international production**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 75 | 86 | (13) | 73 | Crude oil and NGLs | 85 | 109 | (22) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 90 | 96 | (6) | 89 | Natural gas | 93 | 91 | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 165 | 182 | (9) | 162 | Total consolidated international production | 178 | 200 | (11) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 31 | 33 | (6) | 32 | Non-consolidated international production | 31 | 19 | 63 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **196** | **215** | (9) | **194** | **Total international production** | **209** | **219** | (5) |

**(4Q-2014 x 3Q-2014):** Crude oil and NGL production decreased by 13% due to the disposal of assets in Peru concluded in November 2014.

Natural gas production decreased by 6% also due to the disposal of assets in Peru.

**(2014 x 2013):** Consolidated crude oil and NGL production decreased by 22% in 2014, attributable to the disposal of onshore areas in Colombia, concluded in April 2014, in Peru in November 2014 and from the disposal of the Puesto Hernandez asset in Argentina in January 2014 and of the disposal of 50% of the Company's interest in companies in Nigeria, completed in June 2013. Our production share in Nigerian assets (our 50% remaining interest) was accounted for as non-consolidated production. These effects were partially offset by an increase in the crude oil and NGL production in the United States due to the production start-up of new wells in Cascade and Chinook fields, beginning on January 2014.

Natural gas production was higher, mainly in Peru, due to the start-up of Kinteroni field in March 2014.

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(*) Not audited by independent auditor.

[12] Some of the countries that comprise the international production are operating under the production-sharing model, with the production taxes charged in crude oil barrels.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**Jan-Dec**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | **Lifting Cost - International (U.S.$/barrel) (*)** | | | |
| 10.40 | 8.84 | 18 | 11.72 | | 8.98 | 9.50 | (5) |

**(4Q-2014 x 3Q-2014):** Lifting cost increased by 18%, mainly in Argentina, due to higher costs with well repairs, and in the United States due to maintenance costs on production lines in the Cottonwood field.

**(2014 x 2013):** International lifting cost was 5% lower in 2014, mainly in Argentina, resulting from the depreciation of the Argentine Peso against the U.S. dollar and from the disposal of the Company’s Puesto Hernández asset, which had higher-than-average production costs when compared to other assets in the international segment. In addition, production was higher in Cascade and Chinook fields in the United States.

**Jan-Dec**

**Refining Operations - International (Mbbl/d) (*)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 149 | 162 | (8) | 175 | Total feedstock processed [13] | 163 | 169 | (4) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 157 | 175 | (10) | 196 | Output of oil products | 175 | 185 | (5) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 230 | 230 | – | 231 | Reference feedstock [14] | 230 | 231 | – |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 64 | 68 | (4) | 74 | Refining plants utilization factor (%) [15] | 69 | 70 | (1) |

**(4Q-2014 x 3Q-2014):** Feedstock processed was 8% lower due to a decrease in the output of oil products and in the capacity utilization, mainly in Japan, attributable to the lower fuel oil demand from electricity generation companies. Maintenance stoppages in catalytic cracking units in the United States in the 4Q-2014 also contributed to a decrease in feedstock processed. These effects were partially offset in Argentina due to the return of operations after scheduled stoppages in the 3Q-2014 in several processing units.

**(2014 x 2013):** Our total international feedstock processed was 4% lower due to a decrease in oil product production and lower capacity utilization, resulting from a scheduled stoppage in Argentina in 2014, to the lower fuel oil demand in Japan and to maintenance stoppages in the catalytic cracking units in the United States.

**Jan-Dec**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 5.25 | 4.02 | 31 | 4.44 | **Refining Cost - International (U.S.$/barrel) (*)** | 4.14 | 4.06 | 2 |

**(4Q-2014 x 3Q-2014):** Refining cost per unit increased by 31% mainly due to maintenances at the catalytic cracking unit in the United States and to a decrease in feedstock processed in Japan, attributable to lower oil fuel demand.

**(2014 x 2013):** International refining cost per unit was 2% higher in 2014 when compared to 2013, mainly in the United States, due to higher expenses with effluent water treatment in refining and to maintenance stoppages of the catalytic cracking unit in the period. These effects were partially offset by lower refining costs in Argentina, when expressed in U.S. dollars, attributable to the depreciation of the Argentine Peso against the U.S. dollar.

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(*) Not audited by independent auditor.

[13] Total feedstock processed is the crude oil processed abroad at the atmospheric distillation plants, plus the intermediate products acquired from third parties and used as feedstock in other refining units.

[14] Reference feedstock is the maximum sustainable crude oil feedstock reached at distillation plants.

[15] Refining Plants Utilization Factor is the relation between the crude oil processed at the distillation plant and the reference feedstock.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**Sales Volumes – (Mbbl/d)(*)**

**Jan-Dec**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1,010 | 1,049 | (4) | 1,005 | Diesel | 1,001 | 984 | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 644 | 616 | 5 | 610 | Gasoline | 620 | 590 | 5 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 126 | 126 | – | 99 | Fuel oil | 119 | 98 | 21 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 152 | 160 | (5) | 164 | Naphtha | 163 | 171 | (5) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 233 | 247 | (6) | 235 | LPG | 235 | 231 | 2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 113 | 110 | 3 | 108 | Jet fuel | 110 | 106 | 4 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 209 | 225 | (7) | 204 | Others | 210 | 203 | 3 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2,487 | 2,533 | (2) | 2,425 | Total oil products | 2,458 | 2,383 | 3 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 113 | 98 | 15 | 106 | Ethanol, nitrogen fertilizers, renewables and other products | 99 | 91 | 9 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 455 | 449 | 1 | 392 | Natural gas | 446 | 409 | 9 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 3,055 | 3,080 | (1) | 2,923 | Total domestic market | 3,003 | 2,883 | 4 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 395 | 496 | (20) | 404 | Exports | 393 | 395 | (1) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 560 | 567 | (1) | 567 | International sales | 571 | 514 | 11 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 955 | 1,063 | (10) | 971 | Total international market | 964 | 909 | 6 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **4,010** | **4,143** | (3) | **3,894** | **Total** | **3,967** | **3,792** | 5 |

**(4Q-2014 x 3Q-2014):** Our domestic sales volumes decreased by 1% when compared to the 3Q-2014, primarily due to:

- Diesel (a 4% decrease) – due to seasonal demand, considering that the economic activity is higher in the third quarter, and an increase in the percentage of biodiesel, from 6% to 7% in November 2014;

- Gasoline (a 5% increase) – due to higher salaries as a result of Christmas bonuses and an increase in gasoline-moved light vehicle fleet;

- LPG (a 6% decrease) – due to the seasonal demand resulting from higher average temperatures and lower economic activity in the 4Q-2014; and

- Natural gas (a 1% increase) – due to a higher demand on the electricity sector.

**(2014 x 2013):** Our domestic sales volumes increased by 4% in 2014 compared to 2013, primarily due to:

- Diesel (a 2% increase) – higher consumption by infrastructure construction projects in Brazil, an increase in the Brazilian diesel-moved light vehicle fleet (vans, pick-ups and SUVs) and higher thermoelectric consumption by the Brazilian Integrated Electricity System;

- Gasoline (a 5% increase) – an increase in the automotive gasoline-moved fleet attributable to the higher competitive advantage of gasoline prices relatively to ethanol in most Brazilian states and to a higher household consumption. An increase in the anhydrous ethanol content requirement for Type C gasoline (from 20% to 25%) in 2014 partially offset these effects;

- Fuel oil (a 21% increase) – due to higher demand from thermoelectric plants in several Brazilian states; and

- Natural gas (a 9% increase) – due to a higher demand on the electricity sector.

(*) Not audited by independent auditor.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**LIQUIDITY AND CAPITAL RESOURCES**

**Consolidated Statement of Cash Flows Data – Summary**[16]

| | **Jan-Dec** |
|---|---|

| | | | | | |
|---|---|---|---|---|---|
| **70,259** | **66,363** | **57,879** | **Adjusted cash and cash equivalents at the beginning of period** [17] | **46,257** | **48,497** |

| | | | | | |
|---|---|---|---|---|---|
| (20,635) | (8,223) | (18,529) | Government bonds and time deposits at the beginning of period | (9,085) | (20,869) |

| | | | | | |
|---|---|---|---|---|---|
| **49,624** | **58,140** | **39,350** | **Cash and cash equivalents at the beginning of period 16** | **37,172** | **27,628** |

| | | | | | |
|---|---|---|---|---|---|
| 14,974 | 23,553 | 10,776 | Net cash provided by (used in) operating activities | 62,241 | 56,210 |

| | | | | | |
|---|---|---|---|---|---|
| (16,980) | (31,111) | (18,420) | Net cash provided by (used in) investing activities | (85,208) | (76,674) |

| | | | | | |
|---|---|---|---|---|---|
| (22,189) | (20,129) | (32,109) | Capital expenditures and investments in operating segments | (81,795) | (98,038) |

| | | | | | |
|---|---|---|---|---|---|
| 8,043 | 302 | 3,997 | Proceeds from disposal of assets (divestment) | 9,399 | 8,383 |

| | | | | | |
|---|---|---|---|---|---|
| (2,834) | (11,284) | 9,692 | Investments in marketable securities | (12,812) | 12,981 |

| | | | | | |
|---|---|---|---|---|---|
| **(2,006)** | **(7,558)** | **(7,644)** | **(=) Net cash flow** | **(22,967)** | **(20,464)** |

| | | | | | |
|---|---|---|---|---|---|
| (6,163) | (4,998) | 4,553 | Net financings | 35,134 | 33,176 |

| | | | | | |
|---|---|---|---|---|---|
| 3,823 | 5,022 | 12,828 | Proceeds from long-term financing | 72,871 | 83,669 |

| | | | | | |
|---|---|---|---|---|---|
| (9,986) | (10,020) | (8,275) | Repayments | (37,737) | (50,493) |

| | | | | | |
|---|---|---|---|---|---|
| 14 | (18) | (2) | Dividends paid to shareholders | (8,735) | (5,776) |

| | | | | | |
|---|---|---|---|---|---|
| (194) | (57) | 63 | Acquisition of non-controlling interest | (250) | (137) |

| | | | | | |
|---|---|---|---|---|---|
| 2,964 | 4,115 | 852 | Effect of exchange rate changes on cash and cash equivalents | 3,885 | 2,745 |

| | | | | | |
|---|---|---|---|---|---|
| **44,239** | **49,624** | **37,172** | **Cash and cash equivalents at the end of period [16]** | **44,239** | **37,172** |

| | | | | | |
|---|---|---|---|---|---|
| 24,707 | 20,635 | 9,085 | Government bonds and time deposits at the end of period | 24,707 | 9,085 |

| | | | | | |
|---|---|---|---|---|---|
| **68,946** | **70,259** | **46,257** | **Adjusted cash and cash equivalents at the end of period [17]** | **68,946** | **46,257** |

As of December 31, 2014, the balance of cash and cash equivalents increased 19% when compared to December 31, 2013 and the balance of adjusted cash and cash equivalents[17] increased by 49%. Our principal uses of funds in 2014 were for capital expenditures and payment of dividends. We met these requirements with cash provided by operating activities of R$ 62,241 million, net long-term financing of R$ 35,134 million and disposal of assets of R$ 9,399 million.

Net cash provided by operating activities increased by 11% in 2014 when compared to 2013, mainly due to a higher gross profit and a decrease in the level of inventories (R$ 5,979 million). Capital expenditures and investments were 17% lower in 2014, mainly due to a decrease in RTM (R$ 10,272 million) and in E&P capital expenditures (R$ 3,743 million). Proceeds from disposal of assets reached R$ 9,399 million, resulting from the disposal of Petrobras Energia Peru, Brasil PCH, Innova and Gasmig. Proceeds from long-term financing, net of repayments, amounted to R$ 35,134 million in 2014. The principal sources of long-term financing were the issuance of notes for a total of US$ 13.6 billion in capital markets, as well as long-term financing obtained in the domestic and international banking markets.

The Company’s ability to invest its available funds has been limited as a result of a decrease in expected future operating revenues following the decline of oil prices, along with the devaluation of the Brazilian real, which has increased the Company’s cash outflows to service debt in the near term, most of which is denominated in foreign currencies. For a variety of reasons, including the current economic environment in Brazil, Petrobras is currently unable to access the capital markets. As a result, the Company has recently determined to postpone projects impacted by complications due to contractor insolvency or to a lack of availability of qualified suppliers (mainly as a result of the Lava Jato investigation).

The Company is currently seeking funding in the Asian banking market as a part of its strategy to increase funding opportunities and as an alternative for its current context .. The Company intends to use different funding sources (banking market, Export Credit Agencies - ECAs and capital markets) in 2015 to obtain the necessary funding to repay debt and fund its capital expenditures. In addition, the Company’s divestment program (of US$ 13.7 billion) will contribute to its funding needs.

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[16] For more details, see the Consolidated Statement of Cash Flows Data on page 24.

[17] Our adjusted cash and cash equivalents include government bonds and time deposits from high level financial institutions abroad with maturities of more than 3 months as from the date of deposit, considering the expected realization of those financial investments in the short-term. This measure is not defined under the International Financial Reporting Standards – IFRS and should not be considered in isolation or as a substitute for cash and cash equivalents computed in accordance with IFRS. It may not be comparable to adjusted cash and cash equivalents of other companies, however management believes that it is an appropriate supplemental measure that helps investors assess our liquidity and supports leverage management.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**Capital expenditures and investments**

**Jan-Dec**

| | | | | | |
|---|---|---|---|---|---|
| Exploration & Production | 56,898 | 66 | 59,993 | 58 | (5) |

| | | | | | |
|---|---|---|---|---|---|
| Refining, Transportation and Marketing | 18,264 | 21 | 30,740 | 29 | (41) |

| | | | | | |
|---|---|---|---|---|---|
| Gas & Power | 6,002 | 7 | 5,919 | 6 | 1 |

| | | | | | |
|---|---|---|---|---|---|
| International | 3,593 | 4 | 5,127 | 5 | (30) |

| | | | | | |
|---|---|---|---|---|---|
| Exploration & Production | 3,174 | 88 | 4,592 | 90 | (31) |

| | | | | | |
|---|---|---|---|---|---|
| Refining, Transportation and Marketing | 246 | 7 | 345 | 7 | (29) |

| | | | | | |
|---|---|---|---|---|---|
| Gas & Power | 62 | 2 | 56 | 1 | 11 |

| | | | | | |
|---|---|---|---|---|---|
| Distribution | 99 | 3 | 115 | 2 | (14) |

| | | | | | |
|---|---|---|---|---|---|
| Other | 12 | – | 19 | – | (37) |

| | | | | | |
|---|---|---|---|---|---|
| Distribution | 1,053 | 1 | 1,120 | 1 | (6) |

| | | | | | |
|---|---|---|---|---|---|
| Biofuel | 281 | – | 322 | – | (13) |

| | | | | | |
|---|---|---|---|---|---|
| Corporate | 1,049 | 1 | 1,195 | 1 | (12) |

| | | | | | |
|---|---|---|---|---|---|
| **Total capital expenditures and investments** | **87,140** | **100** | **104,416** | **100** | **(17)** |

Pursuant to the Company’s strategic objectives, it operates through joint ventures in Brazil and abroad, as a concessionaire of oil and gas exploration, development and production rights.

In 2014, we invested R$ 87,140 million, primarily aiming at increasing production and modernizing and expanding our refineries.

## FINANCIAL AND OPERATING HIGHLIGHTS

### Consolidated debt

| | | | |
|---|---|---|---|
| Current debt [18] | 31,565 | 18,782 | 68 |

| | | | |
|---|---|---|---|
| Non-current debt [19] | 319,470 | 249,038 | 28 |

| | | | |
|---|---|---|---|
| Total | 351,035 | 267,820 | 31 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents | 44,239 | 37,172 | 19 |

| | | | |
|---|---|---|---|
| Government securities and time deposits (maturity of more than 3 months) | 24,707 | 9,085 | 172 |

| | | | |
|---|---|---|---|
| Adjusted cash and cash equivalents | 68,946 | 46,257 | 49 |

| | | | |
|---|---|---|---|
| Net debt [20] | 282,089 | 221,563 | 27 |

| | | | |
|---|---|---|---|
| Net debt/(net debt+shareholders' equity) | 48% | 39% | 9 |

| | | | |
|---|---|---|---|
| Total net liabilities [21] | 724,429 | 706,710 | 3 |

Capital structure

| | | | |
|---|---|---|---|
| (Net third parties capital / total net liabilities) | 57% | 51% | 6 |

| | | | |
|---|---|---|---|
| Net debt/Adjusted EBITDA ratio | 4.77 | 3.52 | 36 |

| | | | |
|---|---|---|---|
| Current debt [18] | 11,884 | 8,017 | 48 |

| | | | |
|---|---|---|---|
| Non-current debt [19] | 120,274 | 106,308 | 13 |

| | | | |
|---|---|---|---|
| Total | 132,158 | 114,325 | 16 |

| | | | |
|---|---|---|---|
| Net debt [20] | 106,201 | 94,579 | 12 |

**Summarized information on financing**

| | | | |
|---|---|---|---|
| Floating rate debt | 173,977 | 138,463 | 26 |

| | | | |
|---|---|---|---|
| Fixed rate debt | 176,868 | 129,148 | 37 |

| | | | |
|---|---|---|---|
| **Total** | **350,845** | **267,611** | 31 |

| | | | |
|---|---|---|---|
| Reais | 62,223 | 53,465 | 16 |

| | | | |
|---|---|---|---|
| US Dollars | 252,787 | 191,572 | 32 |

| | | | |
|---|---|---|---|
| Euro | 25,820 | 14,987 | 72 |

| | | | |
|---|---|---|---|
| Other currencies | 10,015 | 7,587 | 32 |

| | | | |
|---|---|---|---|
| **Total** | **350,845** | **267,611** | 31 |

| | | | |
|---|---|---|---|
| until 1 year | 31,523 | 18,744 | 68 |

| | | | |
|---|---|---|---|
| 1 to 2 years | 33,397 | 17,017 | 96 |

| | | | |
|---|---|---|---|
| 2 to 3 years | 31,742 | 29,731 | 7 |

| | | | |
|---|---|---|---|
| 3 to 4 years | 47,254 | 20,331 | 132 |

| | | | |
|---|---|---|---|
| 4 to 5 years | 64,252 | 37,598 | 71 |

| | | | |
|---|---|---|---|
| 5 years and thereafter | 142,677 | 144,190 | (1) |

| | | | |
|---|---|---|---|
| **Total** | **350,845** | **267,611** | 31 |

Consolidated net debt in Reais increased by 27% when compared to December 31, 2013 as a result of long-term financing and of the 13.4% impact from the depreciation of the Real against the U.S. dollar in 2014.

[18] Includes Finance lease obligations (R$ 42 million on December 31, 2014 and R$ 38 million on December 31, 2013).

[19] Includes Finance lease obligations (R$ 148 million on December 31, 2014 and R$ 171 million on December 31, 2013).

[20] Net debt is not a measure defined in the International Standards -IFRS and should not be considered in isolation or as a substitute for total long-term debt calculated in accordance with IFRS. Our calculation of net debt may not be comparable to the calculation of net debt by other companies. Management believes that net debt is an appropriate supplemental measure that helps investors assess our liquidity and supports leverage management.

[21] Total liabilities net of adjusted cash and cash equivalents.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**FINANCIAL STATEMENTS**

**Income Statement - Consolidated [22] [23]**

**Jan-Dec**

| | | | | | |
|---|---|---|---|---|---|
| 85,040 | 88,377 | 81,028 | **Sales revenues** | 337,260 | 304,890 |

| | | | | | |
|---|---|---|---|---|---|
| (63,025) | (67,936) | (64,445) | Cost of sales | (256,823) | (234,995) |

| | | | | | |
|---|---|---|---|---|---|
| 22,015 | 20,441 | 16,583 | **Gross profit** | 80,437 | 69,895 |

| | | | | | |
|---|---|---|---|---|---|
| (3,744) | (6,733) | (2,892) | Selling expenses | (15,974) | (10,601) |

| | | | | | |
|---|---|---|---|---|---|
| (3,376) | (2,707) | (2,888) | General and administrative expenses | (11,223) | (10,751) |

| | | | | | |
|---|---|---|---|---|---|
| (1,493) | (2,314) | (1,742) | Exploration costs | (7,135) | (6,445) |

| | | | | | |
|---|---|---|---|---|---|
| (731) | (665) | (570) | Research and development expenses | (2,589) | (2,428) |

| | | | | | |
|---|---|---|---|---|---|
| (609) | (552) | (1,030) | Other taxes | (1,801) | (1,721) |

| | | | | | |
|---|---|---|---|---|---|
| – | (6,194) | – | Write-off - overpayments incorrectly capitalized | (6,194) | – |

| | | | | | |
|---|---|---|---|---|---|
| (44,345) | (306) | (1,238) | Impairment | (44,636) | (1,238) |

| | | | | | |
|---|---|---|---|---|---|
| (543) | (5,891) | 813 | Other income and expenses, net | (12,207) | (2,347) |

| | | | | | | |
|---|---|---|---|---|---|---|
| (54,841) | (25,362) | (9,547) | | | (101,759) | (35,531) |

| | | | | | |
|---|---|---|---|---|---|
| **(32,826)** | **(4,921)** | **7,036** | **Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes** | **(21,322)** | **34,364** |

| | | | | | |
|---|---|---|---|---|---|
| 1,660 | 1,174 | 825 | Finance income | 4,634 | 3,911 |

| | | | | | |
|---|---|---|---|---|---|
| (2,882) | (2,282) | (2,076) | Finance expenses | (9,255) | (5,795) |

| | | | | | |
|---|---|---|---|---|---|
| (592) | 136 | (1,770) | Foreign exchange and inflation indexation charges | 721 | (4,318) |

| | | | | | |
|---|---|---|---|---|---|
| (1,814) | (972) | (3,021) | Net finance income (expense) | (3,900) | (6,202) |

| | | | | | |
|---|---|---|---|---|---|
| (540) | 198 | 56 | Share of earnings in equity-accounted investments | 451 | 1,095 |

| | | | | | |
|---|---|---|---|---|---|
| (270) | (127) | (225) | Profit-sharing | (1,045) | (1,102) |

| | | | | | |
|---|---|---|---|---|---|
| **(35,450)** | **(5,822)** | **3,846** | **Net income (loss) before income taxes** | **(25,816)** | **28,155** |

| | | | | | |
|---|---|---|---|---|---|
| 8,488 | (117) | 2,105 | Income taxes | 3,892 | (5,148) |

| | | | | | |
|---|---|---|---|---|---|
| **(26,962)** | **(5,939)** | **5,951** | **Net income (loss)** | **(21,924)** | **23,007** |

Net income (loss) attributable to:

| | | | | | |
|---|---|---|---|---|---|
| (26,600) | (5,339) | 6,281 | Shareholders of Petrobras | (21,587) | 23,570 |

| | | | | | |
|---|---|---|---|---|---|
| (362) | (600) | (330) | Non-controlling interests | (337) | (563) |

| | | | | | |
|---|---|---|---|---|---|
| **(26,962)** | **(5,939)** | **5,951** | | **(21,924)** | **23,007** |

[22] Beginning in the 1Q-2014, a line item for profit sharing benefits has been included, as previously disclosed in the Company's annual consolidated financial statements. The amounts for 2013 were reclassified for comparison purposes.

[23] Beginning in 2014, the amount of inventory write-downs to net realizable value (market value) was reclassified from Other Income and Expenses to Cost of Sales. The amounts for 2013 were reclassified for comparison purposes.

**FINANCIAL AND OPERATING HIGHLIGHTS**

**Statement of Financial Position – Consolidated**

| | | |
|---|---|---|
| **Current assets** | **135,023** | **123,351** |

| | | |
|---|---|---|
| Cash and cash equivalents | 44,239 | 37,172 |

| | | |
|---|---|---|
| Marketable securities | 24,763 | 9,101 |

| | | |
|---|---|---|
| Trade and other receivables, net | 21,167 | 22,652 |

| | | |
|---|---|---|
| Inventories | 30,457 | 33,324 |

| | | |
|---|---|---|
| Recoverable taxes | 10,123 | 11,646 |

| | | |
|---|---|---|
| Assets classified as held for sale | 13 | 5,638 |

| | | |
|---|---|---|
| Other current assets | 4,261 | 3,818 |

| | | |
|---|---|---|
| **Non-current assets** | **658,352** | **629,616** |

| | | |
|---|---|---|
| **Long-term receivables** | **50,104** | **44,000** |

| | | |
|---|---|---|
| Trade and other receivables, net | 14,441 | 10,616 |

| | | |
|---|---|---|
| Marketable securities | 290 | 307 |

| | | |
|---|---|---|
| Judicial deposits | 7,124 | 5,866 |

| | | |
|---|---|---|
| Deferred taxes | 2,673 | 2,647 |

| | | |
|---|---|---|
| Other tax assets | 10,645 | 12,603 |

| | | |
|---|---|---|
| Advances to suppliers | 6,398 | 7,566 |

| | | |
|---|---|---|
| Other non-current assets | 8,533 | 4,395 |

| | | |
|---|---|---|
| **Investments** | **15,282** | **15,615** |

| | | |
|---|---|---|
| **Property, plant and equipment** | **580,990** | **533,880** |

| | | |
|---|---|---|
| **Intangible assets** | **11,976** | **36,121** |

| | | |
|---|---|---|
| **Total assets** | **793,375** | **752,967** |

| | | |
|---|---|---|
| **Current liabilities** | **82,659** | **82,525** |

| | | |
|---|---|---|
| Trade payables | 25,924 | 27,922 |

| | | |
|---|---|---|
| Current debt | 31,565 | 18,782 |

| | | |
|---|---|---|
| Taxes payable | 11,453 | 11,597 |

| | | |
|---|---|---|
| Dividends payable | − | 9,301 |

| | | |
|---|---|---|
| Employee compensation (payroll, profit-sharing and related charges) | 5,489 | 4,806 |

| | | |
|---|---|---|
| Pension and medical benefits | 2,115 | 1,912 |

| | | |
|---|---|---|
| Liabilities associated with assets classified as held for sale | − | 2,514 |

| | | |
|---|---|---|
| Other current liabilities | 6,113 | 5,691 |

| | | |
|---|---|---|
| **Non-current liabilities** | **399,994** | **321,108** |

| | | |
|---|---|---|
| Non-current debt | 319,470 | 249,038 |

| | | |
|---|---|---|
| Deferred taxes | 8,052 | 23,206 |

| | | |
|---|---|---|
| Pension and medical benefits | 43,803 | 27,541 |

| | | |
|---|---|---|
| Provision for decommissioning costs | 21,958 | 16,709 |

| | | |
|---|---|---|
| Provisions for legal proceedings | 4,091 | 2,918 |

| | | |
|---|---|---|
| Other non-current liabilities | 2,620 | 1,696 |

| | | |
|---|---|---|
| **Shareholders' equity** | **310,722** | **349,334** |

| | | |
|---|---|---|
| Share capital | 205,432 | 205,411 |

| | | |
|---|---|---|
| Profit reserves and others | 103,416 | 142,529 |

| | | |
|---|---|---|
| Non-controlling interests | **1,874** | **1,394** |

| | | |
|---|---|---|
| **Total liabilities and shareholders' equity** | **793,375** | **752,967** |

22

**FINANCIAL AND OPERATING HIGHLIGHTS**

**Statement of Cash Flows Data – Consolidated**

**Jan-Dec**

| | | | | | |
|---|---|---|---|---|---|
| **(26,600)** | **(5,339)** | **6,281** | **Net income (loss) attributable to the shareholders of Petrobras** | **(21,587)** | **23,570** |

| | | | | | |
|---|---|---|---|---|---|
| 41,574 | 28,892 | 4,495 | (+) Adjustments for: | 83,828 | 32,640 |

| | | | | | |
|---|---|---|---|---|---|
| 8,808 | 7,036 | 7,504 | Depreciation, depletion and amortization | 30,677 | 28,467 |

| | | | | | |
|---|---|---|---|---|---|
| 2,954 | 2,611 | 2,636 | Foreign exchange and inflation indexation and finance charges | 8,461 | 7,027 |

| | | | | | |
|---|---|---|---|---|---|
| (362) | (600) | (330) | Non-controlling interests | (337) | (563) |

| | | | | | |
|---|---|---|---|---|---|
| 540 | (198) | (56) | Share of earnings in equity-accounted investments | (451) | (1,095) |

| | | | | | |
|---|---|---|---|---|---|
| – | 6,194 | – | Write-off - overpayments incorrectly capitalized | 6,194 | – |

| | | | | | |
|---|---|---|---|---|---|
| 1,392 | 3,954 | 109 | Allowance for impairment of trade receivables | 5,555 | 157 |

| | | | | | |
|---|---|---|---|---|---|
| (3,025) | 4,081 | (2,134) | (Gains) / losses on disposal / write-offs of non-current assets, returned areas and cancelled projects | 743 | (3,835) |

| | | | | | |
|---|---|---|---|---|---|
| (10,213) | (108) | (3,344) | Deferred income taxes, net | (8,025) | 323 |

| | | | | | |
|---|---|---|---|---|---|
| 786 | 1,710 | 1,254 | Exploration expenditures writen-off | 5,048 | 4,169 |

| | | | | | |
|---|---|---|---|---|---|
| 44,345 | 306 | 1,238 | Impairment of property, plant and equipment and other assets | 44,636 | 1,238 |

| | | | | | |
|---|---|---|---|---|---|
| 1,349 | 625 | 432 | Inventory write-downs to net realizable value (market value) | 2,461 | 1,269 |

| | | | | | |
|---|---|---|---|---|---|
| 1,612 | 909 | 1,380 | Pension and medical benefits (actuarial expense) | 4,773 | 5,515 |

| | | | | | |
|---|---|---|---|---|---|
| 1,189 | 4,949 | 200 | Inventories | 1,378 | (4,601) |

| | | | | | |
|---|---|---|---|---|---|
| (1,324) | (1,415) | (3,283) | Trade and other receivables, net | (5,929) | (2,693) |

| | | | | | |
|---|---|---|---|---|---|
| (1,832) | (1,307) | 1,742 | Trade payables | (2,982) | 2,516 |

| | | | | | |
|---|---|---|---|---|---|
| (651) | (415) | (590) | Pension and medical benefits | (1,967) | (1,724) |

| | | | | | |
|---|---|---|---|---|---|
| (2,883) | 1,718 | (105) | Taxes payable | (3,171) | (3,000) |

| | | | | | |
|---|---|---|---|---|---|
| (1,111) | (1,158) | (2,158) | Other assets and liabilities | (3,236) | (530) |

| | | | | | |
|---|---|---|---|---|---|
| **14,974** | **23,553** | **10,776** | **(=) Net cash provided by (used in) operating activities** | **62,241** | **56,210** |

| | | | | | |
|---|---|---|---|---|---|
| **(16,980)** | **(31,111)** | **(18,420)** | **(-) Net cash provided by (used in) investing activities** | **(85,208)** | **(76,674)** |

| | | | | | |
|---|---|---|---|---|---|
| (22,189) | (20,129) | (32,109) | Capital expenditures and investments in operating segments | (81,795) | (98,038) |

| | | | | | |
|---|---|---|---|---|---|
| 8,043 | 302 | 3,997 | Proceeds from disposal of assets (divestment) | 9,399 | 8,383 |

| | | | | | |
|---|---|---|---|---|---|
| (2,834) | (11,284) | 9,692 | Investments in marketable securities | (12,812) | 12,981 |

| | | | | | |
|---|---|---|---|---|---|
| **(2,006)** | **(7,558)** | **(7,644)** | **(=) Net cash flow** | **(22,967)** | **(20,464)** |

| | | | | | |
|---|---|---|---|---|---|
| **(6,343)** | **(5,073)** | **4,614** | **(-) Net cash provided by (used in) financing activities** | **26,149** | **27,263** |

| | | | | | |
|---|---|---|---|---|---|
| 3,823 | 5,022 | 12,828 | Proceeds from long-term financing | 72,871 | 83,669 |

| | | | | | |
|---|---|---|---|---|---|
| (6,334) | (6,226) | (6,272) | Repayment of principal | (23,628) | (39,560) |

| | | | | | |
|---|---|---|---|---|---|
| (3,652) | (3,794) | (2,003) | Repayment of interest | (14,109) | (10,933) |

| | | | | | |
|---|---|---|---|---|---|
| 14 | (18) | (2) | Dividends paid to shareholders | (8,735) | (5,776) |

| | | | | | |
|---|---|---|---|---|---|
| (194) | (57) | 63 | Acquisition of non-controlling interest | (250) | (137) |

| | | | | | |
|---|---|---|---|---|---|
| 2,964 | 4,115 | 852 | Effect of exchange rate changes on cash and cash equivalents | 3,885 | 2,745 |

| | | | | | |
|---|---|---|---|---|---|
| **(5,385)** | **(8,516)** | **(2,178)** | **(=) Net increase (decrease) in cash and cash equivalents in the period** | **7,067** | **9,544** |

| | | | | | |
|---|---|---|---|---|---|
| 49,624 | 58,140 | 39,350 | Cash and cash equivalents at the beginning of period | 37,172 | 27,628 |

| | | | | | |
|---|---|---|---|---|---|
| 44,239 | 49,624 | 37,172 | Cash and cash equivalents at the end of period | 44,239 | 37,172 |

23

**FINANCIAL AND OPERATING HIGHLIGHTS**

**SEGMENT INFORMATION** [24]

**Consolidated Income Statement by Segment – 2014**[25]

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Sales revenues** | **153,705** | **263,570** | **42,062** | **624** | **98,010** | **32,573** | **–** | **(253,284)** | **33** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Intersegments | 152,515 | 92,080 | 4,009 | 560 | 2,647 | 1,473 | − | (253,284) | − |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Third parties | 1,190 | 171,490 | 38,053 | 64 | 95,363 | 31,100 | − | − | 33 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Cost of sales | (82,457) | (271,643) | (35,921) | (728) | (90,446) | (30,109) | − | 254,481 | (25 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Gross profit** | **71,248** | **(8,073)** | **6,141** | **(104)** | **7,564** | **2,464** | **–** | **1,197** | **80,** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Expenses** | **(21,076)** | **(49,288)** | **(7,785)** | **(158)** | **(5,696)** | **(4,152)** | **(14,139)** | **535** | **(10** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Selling, general and administrative expenses | (1,051) | (6,440) | (5,994) | (118) | (5,231) | (1,937) | (6,964) | 538 | (27 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Exploration costs | (6,720) | – | – | – | – | (415) | – | – | (7,

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Research and development expenses | (1,290) | (452) | (199) | (32) | (4) | (5) | (607) | − | (2,5 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Other taxes | (126) | (221) | (295) | (2) | (28) | (263) | (866) | − | (1,8 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Impairment | (5,665) | (33,954) | (260) | – | – | (4,757) | – | – | (44 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Write-off - overpayments incorrectly capitalized | (1,969) | (3,427) | (652) | − | (23) | (23) | (100) | − | (6, |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Other income and expenses, net | (4,255) | (4,794) | (385) | (6) | (410) | 3,248 | (5,602) | (3) | (12 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes** | **50,172** | **(57,361)** | **(1,644)** | **(262)** | **1,868** | **(1,688)** | **(14,139)** | **1,732** | **(21** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net finance income (expense) | − | − | − | − | − | − | (3,900) | − | (3,9 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Share of earnings in equity-accounted investments | 46 | 272 | 453 | (124) | (1) | (200) | 5 | − | 451 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Profit-sharing | (359) | (298) | (48) | (2) | (60) | (20) | (258) | − | (1,( |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Net income (loss) before income taxes** | **49,859** | **(57,387)** | **(1,239)** | **(388)** | **1,807** | **(1,908)** | **(18,292)** | **1,732** | **(25** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Income taxes | (17,607) | 18,440 | 353 | 90 | (622) | (1,200) | 5,026 | (588) | 3,8 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Net income (loss)** | **32,252** | **(38,947)** | **(886)** | **(298)** | **1,185** | **(3,108)** | **(13,266)** | **1,144** | **(21** |

Net income (loss)
attributable to: