

MANAGEMENT REPORT



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MESSAGE FROM THE CEO

Dear Shareholders and Investors,

Petrobras overpassed an important obstacle with the disclosure of the audited results of 2014, after a joint effort that highlights our challenge overcoming ability at an adverse context. Such assignment has given me more confidence as to responding strategic issues that have been brought to our attention, in reference to Company's business plan, efficiently in order to create aggregated value to the Company.

We have developed a technology to estimate the additional expenditures from improper payments revealed by the Lava-Jato Operation. The write-offs of these additional expenditures derived from this scheme were recognized in the third quarter from 2014.

In addition, changes in Petrobras' business context, due to oil prices downturn, Dollar appreciation and requirement of debt rate reduction, have encouraged a revision on Company's future perspectives and, therefore, have led to necessary reduce of our investments' pace.

As a result, the Company decided to postpone the conclusion of some assets and projects included in the 2014-2018 Management and Business Plan. Those postponements had an impact in the impairment tests, which losses were recognized in the fourth quarter of 2014.

Once the results disclosure have been concluded, we will focus on medium and long-term challenges. We are implementing a new business plan, in which we will include economic assumptions that reflect the currently scenario presented by the oil industry.

We revise our investments to prioritize the oil and gas exploration and production area, which is our most profitable segment. We focus on building a sustainable plan from the perspective of cash flow, taking into account potential impacts in the supply chain and, therefore, in our production curve.

I would like to conclude this message by emphasizing my belief that Petrobras is, and will maintain itself as, a profitable and efficient Company, with substantial improvements in its corporate governance and focus on return to its shareholders and investors.

Aldemir Bendine, CEO.

PROFILE

We are an energy company operating in an integrated manner in the oil, gas and energy industry in exploration and production, refining, marketing, transportation, petrochemicals, distribution of by-products, natural gas, electricity, gas and chemical and biofuels segments.

Over 61 years, we have built a track record of overcoming challenges. We became world leaders in technology for exploration and production in deep and ultra-deep waters, where about 90% of our reserves are located.

We have conducted our business guided by three corporate directives: integrated growth, profitability and social and environmental responsibility.

Mission

To act in the oil and gas industry in an ethical, safe and profitable way, with social and environmental responsibility, providing products suited to the needs of its clients and contributing to the development of Brazil and the countries where it operates.

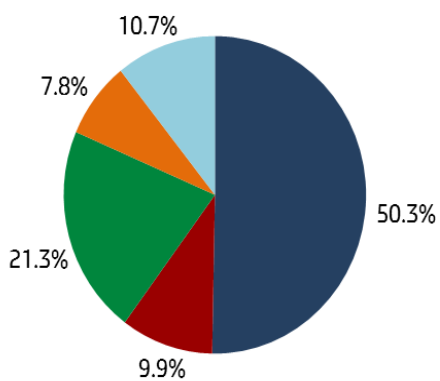
2030 Vision

To be one of the five largest integrated energy companies in the world¹ and the preferred one by its stakeholders.

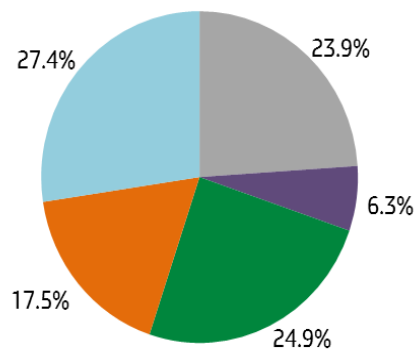
¹ One of the five largest oil producers amongst all companies, with or without shares in stock exchanges.

OWNERSHIP STRUCTURE – December 31, 2014

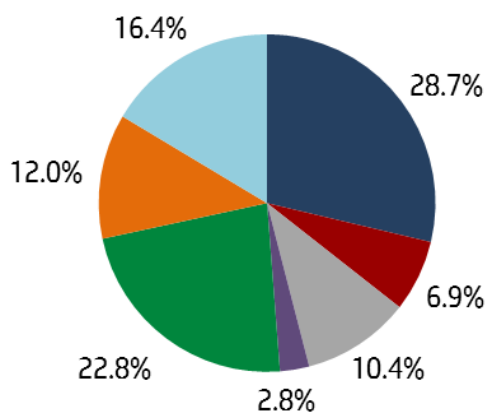
**Voting capital
Common stocks**



**Non voting capital
Preferred stocks**



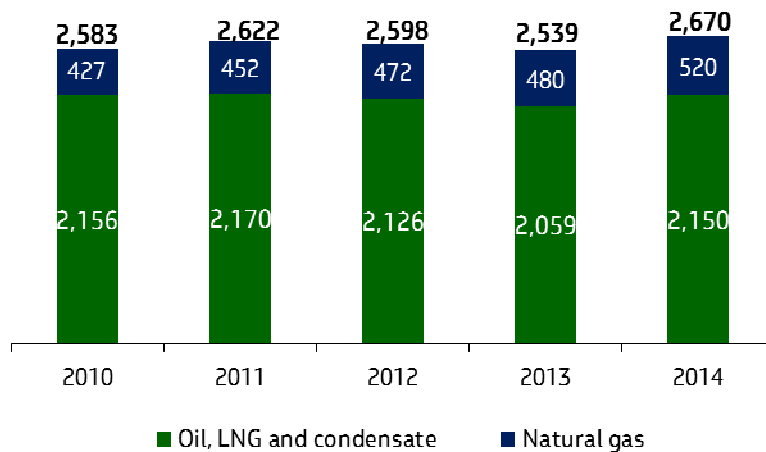
Capital stock



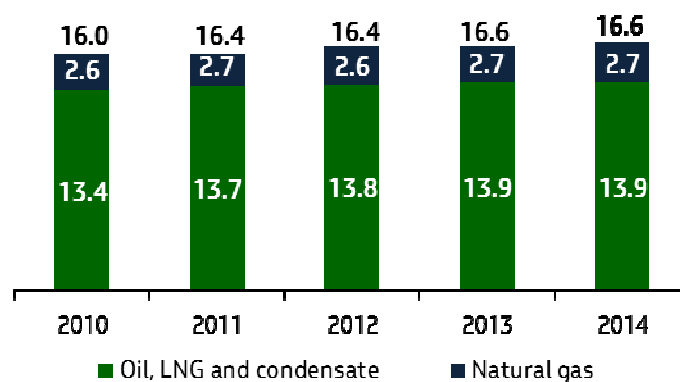
- Federal government
- Brazilian Development Bank - BNDES
- BNDES PARTICIPAÇÕES S.A. - BNDESPAR
- CAIXA PREV. FUNC. DO BCO. DO BRASIL - PREVI
- Level 3 ADRs
- Foreign investors (CVM Resolution no. 2,689)
- Other individuals or legal entities

KEY INDICATORS

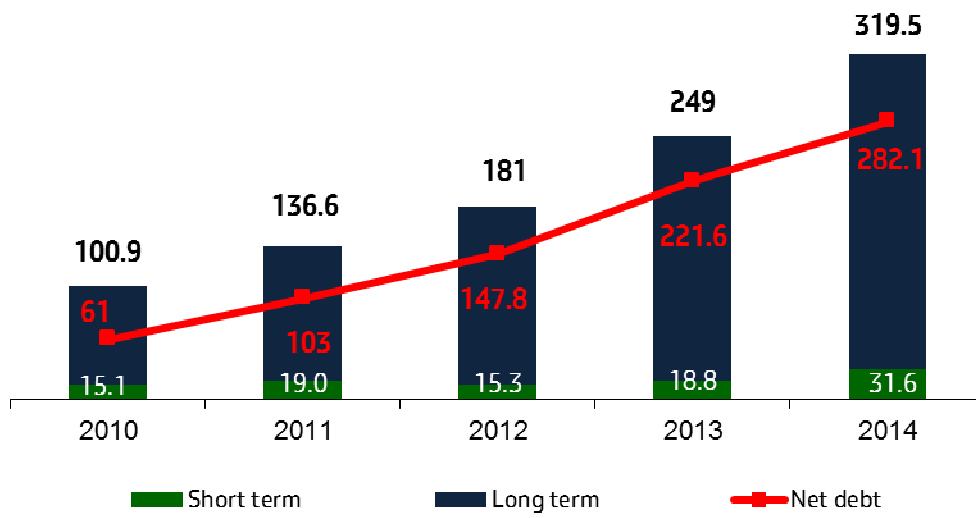
Oil, LNG, condensate and natural gas production
(thousand boed)



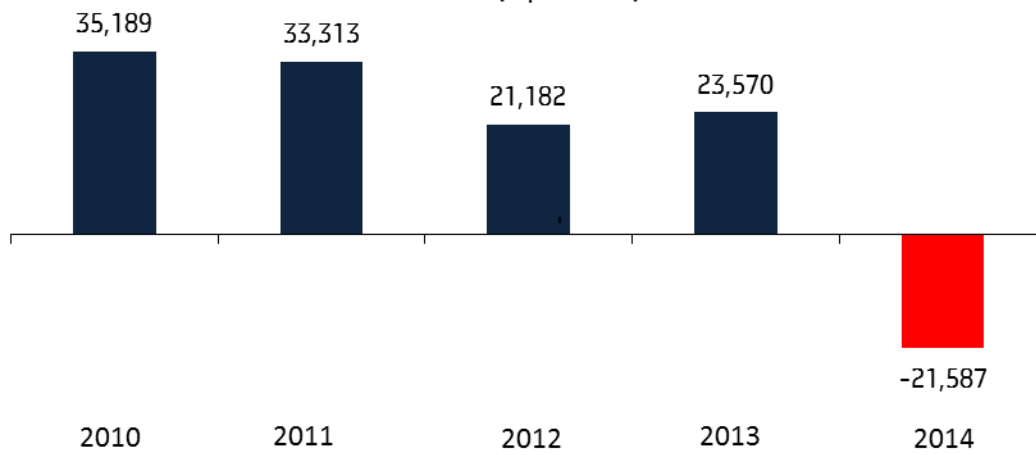
Proven oil, LNG, condensate and natural gas
reserves - ANP/SPE criterion (billion boe)



Consolidated debt (R\$ billion)



Consolidated net income (R\$ million)

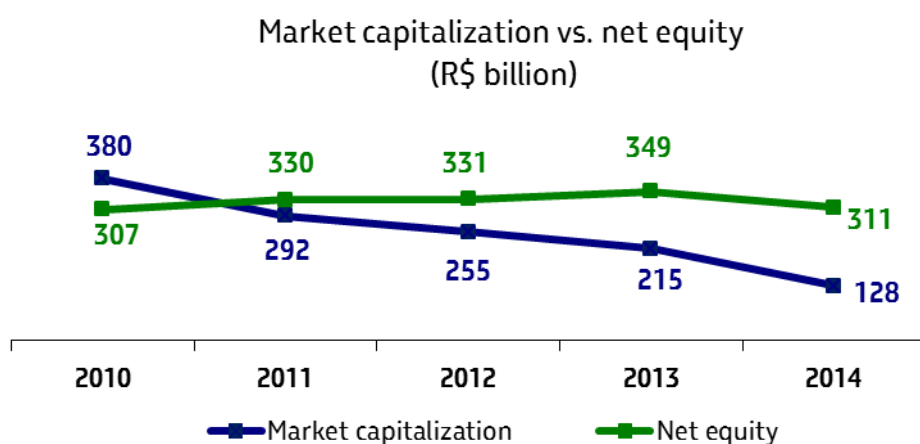


STOCK PERFORMANCE

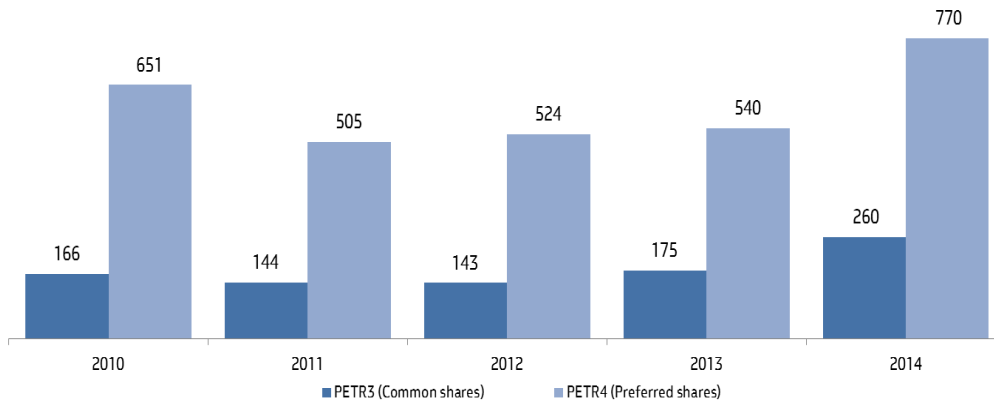
In 2014, several factors influenced the performance of the capital market. In the political field, the presidential election has generated volatility in prices; in economic, inflationary pressure, the slow growth of gross domestic product (GDP), the currency devaluation and the Brazilian fiscal scenario negatively affected the performance of the shares on the Stock Exchange, Commodities and Futures Exchange (BM&F Bovespa). In this context, the Ibovespa, the main stock index, fell by 3% over the previous year.

Our stocks, reflecting this scenario and the fall of international oil prices, ended the year traded down. The ordinary shares (PETR3) fell 40% and the preferred (PETR4), 41%, quoted at R\$ 9.59 and R\$ 10.02, respectively, by December 30, 2014. With the fall in prices, our value market today at this date was R\$ 128 billion (US\$ 48 billion).

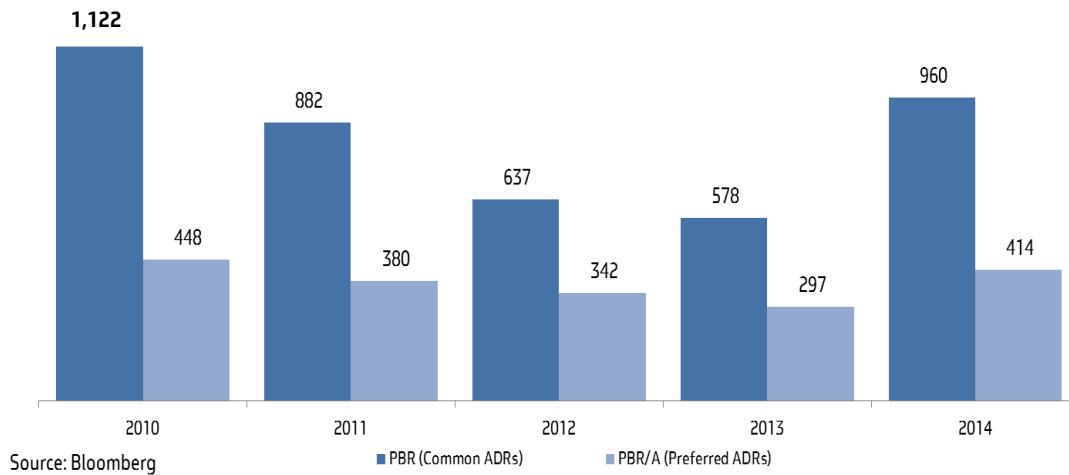
On the New York Stock Exchange (NYSE), where ordinary receipts are traded (PBR) and preferred (PBR/A), the fall reached 47% and 48%, respectively, which was also impacted by the depreciation of 13% of the Real against the Dollar. On December 31, 2014, the price of PBR closed at US\$ 7.30 and PBR/A at US\$ 7.58.



**Average Daily Traded Volume at BM&FBovespa
(R\$ million)**



Average daily volume traded at Nyse (ADRs) - US\$ million



CORPORATE STRATEGY

In February 2014, our Board of Directors approved the 2030 Strategic Plan (PE) and its path on short and medium term, explained in the Business and Management Plan (PNG) 2014-2018. We are preparing the next PNG, which could result in significant changes to the current, with postponement of goals and slowdown in investments, mainly due to significant variations related to macroeconomic assumptions, price and market.

Divestment Plan Review

We have approved, on February 2015, the review of the estimated divestment plan for 2015 and 2016. The total value is US\$ 13.7 billion, divided between the areas of Exploration and Production in Brazil and abroad (30%), Refining, transportation and marketing (30%) and Gas and Power (40%).

This plan is part of our financial planning, which aims to reduce leverage, to preserve cash and to focus on priority investments, especially of oil and gas production in Brazil in high productivity and return areas.

INTEGRATED MANAGEMENT

Our management adopts an integrated model of value creation in which the way we act is as important as the results we deliver to society. We are committed to safety and efficiency of operations, respect for the environment, process management, cost control and effectiveness of the projects.

Since we operate in an integrated manner from the exploration of oil and natural gas to distribution of oil and energy, the integration of our management is also essential to maximizing returns for the entire Petrobras System.

BUSINESS PERFORMANCE

Exploration and Production in Brazil

Our Exploration and Production segment is dedicated to research, location, identification, development, production and incorporation of oil and natural gas reserves onshore and offshore.

Its main objective is to find accumulations of oil and natural gas, to develop and exploit reserves, providing properly treated crude oil and natural gas for the areas of Refining, Transportation and Marketing and Gas and Energy to process and market their products.

We are world leaders in the exploration and production in deep and ultra-deep waters, recognized for pioneering the introduction of new technologies. Thanks to this leadership, we have received national and internationally renowned awards in the oil and gas industry, such as the OTC Distinguished Achievement Award in 1992, 2001 and 2015 and the National Agency of Petroleum, Natural Gas and Biofuels (ANP) Technological Innovation Award in 2013.

Exploration and Production Agreements

Our work begins with the study and the acquisition of exploratory blocks in the bids held by ANP. We operate through three different types of agreements: Concession, Assignment for Consideration and Production Sharing.

By means of the Assignment for Consideration Agreement, signed in 2010, we acquired the right to produce up to 5 billion barrels of oil equivalent (boe) in the pre-salt areas. Through the Assignment Agreement, signed in 2010, we acquired the rights to produce up to 5 billion barrels of Oil equivalent (boe) in the pre-salt areas. In 2014, the National Energy Policy Council issued a resolution approving our direct contracting for surplus volume production of the Assignment Agreement in four areas of the pre-salt in Santos Basin, under Production Sharing regime. After signing the contract, we will be entitled to produce, in these areas, volumes beyond the 5 billion boe acquired in the Assignment Agreement.

Our domestic portfolio in the exploration segment consists of 158 exploration blocks, totaling an area of 90,000 km², of which 38,000 km² are located onshore and 52,000 km² are offshore. We are working on 56 Discovery Evaluation Plans (PAD), of which 40 are in pure exploration areas and 16 in ring fence areas.

Our portfolio of Production Development and Operation has 351 fields under concession agreements and 10 fields under Assignment Agreements totaling 361 fields of oil and natural gas.

Exploratory Activity

After a block is acquired, the exploration phase begins, which aims at discovering commercially viable volumes of oil and gas.

In 2014, we drilled 74 exploration wells - 37 onshore and 37 offshore - and obtained geological success index of 70%. In the pre-salt we drilled 15 wells, with an 87% index. The exploratory activity generates hydrocarbon reservoirs discoveries that, according to the results of PADs, incorporate volumes to our reserves.

Our investments in exploration totaled R\$ 10.4 billion, covering mainly the drilling costs, seismic surveys and blocks acquisition. The discovery cost per boe added to the reserves was US\$ 2.69.

The table below shows the key discoveries in 2014:

Area/Well	Basin	Environment	water depth(m)	API gravity	Consortium
Florim 2 - PAD Florim 3-RJS-725	Santos	offshore	2,000	29	Petrobras 100%
lara 2 - PAD Entorno de lara 3-RJS-722	Santos	offshore	2,251	14-26	Petrobras 100%
Entorno de lara 3 - PAD lara 4-RJS-728	Santos	offshore	2,244	23-26	Petrobras 100%
PAD Jupiter Apollonia 3-RJS-732	Santos	offshore	2,183	29	Petrobras 80% Petrogal 20%
L1 -NW1 Libra 3-RJS-731	Santos	offshore	1,963	27	Petrobras 40% Shell 20% Total 20% CNPC 10% CNOOC 10%
Moita Bonita 3 PAD Moita Bonita 3-SES-182	Sergipe	offshore	3,000	29	Petrobras 100%
Tanganika 3-ESS-222	Espírito Santo	offshore	1,050	gas	Petrobras 80% Repsol YPF 20%
Poço Verde 1 3-SES-181	Sergipe	offshore	2,196	36	Petrobras 100%
Pudim PAD Brigadeiro 3-ESS-219D	Espírito Santo	offshore	1,886	35	Petrobras 65% PTTEP 20% INPEX 15%
Lontra 3-GLF-42-ESS	Espírito Santo	offshore	1,319	gas	Petrobras 100%

In 2014, we submitted to ANP the declarations of commerciality of the Assignment Agreement remaining areas of the, stating the 5 billion volume contracted in 2010, considering the fields of Buzios and Sul de Lula, declared in 2013.

Main Declarations of Commerciality				
Field	Area	Basin	Volume (mmboe)	gravity API
Sul de Sapinhoá	Sul de Guarã	Santos	1,214	26-29
Sépia	Nordeste de Tupi	Santos		26-29
Itapu	Florim	Santos		26-29
Norte de Berbigão	Entorno de lara	Santos	Greater than 5,000	24-30
Sul de Berbigão	Entorno de lara	Santos		24-30
Norte de Sururu	Entorno de lara	Santos		24-30
Sul de Sururu	Entorno de lara	Santos		24-30
Atapu	Entorno de lara	Santos		24-30
Berbigão	lara	Santos		24-30
Sururu	lara	Santos		24-30
Oeste de Atapu	lara	Santos		24-30

Reserves

On December 31st, according to the ANP/SPE criteria, our oil and natural gas proved reserves in Brazil amounted to 16.183 billion barrels of oil equivalent (boe), representing an increase of 1.3% compared to 2013 (15.973 billion boe), as follows:

Proved Reserves in Brazil (ANP/SPE criteria)	2013	2014
Oil (billion bbl)	13.512	13.686
Gas (billion m ³)	391.286	396.895
Total (billion boe)	15.973	16.183

In addition to the 2013 proved reserves, a volume of 1.091 billion boe was appropriated in 2014. There was also the return of 11 concessions, which led to the deduction of 0.043 billion boe of proved reserves of. There were no sales of fields' participation in Brazil.

Thus, the balance between appropriations and return of concessions in Brazil resulted in an increase of 1.049 billion boe to the proved reserves, which offsets the production in 2014, in 0.839 billion boe. This volume produced does not consider the Extended Well Test (EWT) in exploratory blocks.

The following table shows the evolution of our proved reserves in Brazil (ANP/SPE criteria) in 2014:

Composition of Proved Reserves, according to ANP/SPE criteria	Brazil (billions of boe)
a) Proved Reserves December 2014	15.973
b) Proved Reserves Acquisition in 2014	1.091
c) Reserves Securitization in 2014	0.000
d) Return of concessions in 2014	-0.043
e) 2014 Balance (b+c+d)	1.049
f) 2014 Production	-0.839
g) Yearly Variation (e+f)	0.210
h) Proved Reserves December 2014 (a+g)	16.183

For each barrel of oil equivalent produced in 2014, 1.25 barrel was appropriated, resulting in a Reserve Replacement Ratio (RRR) of 125%. It should be noted that the oil equivalent production in Brazil considered the reserves increased by 4.9% compared to 2013 (0.8 billion boe). This means that even with the significant increase in production volume, Brazil has kept its RRR above 100% for 23 consecutive years. The Reserves/Production ratio was 19.3 years.

In 2014, a growth of 23% of proved reserves in the pre-salt was registered in comparison to the previous year. Thus, only eight years after the discovery of this layer, the pre-salt is now responsible for over 30% of our proved reserves in the country.

Production Activity

In 2014, our average production in Brazil was 2.034 million barrels of oil per day (bpd) and 67.8 million cubic meters of gas per day (m³/d), excluding natural gas liquids (NGL), our best annual result ever achieved. In December, we also hit monthly and daily production record in the country, reaching 2.212 million bpd and 2.300 million barrels of oil, respectively. In total, we produced 2.460 million barrels of oil equivalent per day (boe/d), representing an increase of 6% over the previous year's volume.

This increase was due primarily to:

- Increase of eight units in Pipe-Laying Support Vessels (PLSVs) fleet, ducts lines launchers ships offshore, which increased the speed of wells interconnection to the stationary production units;
- Improved operating performance in the construction and interconnection of wells.
- The start-up of four new production systems: P-58, P-62, Cidade de Mangaratiba and Cidade de Ilhabela;
- Increased production from P-55, P-63, Cidade de Itajaí, Cidade de São Paulo and Cidade de Paraty units, which started-up in 2013;

The total average production of oil in the pre-salt, including the our partners share, increased from 301.6 thousand bpd in 2013 to 491.4 thousand bpd in 2014, an increase of 63%, with successive records. In 2014, we drilled 22 production development wells in this layer and seven wells for the acquisition of reservoir data. In February, 2015, we reached the daily peak production of 737 thousand barrels of oil in the pre-salt. The accumulated production in this layer exceeded 500 million boe.

We achieved these production volumes in Brazil with 122 maritime units, of which 68 are fixed platforms and 54 floating ones. In 2014, we incorporated to the system four production units, listed below:

Production Unit	Project	Capacity (thousand bpd)	Startup	Petrobras Participation (%)
P-58	North of Parque das Baleias	180	mar - 17	100
P-62	Roncador IV	180	may - 12	100
Cidade de Mangaratiba	Iracema Sul	150	oct- 14	65
Cidade de Ilhabela	Sapinhoá Norte	150	nov- 20	45

Our onshore operations in the North, Northeast regions and Espírito Santo state received more than five thousand well interventions. Thus, we have maintained the level of production onshore and increased the reservoirs recovery factor, due to the implementation of further development projects with high internal rate of return.

We overcame the record of the previous year record of domestic natural gas delivery to the market, reaching an average annual flow of 46.5 million m³/day. Gas production, which considers what is consumed in the production system and reinjected into the reservoirs, totaled 71.8 million m³/day including NGL, an increase of 5.9 million m³/day compared to 2013. This increase was due mainly to the start-up of platforms in the Campos Basin, P-58, P-55 and P-62, and the pre-salt Santos Basin, FPSOs Cidade de Ilhabela and Cidade de Mangaratiba.

We highlight the success of the Natural Gas Utilization Optimization Program (POAG 2015), which has allowed us to improve the performance of Operational Units in the South and Southeast regions. In 2014, we registered 92% utilization of associated gas utilization while maintaining the same 2013 utilization level.

The oil production target in Brazil for 2015 is 2.125 million bpd, which represents an increase of 4.5% over 2014, with a variation of one percentage point more or less. On March 16, 2015 the commissioning of the P-61 platform occurred. This platform works along with the P-63 platform in the Papa-Terra field in the extreme south of the Campos Basin.

Efficiency Programs

We are constantly seeking to increase productivity and, along with partners and suppliers, we have developed new technologies, analyzed our processes and implemented programs focused on increasing production and reducing costs. Among them, we highlight: Program for Operating Cost Optimization (Procop), Program for Increased Efficiency (Proef), Program for Wells Cost Reduction (PRC-Poço) and Programa for Subsea Facilities Cost Reduction (PRC -Sub).

Procop

The Procop program in the E&P segment, provided savings of R\$ 3.2 billion, 36% over the forecast for the year, of R\$ 2.36 billion. Some actions allowed this gain: optimization of onshore wells interventions, better helicopter fleet utilization, vessel optimization per maritime unit assisted, demobilization of platforms and of drilling rigs disposal.

Proef

Due to the Proef program in the Campos Basin Operational Unit, efficiency increased from 75.4% in 2013 to 79.7% in 2014. On the Rio de Janeiro Operational Unit of,

efficiency increased from 92.4% to 95.4 %. In addition, Proef of the Espírito Santo Operational Unit, implemented in 2014, reached 92.9%, surpassing the target of 88.3% for the year. Thus, the production in these areas has increased 156 thousand bpd in the year.

In order to achieve such results, we performed maintenance and safety campaigns on platforms and improved the execution of the production units stoppages plans. In 2015, we included the Santos Basin Unit Operational in the program, in order to maintain the high levels of efficiency and support unit production growth.

The cumulative operational efficiency of Exploration and Production area in 2014 was 90.5%, the highest level reached since 2009.

PRC-Poço

Launched in 2013, the program aims to reduce the offshore wells construction costs by 23 initiatives associated with three main fronts: reduction of unit costs, scope optimization and increased productivity. The gains of the program's initiatives totaled US \$ 628 million in 2014, overcoming the target of US \$ 458 million.

PRC-Sub

Launched in 2013, the program aims to increase the availability of critical items and the productivity of vessels that perform subsea equipment installation, to reduce unit costs and volume of materials consumed and to increase the supply logistics efficiency to special vessels. The program's initiatives allowed gains of US\$ 237.9 million in 2014, overcoming the target of US \$ 148.3 million.

Technology

Among the technologies implemented in 2014, it is worth highlighting the following: the BSR (Buoy Supporting Risers), ducts for ultra-deep waters, the SCR (Steel Catenary Risers), drilling with PMCD technique (Pressurized Mud Cap Drilling) and the Pressure While Drilling Analyzer (PWDa).

Four BSRs started operation – the BSRs are pioneering technology support of subsea pipelines through submerged buoys - installed in the FPSO Cidade de São Paulo and Cidade de Paraty, operating the Sapinhoá Pilot and Lula Nordeste projects. Ten wells have been interconnected to these buoys, among producers and injectors, which contributed to achieve peak production capacity of both FPSOs of 120 thousand bpd. Throughout the implementation of these projects, 13 new wells will be connected to the BSRs.

Steel Catenary Risers (SCR) were installed in these BSRs with carbon steel pipes with anticorrosive lining ("clad"). The installation method used was the reel lay. These

ducts have been qualified for the conditions of the fluids to be produced and to the dynamic forces that they are submitted and proves to be a technological alternative that can be used in the pre-salt Santos Basin.

In addition, we broke the water depth record of 2,103 m, for the drilling of LL-19 well by the PMCD technique using dynamic positioning floating rig. This drilling method allows the construction of the well even in a scenario of high loss of drilling fluid circulation without compromising operational safety and quality of the well.

Another important technology in 2014 was the PWDa. This software identifies automatically and in real time operating situations inconsistency during wells drilling. The information sent by downhole and surface sensors are interpreted and the system itself suggests preventive actions. In 2014, 71 wells and 1,471 rigs operating days were monitored, contributing to a US\$ 30.8 million savings.

Refining, Transportation, Marketing and Petrochemicals

Refining, transportation and marketing

Our Refining, transportation and marketing Department is responsible for refining, transportation and marketing of oil and by-products, guided by the strategy of increasing the capacity and efficiency of our assets to meet the growing market. In the petrochemical segment, we work mainly in partnerships integrated to our other businesses.

Refining

In 2014, our 13 refineries in Brazil processed 2.106 million bpd of oil and natural gas liquids (NGL) and produced 2.170 million bpd of oil. Out of the total volume of processed oil, 82% came from Brazilian fields.

The production of by-products in the country was a record, surpassing last year by 2%. Production peaks were reached in July and August, with a daily average of 895,000 bpd of diesel and 519,000 bpd of gasoline, respectively.

These results stemmed from increased operational efficiency of refining units, the start-up of new process units and greater use of logistics assets and reflected the integrated management of the supply system.

In January 2014, we began delivery throughout the country of the S-50 gasoline with a maximum sulfur content of 50 parts per million, thus complying with the change in the product specification. One of the main benefits of the new fuel is the reduction of greenhouse gas emissions from vehicles.

New developments

Recent circumstances have led our Management to review our planning and implement actions to preserve cash and reduce the volume of investments. By means of this process, we have decided to postpone the following projects: Petrochemical Complex of Rio de Janeiro (Comperj) and second refining stage of the Abreu e Lima Refinery (Rnest).

Such circumstances include:

- Decline in oil prices;
- The Real (R\$) devaluation, which increases the need for cash to meet our obligations in foreign currency in the short term;
- Insolvency of contractors and suppliers, with lack of available qualified suppliers in the market (as a result of investigations of Carwash operation and other reasons).

Abreu e Lima Refinery (Rnest)

The refinery began its partial operation in December, with an installed capacity of 74,000 bpd of oil, a volume that is expected to rise to 115,000 bpd. The second phase is postponed.

Complexo Petroquímico do Rio de Janeiro (Comperj)

The Comperj refinery project is postponed.

For more information about impairment Rnest and Comperj, see the 14 note to the financial statements in this Management Report.

Premium Refineries

In January 2015, we decided to terminate the investment projects for the construction of the Premium I and Premium II refineries. The decision was founded on:

- Low attractiveness of the economic results, even after the cost optimizations built into the investment;
- Lack of economic partner, mandatory condition of Business and Management Plan.
- Meeting of the expansion of service in domestic and foreign markets by-products, provided by the increased capacity of the Middle and Gas

Maximization Program (Promega) at the refineries in operation, except for Rnest, and the construction of the Abreu e Lima and Comperj, in progress;

Commercialization

Domestic Market

We traded 2.458 thousand bpd of by-products in the domestic market – a 3% higher volume compared to 2013. The diesel sales increased by 2%, favored by the increase of infrastructure works, by the growth of the light vehicle fleet powered by diesel and power generation of thermal plants of the National Interconnected System.

Sales of gasoline grew 5%, following the expansion of the flex fuel vehicle fleet, coupled with a price relationship between hydrous ethanol and gasoline C, favorable to the consumption of fossil fuel, in most states, in addition to the increase in household consumption. However, changing from 20% to 25% of the anhydrous ethanol content in gasoline C, started in May, limited the expansion of sales of gasoline A.

LPG sales rose 2%, driven by population growth, increased wages, the expansion in the share of fuel in the industrial consumption and the expansion in the number of industrial customers in the North and Northeast.

Sales of jet fuel increased by 4%, due to increased supply of international flights and increasing the number of domestic flights during the Football of Fédération Internationale de Football Association (FIFA)'s World Cup.

Fuel oil registered a 21% sales growth, stimulated by the order of the thermal plants of the National Interconnected System. This extra demand offset the normal consumption of the product caused by the drop in industrial production.

Naphtha sales fell 5%, due to shutdowns of petrochemical plants in Rio Grande do Sul and São Paulo.

Exports x Imports

Oil exports reached 232,000 bpd, a 12% increase over the 2013 volume, due to increased domestic production of oil. However, the by-products sales to the foreign market totaled 158,000 bpd - down 15% due to increased consumption of fuel oil in the domestic market.

Oil imports reached 392,000 bpd, down 3% compared to 2013, while the by-products totaled 413,000 bpd, an increase of 6%. An increase in the purchase of by-products resulted from the expansion of the internal market in a pace higher than the

production of fuel in domestic refineries. It is worth noting that the increase in production of by-products prevented the imported volume to be even greater.

The financial balance of our trade balance, calculated on the basis of exports and imports of oil and by-products, excluding natural gas, LNG and nitrogen, has presented a deficit of US\$ 15 billion.

Petrochemical

We operate in the petrochemical sector in an integrated manner to other Petrobras System businesses. The goal is to produce petrochemicals and biopolymers preferably through equity investments.

The following companies are our controlled, associates or jointly controlled entities in the Petrochemicals area (interest on December 31, 2014):

- Braskem S.A. (36.20%) – mainly produces ethylene, polyethylene, polypropylene and PVC;
- Deten Química S.A. (27.88%) – produces raw material for detergents;
- Metanor S.A./Copenor S.A. (34.54%) – produces methanol, formaldehyde and hexamine;
- Fábrica Carioca de Catalisadores (50%) – produces catalysts and additives;
- Petrocoque S.A. (50%) – produces calcined petroleum coke;
- Companhia Petroquímica de Pernambuco (100%) and Companhia Integrada Têxtil de Pernambuco (100%) – produce purified terephthalic acid (PTA), PET resin (polyethylene terephthalate) and polyester filament.

Innova

As part of the Divestitures Program, Petrobras Shareholders' General Meeting approved in 2013, the sale of 100% of the shares of Innova SA to Videolar SA, for R\$ 870 million. The operation was completed in 2014, after approval by the Administrative Council for Economic Defense (CADE).

Procop

In the Refining, transportation and marketing area, the Procop provided savings of R\$ 4,34 billion, exceeding by 34% the forecast for the year in the amount of R\$ 3.24 billion. The main actions that enabled this result were, in refining, increased operational efficiency of assets and the increase in staff productivity; and, in

logistics, reduction of oil stocks and by-products and decreased stay of ships in terminals and platforms.

Transport

Transport and storage

Our subsidiary Petrobras Transporte (Transpetro) is responsible for handling and storage of oil, by-products, biofuels and natural gas. Transpetro operates 49 terminals (21 onshore and 28 waterway), 54 ships, 7,517 km of oil pipelines and 7,151 km of gas pipelines.

Besides interacting permanently with our areas of production, refining and distribution, Transpetro carries imported and exported cargo of oil and products, and has distributors and petrochemical industries as its main clients, besides Petrobras. The subsidiary has a national presence and has facilities in 20 of the 27 states.

In 2014, the fleet of Transpetro handled 59.9 million tons of oil and by-products. Through the company's pipelines and terminals, 832.6 million cubic meters of liquid were transported, 3% more than the previous year. The average daily natural gas transport was 75.8 million cubic meters, exceeding by 8.7% the average of 2013.

Maritime Transport

The Transpetro's Modernization and Expansion Program of the Fleet (Promef) plans to build ships in Brazilian shipyards, in order to renew the fleet, adding new technologies to operations.

In 2014, Transpetro received two oil tankers laid down in Promef: Henrique Dias – fourth of the Suezmax series, and the Anita Garibaldi - first Panamax type, totaling nine vessels delivered.

Terminals and Pipelines

In this field of operations, the highlights of our subsidiary were:

- Increased Olapa pipeline capacity that connects the President Getulio Vargas Refinery (Repar) to Paranaguá Terminal, with the elevation of 400 m³/h to 450 m³/h maximum flow limit in reflux;
- Startup of remote operation of the pipelines that connect the Guarulhos terminal to the bases of three distribution companies that supply the Greater São Paulo. This is the first movement of products exclusively by gravity, without use of pumps;

- 50% increase in the volume ship to ship (ship to ship) in Angra dos Reis, contributing to the increase of oil exports;
- Increase of 6.4% in road drive on year to 605,000 m³ of light products and 1.689 million tons of dark products transported, especially fuel oil 1-A type, natural gasoline (C5+) and asphalt;
- Final phase of completion of the three single point mooring replacement project that comprise the supply logistics/disposal of Alberto Pasqualini refinery (Refap) and President Getulio Vargas (Repar), essential links in the supply chain of the Southern Region;
- Startup of operation of the new framework of buoys and submarine pipeline in Guamaré Terminal (RN), enabling the naphtha supply and S-10 diesel to the Clara Camarão refinery (RPCC) in the state and the flow of S-1800 diesel;
- Startup of operation of Natural Gas Liquefied Regasification Terminal in Bahia, with capacity to provide 14 million cubic meters/day to the market, providing greater flexibility and natural gas supply security to the country;
- First commercial operation of the Ilha Comprida Terminal, integrating the Waterway Terminals of Guanabara Bay (TABG). With the inclusion of Ilha Comprida, TABG more than doubled its LPG storage capacity;
- Start of movement activities for Rnest, with the transfer of 61 thousand cubic meters of oil to the unit.

Gas and Natural Gas Processing

With the operation of a network of 7,151 km of pipelines and 11 compressor stations, totaling 400,000 HP installed capacity, Transpetro Natural Gas Area carried an average of 75.8 million m³/day of gas in 2014, volume 8.7% higher over the previous year. In December, monthly record movement was recorded, with a daily average of 89.41 million cubic meters.

In Cabiúnas Terminal (RJ) - Brazil's largest natural gas processing center - the average volumes of processed natural gas and natural gas condensate amounted to 11 million m³/day and 954 m³/day, respectively. The seven terminal processing units have capacity of 19.7 million m³ of natural gas and 4,500 m³ of natural gas condensate per day.

Procop

Procop provided, in 2014, savings of R\$ 414 million for Transpetro, 74% over the forecast for the year. The main initiatives that enabled such gain were: greater

control in the acquisition of materials and cost of corrective maintenance during maintenance activities of vessels; optimization of costs with scheduled maintenance of tanks and pipeline repairs; and systematic monitoring and control of industrial maintenance costs at the terminals.

Distribution

Our subsidiary Petrobras Distribuidora operates in the marketing and distribution of petroleum products and biofuels in Brazil, in order to maintain our growth in the market, with an emphasis on profitability, combined with an integrated, reliable and sustainable logistics.

In leadership position in the domestic market, Petrobras Distribuidora sold 57.4 million cubic meters of fuel in 2014 - volume 6.9% higher than the previous year. Its net operating revenue was R\$ 98.5 billion, with net income of R\$ 1.1 billion. The subsidiary achieved record sales in October - 5.3 million m³ - and reached 31 December 2014 with a network of 7,931 service stations and 13,868 consumer customers, closing the year with a market share of 37.9%.

In 2014, the fuel market grew 6.2%, highlighting the C gasoline and hydrous ethanol, which had high intakes of 7.6% and 14.1%, respectively, due to the increase in gross national income. Fuel oil sales increased 27.3%, favored by the activation of the thermal power plants. The marketing of diesel oil increased by 2.7%, influenced by the same factor and the growth in demand in the transport sector.

The operating performance of Petrobras Distribuidora, has been leveraged by the growth in demand for fuel and the commercial policy of the company. The subsidiary has combined initiatives to the actions in order to maintain the level of participation in the total market and the retail segment, the expansion of product sales with higher added value, such as lubricant, and the cost control.

Investments

Petrobras Distribuidora invested R\$ 1.1 billion in 2014. Out of this total, R\$ 481.2 million were used to the maintenance and expansion of logistics infrastructure; R\$ 215.9 million to the development and modernization of the service station network; and R\$ 33.1 million in gas distribution and marketing of energy.

Investments in distribution infrastructure were determined by the growth of by-products consumption and its consequential logistical challenges, especially in the Southeast, North and Midwest. The Distributor inaugurated in Tocantins, the Porto Nacional Terminal, allowing the start of services to a region with high growth demand for fuels. The state, where competitors are expanding facilities, was the only one that did not have own basis.

A highlight of the year was the launch of Petrobras Grid gasoline, developed especially for the Brazilian market. The product includes a package of detergent and dispersant and a friction modifier additive, resulting in improved performance, optimum efficiency and motor protection. The new gasoline, which provides more profitability for the Distributor and its dealers is available in 5,725 Petrobras service stations.

In line with our corporate strategy to expand sales in segments with higher added value, Petrobras Distribuidora invested in expanding the network of stations convenience stores. Our network, BR Mania, celebrated its 20th anniversary in 2014, reaching the mark of thousand stores across the country.

Procop

In the Distributor, the Procop provided a savings of \$ 280 million, which exceeded 71% in the forecast for the year. Among the actions that resulted in such gain, are the reduction of freight costs and travel, increased productivity in the bases and commercial and corporate areas and the decrease in spending with advertising in the service stations.

Gas, Energy and Gas-Chemical

Our Gas and Energy area is responsible for the transportation, distribution and sale of natural gas, for the generation and sale of electricity and the production and sale of fertilizers. The area acts together with national E&P, aiming at harmonizing supply and demand for gas and meet the needs of Refining, transportation and marketing.

The monetization of natural gas in the sedimentary basins of Brazil is at the heart of our strategy. The increase in gas production has contributed to the expansion of our thermoelectric power plants and fertilizer factories and to meet the demand of our area of Refining, transportation and marketing and contracts with the companies of the product distribution.

Natural Gas

In 2014, the natural gas supply to meet market demands exceeded by 10% the previous year to 96.10 million m³ per day (m³/day). This expansion was mainly driven by increased consumption of gas-fired thermal plants, driven by the National Electric System Operator (ONS) in response to the low level of hydroelectric reservoirs, lower than historical averages.

Of the total volume, in a transportation network of pipelines that sum 9,190 km, our domestic gas supply was 43.23 million m³/day, considering the own production and

the partners. The volume does not include liquefied natural gas, the gas used in the production process, the injection into wells and the losses. Importing the product of Bolivia, via pipeline reached 32.87 million m³/day, excluding the gas used in transport. The volume of liquefied natural gas (LNG) imported and subsequently regasified and offered to the market totaled 19.99 million m³/day².

Projects completed in 2014

We have put into operation six new delivery points of natural gas - Aquiraz (CE), São Mateus (ES), Rio das Flores (RJ), São Bernardo do Campo II (SP), Barra Mansa II (RJ) and Mauá (AM). We also increased the Pressure Regulating Station in Manaus (AM).

Ongoing projects

Gas pipelines

- Gasfor II (Fortaleza/ CE) – Horizonte -Caucaia stretch, with 83.2 km;
- Route 2 - rich natural gas pipeline that will connect the Santos Basin pre-salt hub to Cabiúnas Terminal (Tecab) in Macae (RJ). With 402 km and able to handle 13 million m³/day, scheduled for completion in the second half of 2015;
- Route 3 - rich natural gas pipeline that will connect the pre-salt Santos Basin hub to the Petrochemical Complex of Rio de Janeiro (Comperj), in Itaboraí, for the disposal of up to 18 million m³/day. The work, with 355 km, is expected to end on the second half of 2017.

Natural Gas Processing Units (UPGNs)

- Natural Gas Processing Unit Cabiúnas (Route 2) - will enable the receipt of up to 13 million cubic meters/day of gas from pre-salt Santos Basin hub, increasing the daily processing capacity of gas from Tecab-Reduc System (Duque de Caxias Refinery) 23 million m³ to 28 million m³. The work will also allow the condensate processing of Tecab to exceed 4,500 m³/day to 6,000 m³/day;
- Route 3 - located in Comperj, for the outflow up to 18 million m³/day of natural gas from the pre-salt Santos Basin hub.

²Not necessarily all of import in the year will be used for regasification, this will depend on the strategies adopted for the closure of the physical balance of natural gas in energy security function, economy, etc.

Liquefied Natural Gas

In 2014, we signed 11 master sales agreement (MSA), totaling 83 contracts. We performed 116 operations of purchase of loads, of which 101 received in Brazil. We resold 17 loads in foreign markets, two of them from re-export. In January, we started the operation of the Regasification Terminal of Liquefied Natural Gas in Bahia with capacity to process 14 million m³/day. We ensure the optimization of LNG supply cost in different contractual arrangements (long-term contracts versus spot market).

Natural Gas Trading

We have adopted since September 2012 a short-term natural gas marketing model, which provides for monthly auctions and weekly sales via electronic platform. The contracts of this type were added in 2014, similar to what had occurred in the previous year, so that it remains in effect until September 2015.

There was, however, short-term sale in 2014, because the Brazilian market conditions did not favor the additional supply of gas, due to high demand of thermal power plants.

In 2014, 13 supply contracts were in force to the secondary market, reaching the total of 2.39 million m³/day, however, only 21,000 m³/day were actually provided, on average. These sales, which relocated volumes not consumed by power plants, were made to industrial clients that do not use natural gas as the primary fuel showing flexibility and reliability in supplying the product.

Natural Gas Distribution

The volume of natural gas sold by regional distributors in Brazil recorded an average of 62.5 million m³/day - a 14% increase compared to 2013, reflecting the expansion of 54% in the consumption of gas-fired plants.

We hold interests in 18 distribution companies and fully control the Gas Brasileiro (SP) and the BR (ES). In the other, our interests ranged from 23.5% to 83%. In most cases, we operated in the management of technical and commercial areas.

The 20 distributors marketed 33.2 million m³/day, equivalent to 53% of the natural gas distribution market in the country. The volume handled by these companies increased by 19% compared to 2013.

In September 2014, we sold our equity interest of 40% in the Companhia de Gas de Minas Gerais to the Companhia Energética de Minas Gerais.

Electric power

We generated 4,637 megawatts average (average MW) of electricity to the National Interconnected System (SIN). Our generation facilities with an installed capacity of 6,407.5 MW, consist of 21 owned and leased power plants, fueled by natural gas or fuel oil. Including plants with generation from renewable sources and the projects in which we have a minority interest, the total capacity is 6,732.4 MW.

Our power generation in 2014 was 16% higher than the previous year due to higher demand of order from thermoelectric made by the National System Operator (ONS), given the low water levels in hydroelectric reservoirs. We sold 1,183 average MW of electricity in the free market and 2,425 average MW in the regulated environment.

We operated in the generation and sale of electricity in an integrated manner, optimizing the portfolio of purchase and sales contracts, considered the risk-return binomial. In 2014, we sold our interests in Norte Fluminense (10%) and in Brasil PCH (49%).

Completed projects

We invested in the natural gas thermoelectric generation in an integrated manner in order to ensure the power supply, taking into account our contracts and reserves.

- Baixada Fluminense Thermal Power Plant (RJ) - with estimated 530 MW capacity, meets the contract related to the Energy Auction A-3, 2011. The start of commercial operation of the simple cycle occurred in March and the combined cycle in November;
- Sepe Tiaraju Thermal Power Plant (RS) - Implantation of combined cycle, with increased installed capacity from 161 MW to 248 MW, in order to raise the unit's efficiency and the supply of electricity to the country the implementation of the combined cycle was completed in February 2015.

Fertilizers

Our Gas and Energy area is responsible for three fertilizer plants: Fafen-BA, Fafen-SE and Fafen-PR. In 2014, we produced 882,000 tons of ammonia (of which 637,000 tons were used in the urea production process) and 1,109 million tons of urea. At the same time we sold, respectively, 228,000 tons of ammonia and 1,046 million tons of urea.

We have interrupted works on the Nitrogen Fertilizers Unit III (MS) due to low performance in the UFN III Consortium whose contract has been terminated. Subsequently, we have decided to reevaluate the Unit implement schedule.

Natural Gas Processing Units (NGPUs)

Our Gas and Energy area began operating in 2014, the NGPUs originated in the areas of Exploration and Production and Refining, transportation and marketing. The migration, covering three gas treatment units (UTGs) of E&P and two from Refining, transportation and marketing, consolidates the Gas and Energy as responsible for the flow of gas from the Campos (RJ), Santos (SP) and Espírito Santo (ES) basins.

The incorporation of these units aims at balancing the performance of our business areas, allowing the E&P to focus its efforts on the growth of oil and gas production and Refining, transportation and marketing to be fully dedicated to the refining, logistics and sale of oil and by-products. The incorporated units are:

- Monteiro Lobato (UTGCA) in Caraguatatuba (SP), with capacity to process 20 million m³/day of natural gas;
- Cacimbas (UTGC), in Linhares (ES), with a capacity of 16 million m³/day of natural gas and 5,300 m³/day of condensate;
- South Capixaba (UTGSUL): in Anchieta (ES), with a capacity of 2.5 million m³/day of natural gas;
- UPGN of the Cabiúnas Terminal (Tecab) in Macae (RJ), which, with the expansion, will have its high processing capacity increased from 19.7 million m³/day to 25.1 million m³/day of natural gas. The Tecab, which processes the gas from the Campos basin, will also receive gas from the pre-salt Santos basin hub, via Route Cabiúnas gas pipeline;
- UTG Comperj in Itaboraí (RJ), still under construction, which will process up to 18 million m³/day of natural gas, received by the gas pipeline route Comperj.

Procop

In the Gas and Energy area, the Procop led to the savings of R\$ 162.2 million, exceeding the initial forecast for the year, of R\$ 114.7 million. The main initiatives that resulted in gain were lower operational costs of logistics assets of gas and the best use of resources in Fafens and in thermal power plants.

Biofuels

Our Petrobras Biocombustível subsidiary, established in 2008, operates in the production of biodiesel and ethanol safely, with social and environmental sustainability, contributing to the reduction of greenhouse gases. It is for the company to maintain our growth in the biofuels market, in line with the evolution of the national demand for gasoline and diesel.

In order to achieve its goal, Petrobras Biocombustível counts on the following drivers:

- Integrate the work of the production, logistics, technology and marketing of biofuels areas, creating synergies with the Petrobras System;
- Develop new markets and products;
- Ensure, in accordance with the life-cycle of products, operating, quality and sustainability standards that can open new markets and strengthen our image;
- Ensure the maintenance of the Social Fuel Seal, optimizing production arrangements including family farms and cooperatives;
- Accelerate the field of technological knowledge, prioritizing the development of second-generation ethanol (2G ethanol), aviation bio-kerosene (bioQAV); and competitive supply of agricultural inputs;
- Act in the production of bioelectricity and bioproducts that improve profitability in an integrated way to the Petrobras System business.

Biodiesel and Agricultural Inputs

Petrobras Biocombustível has total production capacity of 821 thousand m³ of biodiesel per year, through participation in five plants in the country.

Own Plants

The subsidiary has three own plants - Candeias (BA), Quixadá (CE) and Montes Claros (MG) - with a total installed capacity of 478 thousand cubic meters. The plants hold the Social Fuel Seal, in accordance with the guidelines of the National Program for Production and Use of Biodiesel. The company continued the process of adaptation and licensing of experimental plant in Guamaré (RN), for commercial operation in 2015, with production capacity of 20,000 m³/year. The main objective is to use it strategically in the technological development of biodiesel and bioproducts.

BSBios Sul Brasil

Additionally, Petrobras Biocombustíveis, as a partner of the company BSBIOS Sul Brasil, participates in the joint control of two other biodiesel plants, one in Passo Fundo (RS) and another in Marialva (PR), whose total capacity is 343,000 m³. The plants are strategically located close to the production of soybeans and canola in Rio Grande do Sul and the port of Paranaguá, Paraná.

Belém Brasil Bioenergia

The company, in partnership with Galp Energia, develops Belém Program, which aims to meet the Iberian market and the other regions of Europe. The program covers the palm cultivation, extraction and export of oil in Brazil and the production of 270 thousand tons of greendiesel in Portugal. In 2014, the planting of palm in the state of Pará, reached 40,000 hectares.

Bioóleo

Through Bioóleo, a jointly controlled company, Petrobras Biocombustível is capable of processing 130,000 tons/year of grain (castor bean, cotton and sunflower) and to refine 60,000 tons/year of soybean oil or 48,000 tons/year of oil cotton. The company, located in Feira de Santana (BA), provides vegetable oil for the three Petrobras Biocombustível owned biodiesel plants.

Ethanol

Through shared management Bambui, Nova Fronteira and Guarani companies, Petrobras Biocombustível holds interests in ten plants producing ethanol, sugar and electricity in Minas Gerais, São Paulo, Goiás and Mozambique in Africa. All three companies closed the season 2014/2015 with total milling of 25.8 million tons of cane sugar and production of 1.23 million m³ of ethanol and 1.60 million tons of sugar. The marketing of surplus energy produced with pomace burning of cane sugar should reach 1,358 gigawatt-hours (GWh) at the end of the season.

With the investments made in recent years, the processing capacity of the plants and the renewal and expansion of sugarcane plantations are being expanded. The investments resulted in increased ethanol production and electricity generation from cane sugar bagasse.

Bambuí Bioenergia

Petrobras Biocombustível holds 43.58% of the share capital of Bambuí Bioenergia S.A., which has an ethanol plant in Bambuí (MG). In 2014, the company suffered from the drought impacts that hit the state, causing a drop of 28% crop. As a result, the pace of milling reduced 8.3% over the previous year, and 9% in ethanol production, which totaled 93,500 m³.

Guarani

Petrobras Biocombustível holds 42.95% in the company, which operates seven production units of ethanol and sugar in Sao Paulo and one in Mozambique.

In 2014, despite the crop failure by climate issues and milling of cane sugar, the

company grew by 3% and the production of ethanol, 26%, compared to the previous year, producing 756,000 cubic meters of ethanol and 1.6 million tons of sugar. This result is due to the expansion of crop area, increased manufacturing capacity of Vertente and Tanabi plants and prioritization of ethanol production over sugar.

Nova Fronteira

Petrobras Biocombustível holds 49% of the share capital of Nova Fronteira Bioenergia S.A. in Quirinópolis (GO), in partnership with the São Martinho group. Thanks to the agricultural high productivity, coupled with operational efficiency, the company increased by 10% the milling of sugar cane, totaling 4.472 million tons, and 9% ethanol production, producing 383,000 cubic meters, and is currently the largest exclusive plant of ethanol in the country.

Ethanol 2G

Our researches for the development of second generation cellulosic ethanol, launched in 2004, are advanced. The 2G ethanol project is in the conceptual stage, and Petrobras Biocombustível is currently evaluating the best time for its deployment.

Structuring programs

Petrobras Biocombustível launched in 2014 the Competitiveness Growth Program (PROAC). The initiative aims to increase competitiveness and efficiency in biodiesel plants and in the subsidiary's headquarters, and contributes further to the Operating Costs Optimization Program (Procop), which Petrobras Biocombustível joined in 2013.

In 2014 Procop provided our subsidiary savings of R\$ 148.6 million, 33% over forecast for the year. Two more programs are being implemented: the Integrated Management System of HSE, which seeks to increase safety, environment and health excellence; and the Operational Efficiency Increasing Program (Proef), which aims to improve the availability, reliability, operational efficiency and integrity of production systems in biodiesel plants.

International Activities

We concentrate our international operations in exploration and production with an emphasis on exploration activities of oil and gas in Latin America, Africa and the United States. To overcome these challenges, we drew the following strategies:

- Investing in exploration abroad to discover and appropriate reserves, complementing our volumes in Brazil;

- Monetize natural gas reserves abroad, complementing the supply of natural gas in Brazil;
- Keep the operational integrity and optimize the management and efficiency of refining and distribution assets abroad.

In this context, we invested R\$ 3.6 billion in the International Area in 2014, concentrating 88% of these resources in the E&P segment. We applied the remaining 12% in refining, petrochemicals, distribution, gas and energy.

Our overseas production totaled 115,900 barrels per day (bpd) of oil and 15.9 million m³ per day of natural gas, totaling 209,300 barrels of oil equivalent per day (boepd). Our three refineries outside Brazil processed 163,400 bpd of oil, equivalent to 69% of the installed capacity of 230,200 bpd.

International proved reserves of oil, condensate and natural gas on December 31, 2014, totaled 429.3 million of barrels of oil equivalent, according the Society of Petroleum Engineers (SPE), 27.5% lower than those of 2013. This volume represents 2.6% of our total proved reserves. This reduction is due to early monetization of proved reserves through the sale of assets in Colombia, Peru, Argentina and the United States, which materialized in 2014.

Highlights:

- Entry into production of St. Malo field in December. The field, where we hold a 25% stake, was discovered in 2003. The field has a completion system connected to the largest semi-submersible platform in the US Gulf of Mexico;
- Entry into production of the Lucius field in the Gulf of Mexico (US), on January 2015;
- Entry into production of Hadrian South field, where we hold a 23.33% stake, in March 2015. The field, located in the American Gulf of Mexico, is operated by ExxonMobil and its two natural gas producing wells are connected to the floating production unit of Lucius field.
- Natural gas accumulation discovery in exploratory well Orca-1, in Tayrona Block, where we are the operators and owners of a 40% interest. This was the first discovery of the exploratory research in deep water in the Colombian Caribbean;
- Process optimization actions and operational management in the Pasadena refinery in the United States, allowed the exclusive processing of American oil, mostly of unconventional source. The result was the increased production of higher value-added products;

- Closing of the sale of assets onshore operations in Colombia, the exploration blocks of Uruguay and Peru assets, approved in 2013;
- Sale of shareholding of 44.5% in Transierra SA to YPFB, Bolivia;
- Implementation of the International Procop area, involving nine countries and four business segments, with estimated savings of \$ 165 million by 2016.

Business development

Latin America

In Argentina, our activities includes the activities of exploration and production of oil and gas, and refining, distribution, petrochemical and gas and energy assets.

In the E&P segment, we highlight: the assessment of shale gas exploration well in the Sierra Chata block, with the aim of increasing gas reserves in the Neuquén Basin; the development of the Punta Rosada production assets; and the extension of concessions in the areas 25 Mayo-Medanito, Jaguel the Los Machos and Río Neuquén, in the province of Río Negro. Still in 2014, we announced the sale of our stake of 38.45% in the Puesto Hernandez production area to YPF SA, for R\$ 40.7 million and, in March 2015, the sale of the assets of the Austral Basin - still subject to approval from the authorities - for US\$ 101 million, consisting of 26 exploration and production onshore concessions, in addition to flow, processing and storage infrastructure.

In downstream and gas and energy segments, we have: the Bahía Blanca refinery with a capacity of 30,200 bpd of oil; 28.5% in the Del Norte refinery (Refinor); two petrochemical plants; 262 service stations and a market share of 5.6%; a lubricants plant; four plants of electricity, with an installed capacity of 1.1 GW, and participation in other two; participation in gas logistics company TGS; and three oil and by-products terminals.

In Bolivia, natural gas production is strategic for Petrobras System to complement supply to the Brazilian market. Our production comes mainly from the San Alberto and San Antonio fields where we are operators, with 35% stake, and Itau block, where we are also operators, with 30% share. In 2014, we sold our 44.5% share in Transierra for R\$ 107 million, which provides hydrocarbon transport by pipelines and connects San Alberto and San Antonio to the Bolivia-Brazil Gas Pipeline. Our operations in assets were not impacted by the sale.

In Chile, we are present in the distribution market with 269 service stations and 12.9% market share.

In Paraguay, we have 176 service stations and we retain a 19.6% stake in the sector.

In Uruguay, we have 87 service stations and 21.5% market share. In 2014, we completed the sale, which was approved last year, of 40% stake we held in exploration blocks 3 and 4 of Punta del Este Basin, for R\$ 17 million.

In Peru, we closed the sale, approved in 2013, of 100% of the shares of Petrobras Energia Peru subsidiary to China National Petroleum Corporation (CNPC), for R\$ 2.6 billion.

Another completed sale was the Petrobras Colombia Limited shares to Perenco for US\$ 380 million. The assets included interests in 11 onshore exploration and production blocks and pipelines to transport the production. We kept the work in E&P, with an exploration block onshore and other offshore. We also operate in the Colombian distribution business, with 113 service stations and 4.2% market share.

USA

In the US, we operate with a focus on Gulf of Mexico deepwaters. Our production comes mainly from the Cascade and Chinook fields, and St. Malo, which came into operation in December.

Also in the Gulf of Mexico, the fields of Hadrian South and Lucius, under development, will enable the increase of our production in the country. We still have the Pasadena refinery with capacity to process 100,000 bpd of oil.

Africa

In Africa, where we have participation in exploration and production assets, we operate through Petrobras Oil and Gas BV (PO&G). In 2014, our interest in the company's production was 26.6 thousand bpd of oil. The PO&G is present in six countries - Angola, Benin, Gabon, Namibia, Nigeria and Tanzania.

Asia

In Japan, we have a refinery in Okinawa, with nominal capacity to process 100,000 bpd of oil. The unit meets much of the demand for fuel in the region, in addition to selling fuel oil for thermoelectric Tokyo and export products for other Asian countries. In February 2015, we began the closure plan of activities in the refinery, which provides for the continuity of its operations as a marine terminal, to maintain supplies of Okinawa Island until the completion of this process, to be conducted in collaboration with Japanese Ministry of Economy, Trade and Industry.

For more information about impairment of International Activities, see the 14 note to the financial statements in this Management Report.

INVESTMENTS

Our investments totaled R\$ 87.1 billion in 2014, allocated primarily on exploration activities in the development of production and the expansion of the logistics infrastructure for the flow of oil and by-products. The allocations were also for the construction of refineries and installation units to improve fuel quality, with a focus on meeting domestic demand. We further invested in fertilizer plants and power plants, valuing the chain of natural gas; and the increase in ethanol production capacity and biodiesel in order to strengthen our position in the domestic biofuels market.

Capital expenditures and investments

	R\$ million				
	Fiscal Year				
	2014	%	2013	%	Δ%
Exploration & Production	56,898	66	59,993	58	-5
Refining, Transportation, Marketing and Petrochemicals	18,264	21	30,740	29	-41
Gas and Power	6,002	7	5,919	6	1
International	3,593	4	5,127	5	-30
Distribution	1,053	1	1,120	1	-6
Biofuels	281	-	322	-	-13
Corporate	1,049	1	1,195	1	-12
Total investments	87,140	100	104,416	100	-17

In E&P, we invested R\$ 56.9 billion. Of this total, R\$ 10.4 billion was allocated to the exploration, R\$ 39.8 billion to the production and R\$ 6.6 billion to infrastructure. Investments aimed at the development of production of new fields of pre-salt and post-salt, maintenance of production in old fields and improvement of logistics and technology infrastructure. We started four new platforms operation, with a total capacity to process 660,000 barrels of oil per day (bpd), of which 525,000 correspond to our share.

In the Refining, transportation and marketing area, we invested R\$ 18.3 billion - most in the expansion of refining capacity. We invested R\$ 5.8 billion in Abreu e Lima Refinery (Rnest), which began its partial operation in December.

We allocated R\$ 6 billion to Gas and Energy. A portion of the resources were applied in the construction of the two pipeline routes for pre-salt projects. We started the operation of Ammonium Sulfate Production Unit (Sergipe), with capacity to produce 303,000 tonnes per year.

Petrobras Distribuidora subsidiary invested R\$ 1.1 billion. The priority was the expansion of logistics capacity to cope with the growth in domestic demand for fuels.

In the international area, our investments totaled R\$ 3.6 billion. Most of it was applied in exploration and production, with special attention to the startup of production in the field of St. Malo, in the United States.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

Petrobras is a mixed capital company established under Law No. 2004/53 to perform activities related to the oil, gas and by-products monopoly of the Federal Government, and in order to ensure regular supply of petroleum products to support economic development of the country. We started our operations in 1954 and since then we have produced crude oil and natural gas and operated in the refining, transportation and marketing in Brazil.

From the enactment of Law 9478/97, we became active in the market in conditions of free competition, complying with the following guidelines drawn by the legislature: preservation of national interest; promoting the development and expansion of the labor market; protection of Brazilian consumer interests with regard to price, quality and availability of products; and ensuring the provision of products throughout the country.

Brazilian law also requires that the Federal Government, our controlling shareholder, holds the majority of the voting shares and the power to elect a majority of members of the Board of Directors and, through it, the officers responsible for our management. Thus, as the controlling shareholder, the Federal Government has an influence on the strategic direction of our business and has adopted macroeconomic and social policies through us, in accordance with Article 238 of the Corporation Law, which allows the orientation of the activities of the mixed economy company to serve the public interest that justified our establishment.

In this legal and regulatory scenario:

- We can carry out activities that prioritize the Federal Government's policies, instead of our own economic and business objectives;
- We cooperate with the Federal Government to ensure that supply and crude oil and oil product prices meet domestic consumption requirements; and
- We can perform sales on terms that may adversely affect our operating results and financial condition.

We recommend you to read the risk factors, in Item Four of the Reference Form.

Pricing Policy

Our pricing policy in Brazil seeks to align the price of oil and by-products to the international prices on the long run. However, to minimize the impacts of changes to the domestic consumer, diesel prices, gasoline and other products are not necessarily adjusted to reflect the volatility of oil prices and products in the international markets and the exchange rate changes in the short term. So, we go through periods where prices of our products are not aligned to international prices.

In this context, we cannot adjust the selling prices of our products in Brazil when international prices of crude oil and by-products increase or decrease, or when the Real appreciates or depreciates against the dollar, which reflects in our operating results. For more information about our financial and operating results, refer to the result per business segment in the financial statements.

“LAVA-JATO” OPERATION

The Brazilian Federal Police sparked an investigation to determine washing money practices by criminal organizations in several states of the country, called "Lava-Jato Operation". In connection with the investigation, former Petrobras officers were arrested and subsequently accused of money laundering, criminal operation and passive corruption. Other former executives of the company and suppliers of goods and services to Petrobras have been or may be indicted.

For more information on the "Lava-Jato Operation" refer to the notes in this Management Report.

STRATEGY AND MANAGEMENT

Corporate Governance

Our corporate governance structure is formed by: General Shareholders' Meeting, Board of Directors and its committees, the Audit Council, Audits, Ombudsman, Executive Board, Business Committee and its specific settings (Investment, Segments and Integration committees).

The Board of Directors is our guidance body and senior management. Among its responsibilities, provided for in Petrobras Bylaws are the set of global policies and the general direction of the business, defining mission, strategic goals and guidelines; approve the strategic plan, the multi-annual plans and annual programs of expenditures and investments; supervise the management of officers and

establish their assignments, examining at any time, our books and papers ; and evaluate performance results.

The members of the Board of Directors are elected at the Annual General Meeting, being assured employees the right to appoint one member, separately, by direct vote of their peers. We currently have ten members, seven of whom are appointed by the Federal Government (including the Chairman of the Board), one by the minority holders of common shares, one by the holders of preferred shares, excluding the controlling shareholder, and one by the employees. The Chairman of the Board of Directors and President of Petrobras are not held by the same person.

The Board of Directors and the Executive Board are attached to the committees that assist them through analysis and recommendations of issues that needs to undergo deepen strategic decision making process. The Business Committee linked to the Executive Board acts as support forum to decision making by submitting analysis and proposals to the upper direction. The strategic issues and the integration of units, aiming the alignment between the guidelines of the Strategic Plan, the development of business and the company's management are discussed in this committee.

The three committees linked to the Board of Directors (Audit, Security, Environment and Health, and Remuneration and Succession) are formed exclusively by collegiate members. These directors assess and make proposals that are submitted to the Board for deliberation.

In 2014, we incorporated to the internal regulation of the Board of Directors a specific procedure for requesting information by its members. In addition, the Board approved corporate guidelines that complement the policy transactions with related parties.

As a measure to strengthen corporate governance, our Board of Directors has approved in November, the establishment of a Governance, Risk and Compliance Office, with three-year term, which began in January 2015 and is renewable. The mission of the new officer is to ensure procedural compliance and mitigate risks on our business, such as fraud and corruption, ensuring adherence to laws, standards and regulations, including the rules of the Securities and Exchange Commission (CVM) and the Securities and Exchange Commission (SEC).

Besides the Governance, Risk and Compliance officer to be eligible to participate in decisions of the Executive Board, the matters to be submitted to the resolution of this collegiate should count necessarily with prior favorable opinion of the officer in regards to governance, risk management and compliance of procedures.

Risk Management and Compliance

Risk Management

Our organizational structure of risk management consists of the Executive Management of Enterprise Risk, under the Director of Governance, Risk and Compliance, and similar units under the business areas.

The enterprise risk management structure is responsible, in a coordinated manner, to the following:

- To identify, monitor and report periodically to the Executive Board and the Board of Directors the effect of the main risks in our integrated results;
- To stimulate the integration and capture synergy of risk management actions taken in the organizational units, as well as in other business, support and management processes;
- To establish a corporate risk management methodology guided by an integrated and systemic view that allows a continuous monitoring of risks environment in various hierarchical levels;
- To disseminate knowledge in risk management;
- To support managers in developing and implementing the necessary measures to ensure alignment of exposure to tolerable levels of risk.

More information about the risk factors can be obtained on Form 20-F and in the Reference Form, available on www.investidorpetrobras.com.br site.

Compliance

We are taking continuous actions for complying with the laws and national and international initiatives; and we maintain internal controls in line with the nature and complexity of the business risks we manage, respecting the legal and regulatory requirements of the countries where we operate. These initiatives are part of our commitment to ethics, integrity and transparency in the conduct of company business.

Our compliance actions are conducted in order to ensure, throughout the Petrobras System, the strengthening of internal controls and its alignment to the Strategic Plan. Therefore, we mitigate business risks relating to compliance, certify compliance with laws and regulations, and create and disseminate the culture of compliance. The goal is to prevent, detect and correct activities and behaviors that may cause damage to our reputation.

The Executive Compliance Management, under the Governance, Risk and Compliance Board, is responsible for the planning, direction, coordination and evaluation of control measures, compliance and research. Another assignment of this management is to advise the officer of the area, the Board of Directors, the Audit Committee, the President and the Executive Board.

Ethics and integrity

Our commitment to ethics and integrity is rooted in such documents as the Code of Ethics of the Petrobras System and the Conduct Code of Petrobras System and in initiatives such as the Ethics Management System and the Petrobras Corruption Prevention Program.

The Code of Ethics establishes the ethical principles and commitments of conduct that must be followed by the members of the Board of Directors, the Audit Committee, and the Executive Board as well as by the employees, interns and service providers of the Petrobras System. Approved in 2014, the Conduct Code is designed for the same audience and introduces developments to the ethical principles of the Code of Ethics.

We are part of the Ethics Management System of the Federal Executive Branch of Brazil, coordinated, assessed and vetted by the Committee on Public Ethics. The role of our Ethics Committee is to provide guidance to our managers and employees; guide, disseminate and foster compliance with ethical principles and commitments of conduct; and investigate conducts inconsistent with our ethical standards or potentially damaging to our image and business.

In order to establish and structure institutional policies aimed at fostering, analyzing, investigating and monitoring the ethical conduct of our internal activities and our external relations, the Ethics Committee has introduced the Petrobras Ethics Management System. We have made prevention of misconduct, fostering the dissemination of information and educational activities a priority by training the workforce and new managers, without detriment to the application of disciplinary measures if misconduct is confirmed.

The Ombudsman's Office serves as a formal means of communication with our internal and external audience and receives questions and tip-offs, among other information. If a solid tip-off is made, Petrobras assesses the need to form an Internal Investigative Committee to investigate evidence or incidents and to assist with administrative or disciplinary measures, among other applicable procedures.

Approved in 2013, the Petrobras Corruption Prevention Program is an ongoing effort to prevent, detect and correct acts of fraud and corruption, in order to consolidate our commitment to ethics and transparency in our activities and

relations, complying with the provisions prescribed by law as well as national and international initiatives of which we participate. The program is managed by the Governance, Risk and Compliance Office.

EXTERNAL ENVIRONMENT AND OIL MARKET

External Environment Monitoring

The world economy has grown by 3.4³% in 2014 (Source: IMF), a result that included disparate performance among major economies of the world. The United States was the country that most surprised in 2014. Despite experiencing poor performance in the first quarter, largely due to adverse weather, the economic recovery of the country proved quite robust in the second quarter, making the US GDP growth reaches 2.4% in 2014. After the USA economy has returned to growth, with positive signs in the level of employment, the government reduced to zero the monetary stimulus at the end of 2014 through the wave with an increase in interest rates in 2015. This change already affects the global economy, causing increased volatility in the exchange rate of other countries, especially in emerging ones, due to the impacts on the flow of capital.

In China, 2014 was a year of slowdown in GDP growth, which fell to 7.4% (Source: National Bureau of Statistics of China). Industrial production suffered strong fluctuation in 2014, reflecting the slower growth in Chinese demand, which ultimately affect all countries. However, the Chinese government made use of initiatives such as monetary stimulus, similar to what it always does when it the level of economic activity falls.

Europe is still struggling to generate growth policies of income and employment. Despite the adoption of monetary incentives, the concern of Europeans with spending cuts lingers in the fiscal sphere. However, it is noteworthy that the heterogeneity in economic performance was also present among the major European economies in 2014. While Germany, the UK and Spain have been successful, France and Italy still face many difficulties in a more consistent recovery. In the aggregate GDP of the European economy grew by 1.5%.

Emerging countries follow with volatile growth, pending in the recovery of developed economies and the Chinese, and they are still susceptible to changes in economic policy of the United States. All such framework was reflected in Brazil. The exchange rate fluctuated strongly throughout the year, also influenced by internal factors such as elections. The annual average dollar exchange rate was R\$/US\$ 2.35, closing the year at R\$/US\$ 2.66 (Source: Central Bank of Brazil). The slowdown in the international economy affected the level of Brazilian economic activity, which

³ Estimate disclosed at the World Economic Outlook, IMF's official document from April 14th, 2015.

recorded an actual real growth of Gross Domestic Product (GDP) of 0.1% (Source: Instituto Brasileiro de Geografia e Estatística-IBGE), short of projections early in the year, which were 2%.

The constraints of the global economy totaled up, in the oil sector, the impact of geopolitical nature, due to the continuity of several conflicts - particularly in the Middle East. The rise of the Islamic State (EI), especially in Iraq and Syria, characterized by brutality and religious persecution, led to the formation of a coalition between various countries, including nations from outside the region. Against the advance of EI, the Western powers decided to intervene by providing air support to local actions of resistance, but without success. The clashes occurred in remote areas of the main producing areas in southern Iraq, without significant interruptions of production. In Israel, the resumption of the confrontation between the government and the Hamas group resulted in new invasion of Gaza by the Israeli army.

In Africa, the civil war in Libya divided the country into areas occupied by various factions and the government official. In Egypt, after the protests of recent years, President General Abdel Fatah al-Sisi was elected, integrating the political group of former President Hosni Mubarak. Al-Sisi, which has the political and financial support from Saudi Arabia, should try to establish an aligned foreign policy to the United States and in favor of maintaining the agreements with Israel. Internally, however, he has been criticized by the way he has repressed opposition demonstrations.

On European soil, the armed conflict erupted again in Ukraine, where the government that took over after the fall of elected president Viktor Yanukovych was rejected in parts of the country. Some, like Crimea, were incorporated into the Russian Federation, amid protests from Western powers, who adopted economic sanctions against Russia. Other Ukrainian regions, such as Donetsk and Lugansk declared independent, without recognition of the provisional government. Thus, the region remains in conflict.

Issues related to the distribution of income and wealth are resuming space in the social debate, as the concentration of wealth is growing again in recent decades, in the central countries. Another point of concern is unemployment. In some developed countries, mainly in Europe, unemployment rates remain high, well above historical averages. In Brazil, the unemployment rate continued on a downward trend, ending the year 2014 at 4.3% (Source: Monthly Employment Survey/IBGE).

Globally, the demand and discussion of responsibilities for social impacts are also increasing, especially after the release in 2011 of the Guiding Principles on Business and Human Rights of the United Nations (UN). In 2014, the process of discussion of a legally binding treaty on business and human rights began. Prevention and

remediation of violations, as well as the creation of mechanisms to ensure respect for these rights, have increasingly broader perspective. For businesses, the social and environmental risks related to business and transparency, and dialogue to obtainment of social license to operate gain more visibility, especially with the use of the Internet and social networks.

In the environmental area, the most critical issues for business in Brazil are the scarcity of water resources and the increasing regulatory pressure on the industry with a view to mitigating environmental impacts and, worldwide, the climate issue is the main topic currently under discussion. The annual UN climate negotiations are facing difficulties due to the impasse on the establishment of a global agreement to reduce emissions of greenhouse gases (GHG). Developed nations increased pressure to the largest possible number of countries, including Brazil, China and India, to set goals for reducing greenhouse gases. The proposal found resistance from developing countries, which historically had lower participation in global emissions.

At the end of the Conference on Climate Change, held in 2014, the nations agreed on the need to involve all countries in a global agreement to reduce emissions. Thus, there is great expectation that the next Conference of the Parties on Climate Change (COP 21), to be held on December 2015, represents a major step forward in international negotiations, with the establishment of a new global agreement on climate issue.

In parallel with the multilateral negotiations, China and the United States reached an agreement being regarded as a concrete step towards the establishment of international goals to reduce GHG emissions. China has pledged to reduce air emissions from 2030, and to achieve 20% clean energy in its energy mix in the same year. The United States, in turn, pledged to reduce their emissions between 26% and 27% compared to 2005 levels.

In Brazil, the problems caused by water scarcity in the Northeast and Southeast regions have economic and social impact and the use of water resources has been facing increasing demands on the need for treatment and disposal of industrial effluents. It is also observed the growing engagement of civil society organizations in helping to environmental monitoring and review of decisions and laws, including those related to the energy sector.

Developed countries continue in the leadership of investments in research and development as a proportion of GDP. China also concentrates ownership of patents, which is an obstacle to the effective transfer of technology to developing countries.

Since fossil fuels account for about 80% of world demand for primary energy, efforts are made to: improve the efficiency of energy conversion of these resources; find alternatives to production and use of fossil energy with less environmental impact;

and develop technologies to access new frontiers resources. In 2014, for example, there was improvement of technologies for exploration of shale gas and tight oil in the US. These efforts are of great importance for countries, both for energy security issues, as to meet climate goals.

In relation to low-carbon technologies, the diffusion of photovoltaic onshore wind and solar generation is rapidly growing, albeit from a small base. Under the advanced biofuels, various technological routes are being researched, although further efforts to reach scale-saving to commercial viability. The solar industry in Brazil took an important step with the success of the Reserve Energy Auction, held in October 2014, the first to negotiate solar separately, with the hiring of 889.6 MW.

Oil market Analysis

Oil prices remained relatively stable in the first half and fell between June and December 2014. The annual average Brent was US\$ 98.99 per barrel - a 9% decrease in comparison with the value of 2013. In the year, the price of West Texas Intermediate (WTI), referenced in Cushing, in the US Midwest, approached the value of Brent, due to the increased flow of logistics capacity in the Gulf of Mexico. The average price of WTI barrel was US\$ 93.03, down 5% from the average price of the previous year.

Thus, the differential Brent-WTI narrowed throughout 2014, falling from US\$ 10.78 per barrel in 2013 to US\$ 5.88 per barrel in 2014. This movement represents a continuation of the trend started in 2013 when the projects for increasing logistical capacity began to reduce oil inventories in the region.

World consumption of oil had moderate high of 670,000 bpd - a 0.7% increase compared to the volume of 2013. Again, the countries outside the Organization for Economic Cooperation and Development - OECD, especially India and China, drove the growth of demand. Among the OECD countries, oil consumption fell due to the difficulties of economic recovery, with exception of the US, which recorded an increase in its growth rate.

The increase in oil supplies from countries outside the Organization of Petroleum Exporting Countries (OPEC) was 56.53 million bpd, up 2.3% on the previous year's volume. This increase was secured largely by the growth of unconventional production in the US. Among the OPEC countries, there was an increase in production in Iraq and Libya - a country that has taken over part of their production amid internal conflicts. Despite the increase in oil inventories, OPEC maintained its production target at 30 million bpd. This decision contributed to the deepening of falling prices in December.

CORPORATE FUNCTIONS

Safety, Environment, Energy Efficiency and Health (SMES)

In 2014, we invested R\$ 5.7 billion in operations and projects related to Safety, Environment and Health integrated management. In this context, we have developed initiatives to improve performance in SMES, to comply with specific legislation and contribute so that the operational practices of our units are safe, profitable and environmentally responsible.

Among the initiatives is the certification of compliance with ISO 14001 (environmental management) and OHSAS 18001 (health and safety management) of the HSE management systems of our operating units in Brazil and abroad. In 2014, all refined oil in the country was processed in certified units.

Safety

In 2014 we approved the Disaster Mitigation Plan with an estimated cost of R\$ 200 million and implementation period of 12 months. The plan consists of 170 actions distributed by all areas and grouped in four areas: Leadership, Training and Experience, Contracted Management and the Management of Operational Routine.

As a result of such actions that were performed and incorporated into the plan and the development of new measures, we were able to improve the following safety indicators:

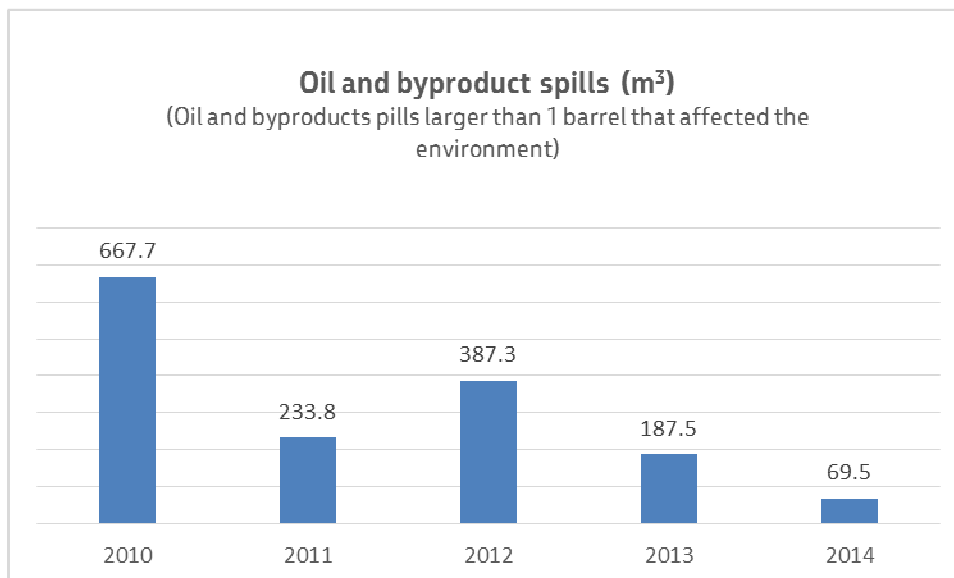
- Occurrence Recordable Rate - reduction of 10.4% compared to 2013, equivalent to 1,330 workers;
- Accident with Leave Frequency Rate - 4% decrease in the annual accumulated to 2013, equivalent to 100 workers.

Despite the improvement of these performance indicators, we recorded ten fatalities in 2014. To prevent the occurrence of serious accidents we continue to develop actions to increase the safety processes, including investment in training of staff, conducting risk studies and establishment of reactive and proactive indicators specific to each area.

Oil and by-products spill

Oil and by-products spills amounted to 69.5 m³ in 2014 - 63% less than the volume recorded in the previous year and 85% below the alert threshold set for the year of 470 m³. Spill levels remained well continued to be below 1 m³ per millions of barrels produced, which is an excellent result in the panorama of the world's oil and gas industry.

The creation of a communication, treatment and record of spills system made possible the daily monitoring of incidents, their impacts and mitigation measures. In addition, the continuity of actions that made up the Zero Spill Plan, established in 2012, allowed optimize management processes and reduced the risk of these occurrences in our operations.



Spill response

We maintained standards, procedures and spills response plans structured in local, regional and corporate levels. To act effectively in these situations, we have the following material resources: 36 vessels for oil collection, 113 support vessels and other vehicles, 270 oil collectors, about 92,000 meters of containment barriers, 118,000 meters of absorbent barriers and 113,000 liters of chemical dispersants, and other items. These resources are distributed in 12 Environmental Defense Centers, consisting of 11 advanced bases, and the Emergency Response Centers spread over more than 21 Brazilian cities.

We are associated with the Oil Spill Response Limited, organization specializing in providing and additional resources to respond effectively to oil spills, with globally acting. In 2014, we conducted 22 drills at regional level, including response training spills.

Environment and Energy Efficiency

To continue the eco-efficiency increase of our operations, we seek the rational use of water, energy and other inputs and make the management of air emissions and the generation of waste and effluents. Our goal is to minimize the impacts of activities on the environment.

We have evaluated systematically, in investment projects, the main risks to the security dimensions, environment, energy efficiency and health. The results of these evaluations are monitored regularly by our HSE committees and the Audit Committee of the Board of Directors (CA), checking the alignment to corporate guidelines and compliance with the recommendations of the Management and Risk Mitigation Plan. In 2014, we issued 50 SMEs technical opinions for investment projects and submitted 32 projects approved by the Board for the consideration of CA committees for alignment with those opinions.

Water and wastewater resources and biodiversity

We have reused 24 million m³ of water in 2014 - enough volume to supply a 600,000 inhabitants city for a year. The savings from rationalization actions and reuse contributed to ensuring security of supply necessary to our operations. We assessed the risks of water shortages in areas where our units are installed, providing support for actions and investments to mitigate these risks.

We prepared the Biodiversity Annual Report, centralizing the collection and consolidation of information on the management of risks and impacts on biodiversity.

Air emissions, climate change and energy efficiency

In recent years, we have expanded our activities in almost all business segments, leading to the growth of atmospheric emissions of greenhouse gases - GHG. Still, we managed to reduce GHG emission intensity in our processes through different initiatives, especially the modernization of facilities, use of more efficient equipment and standardization projects and operational practices, and investments in research and technology.

Our activities in 2014 generated a 5% increase in GHG emissions compared to 2013, mainly due to higher thermoelectric order in the period.

Health

We have conducted actions annually aimed at health promotion at corporate level and in the organizational units, guided by strategic monitoring of health indicators and the analysis of the epidemiological profile of our population.

This profile obtained using data collected during the occupational exams and associated with features of the activities of employees, guides the planning of these actions.

We monitored by using the Time Lost Percentage Indicator, the evolution of absenteeism due to accidents and diseases and their main causes, whether or not

related to work. This tiered monitoring influences health actions. In 2014, the percentage was 2.36%, 2.41% lower than the Alert Limit set for the year.

Social Responsibility

Social Investment

We invested R\$ 404.9 million in 996 social, environmental and educational sport projects in 2014. To align social investments of our units to corporate guidelines and procedures, we developed the Social and Environmental Investments Systematic in the Petrobras System.

The methodology we adopted, incorporating the social, environmental and social and sports segments provides more efficiency and more transparency to the analysis, selection, approval, monitoring and evaluation of projects. This enables the improvement of systematization and measuring of results for the company and the benefits to society.

A total of R\$ 45 million should be allocated to educational sports projects, which had its second public selection in 2014. Of the 1,421 enrolled, 34 were chosen and became part of our project portfolio.

Petrobras Agenda 21 program and integration with the surrounding communities

We completed the implementation of the first phase of the Petrobras Agenda 21 Program, which encourages discussion of priorities and solutions for sustainable development of communities with high social vulnerability surrounding our units. We interviewed 66,287 families and 180 generated social and environmental assessments of the conditions of 203 communities in 86 municipalities.

Social Responsibility Integration in investment projects

We developed a methodology for social responsibility management in our investment projects in order to integrate the theme to decision-making processes and to the routine of our business. The initiative aimed to ensure proactive management of social responsibility, from the project design stage through implementation and operation until its closure. Besides contributing to minimize social risks, this integration helps to meet operational expectations generated by the projects and to build beneficial relationships for business and society.

More information about social and environmental responsibility can be found in the Sustainability Report, published annually and available in <http://www.petrobras.com/en>.

Research and Development

Technological advancement is vital to the sustainability of Petrobras' growth, which develops permanently new processes, systems and products to be incorporated into the activities. Research and development (R&D) deserve, therefore, special attention in our investment program, since they play an essential role for the fulfillment of the Business and Management Plan.

In 2014, the Leopoldo Américo Miguez de Mello Research Center (Cenpes) received investments totaling R\$ 1.7 billion and ended the year with a portfolio of 752 R&D projects. Cenpes has 1,862 employees - 1,384 dedicated to R&D and 309, to the Basic Engineering projects. Among researchers, 17% have doctorate and 32% have a master's degree. Collaboratively, Cenpes is linked to more than 100 universities and national and international research institutions, suppliers and other partners. In 2014, it has invested R\$ 449 million in Science and Technology national institutions related to R&D with an emphasis on oil and gas.

In addition to meeting our operational demands, innovations produced on the basis of technological areas project portfolios generate productivity gains and contribute to our results. They also provide increased efficiency thanks to the optimization of processes, techniques and methods. The benefits of these innovations go beyond our borders and extend to society. Among them, the strengthening of local industry, the reduction of oil import requirements, by-products and equipment, the reduction of emissions of gases and particles in the atmosphere and the best use of natural resources.

The R&D projects derive from a set of processes coordinated by committees that establish the drivers and the technological challenges to be overcome, according to our big choices. The portfolio of R&D projects is structured in technology programs, which aim to service specific objectives within pre-set deadlines.

In 2014, the programs were related to the following areas: Exploration, 3D Basin Modeling; Refining (with a focus on maximizing average by-products and gas); Innovation Fuels and Lubricants; transport; biofuels; Optimization, Reliability and Energy Efficiency; Natural gas; Emission Reduction; Treatment, reuse and minimization of water consumption; Production Development of Pre-salt Reservoir; Enhanced Oil Recovery; Deepwater; logistics; and CO₂ management in the development of pre-salt.

To measure the performance of project portfolios, we have made the monitoring of critical milestones, defined as significant events featuring a stage of technological development.

The main results of R&D and Basic Engineering in 2014 were as follows:

- First interpretation of data in the permanent 4D seismic acquisition system of Jubarte field (Campos Basin). The work resulted in the change of location of a production well, adding six million barrels of oil to the planned production, with gain equal to R\$ 156 million;
- More accurate determination of the acidity of the injection water produced for the pre-salt reservoirs by means of laboratory tests and numerical modeling. Thus, it was possible to select the most appropriate metallurgy materials and reduce costs. The estimated savings is US\$ 112 million only in the development wells of Assignment for Consideration projects;
- Application of downhole electric-hydraulic disconnect tool in Carapeba Field II (Campos Basin), shortening by 25% the time of replacement of the production column in wells with intelligent completion. The estimated reduction is of four days of action in each of the 150 wells types planned for the Santos Basin in the coming years, generating savings of US\$ 3.4 million per well;
- Development of redirecting method of gas injection in production column in gas lift wells, allowing reduction of the pressure loss in the gas injection point, with a 2% to 3% yield gains on average of wells and high throughput ;
- The development of improvements in the fractionation process in the vacuum tower through the reduction of contaminants in vacuum distillation light gas oil, making possible their use for the production of diesel. The estimated 3% increase in the volume of diesel - a potential gain of about \$ 38 million per year;
- Development of incorporation process of the additive N-Butyl-Thiophosphoric Triamide (NBPT) - the agricultural urea of Fertilizer Plant of Paraná (Fafen-PR). The compound slows the degradation caused by urea, allowing it to be absorbed by the soil for longer. It is possible to reduce the loss of fertilizer from 70% up to 20%.

The concentration of experts from all our areas of expertise enables the Cenpes to act also in the provision of technical assistance services to solve problems identified in operations, seeking efficiency gains, operational optimization and cost reduction.

As an example, the identification of the causes of high vibration in piping flare and P-58 torch vessel, avoided losses in the production of 35,000 bpd of oil. It is also worth noting the development of logistics module for computer program, which enables reduction of time in the construction of the pre-salt wells, generating savings of about US\$ 4 million per well.

Human Resources

Our Business and Management Plan presents several challenges to Human Resources (HR). We need to provide the necessary talent, both in skills and in number, and ensure satisfaction, commitment and productivity of all employees in order to meet our goals. Therefore, we have established as a priority for the coming years the following HR themes: knowledge management, high performance and productivity, mobility, workforce planning, structured development of employees and management development and succession.

Headcount evolution

Petrobras ended the year 2014 with 80,908 employees - 6.04% fewer than the 2013 headcount. 726 new employees were hired by Petrobras Controlling Company.

Headcount per Region	2014	2013
Petrobras Controlling Company	58,618	62,692
Southeast	41,207	43,309
South	2,836	2,949
Northeast	12,818	14,651
North	1,282	1,413
Middle West	475	370
Subsidiaries - Brazil	15,293	15,903
Southeast	9,546	9,679
South	1,852	2,157
Northeast	2,606	2,746
North	667	672
Middle West	622	649
Subsidiaries - Overseas	6,997	7,516
Total Petrobras System	80,908	86,111

Turnover	2014	2013
Petrobras Controlling Company	4,73%	2,43%
Subsidiaries - Brazil	9,04%	7,84%
Subsidiaries - Overseas	33,96%	30,20%

Educational Level	2014	2013
Petrobras Controlling Company	58,618	62,692
Secondary Education	36,188	39,363
Higher Education	22,430	23,329

Staff-related expenditure

The Petrobras System, personnel expenses totaled R\$ 31 billion, an increase of 13%. The expenditures consist of salaries, bonuses or results, benefits, retirement and pension plan, health insurance and Severance Pay Fund (FGTS). The main causes of this variation in costs were Voluntary Resignation Incentive Program (VRIP) and payroll growth due to wage increase, with average actual gain of 2.7%, are the main causes to this variation, together with precarious effects by virtue of careers' progression and "annuennum".

For more information about employee benefits, see the 22 note to the financial statements in this Management Report.

Staff Mobility Internal Program (Mobiliza)

The program aims to match our needs with the interests of employees in order to meet the Business and Management Plan. The Mobiliza Program offers employees internal mobility opportunities for areas in need of personnel, reducing costs with new admissions. In 2014, 629 employees were moved.

Voluntary Retirement Incentive Program (PIDV)

The program's goal is to adapt our staff to the PNG challenges. Developed based on principles of knowledge management, management succession and business continuity, so that we can retain knowledge, the PIDV allowed the planned and systemic retirement of enrolled employees.

The program had 6,831 actions of knowledge management, supported in projects and business practices, such as inventories of knowledge, narratives, mentorships and technical turnovers, among others.

The PIDV target public were 55 years aged employees or over that would retire until March 31, 2014. Out of the 12,196 who were in this condition, 8,298 had their applications validated and classified into categories with deadlines for retirement until May 2017. In 2014, 4,936 employees retired by means of the program.

Total compensation and benefits of Petrobras Controlling Company was estimated at R\$ 2.64 billion. The financial return of the program, by 2018, was forecasted at R\$ 12.7 billion.

Human Resource Development

In 2014, we had major progress in our corporate education model, implementing initiatives such as the creation of laboratories, simulators and virtual learning environments.

As part of this effort, the contributions in the development of professional totaled R\$ 236.4 million. We had approximately 226,000 attendees in continuing education courses in the country and abroad, with an average of 65.5 hours of training per employee. In the Exploration and Production segment, our regular and hands-on job training programs for top-level technical staff recorded more than 14 thousand participants. For the Refining, transportation and marketing area, we developed with the support of Petrobras University, the Manual of Refining Process Troubleshooting, which includes 41 processes and records experiences related to operational issues of the refineries.

In the areas of Safety, Environment, Health and Energy Efficiency, we promoted 374 accident prevention courses, with about seven thousand participants. We also recorded more than 31 thousand participants in training activities in the areas of management and business. About five thousand employees were trained in corporate skills development programs and four thousand managers attended management development programs.

Knowledge management

To identify, create, preserve, share and apply the knowledge accumulated are processes that give the knowledge management a safe and cost-effective approach, in line with our great choices, pointing paths for achieving the 2030 Vision. To ensure the retention and dissemination of critical, specific and strategic knowledge, we have the Petrobras Mentorship Program, with the participation of 1,557 employees.

In research applied to public administration companies, by the Applied Economic Research Institute (IPEA), we appeared among the top five companies in advanced stage in the implementation of knowledge management practices, highlighting the importance of this issue for our strategy.

Ambience Management

The Ambience research is a fundamental step in our organizational ambience management process. Through the survey of the perceptions and expectations of employees, we can identify opportunities for improvement in the conditions and labor relations.

In last year's survey, Petrobras Controlling Company recorded a 73.9% participation rate, totaling 41,670 respondents.

As a result, we had an increase in the Employee Satisfaction Index (ISE), which summarizes the aspects related to organizational climate, by one percentage point, reaching 70%. The set target was 69%.

We recorded the same result in the Level of Commitment to the Company (NCE) in 71%, which is the target set for this year's survey.

Information on services unrelated to the external audit provided by the independent auditors – CVM Instruction 381/2003

Our business management instruments are based on the Code of Ethics, Code of Best Practices and Corporate Governance Guidelines.

Article 29 of the Bylaws determines that the independent auditors may not provide us consulting services for the duration of their audit contract.

We have hired PricewaterhouseCoopers Auditores Independentes to provide specialized accounting services for fiscal years 2012, 2013 and 2014.

During fiscal year 2014, PricewaterhouseCoopers Auditores Independentes provided the following services for us, our subsidiaries and affiliates:

	R\$
Auditing of accounts	19,157,489
SOX audit	1,496,452
Additional audit-related services	372,552
Tax audit fees	774,919
Total	21,801,412

FINANCIAL ANALYSIS

Petrobras presents the financial analysis of its consolidated financial statements in millions of reais, except when indicate otherwise.

Consolidated Economic–Financial Summary

	R\$ million		
	2014	2013	2014 x 2013 (%)
Sales revenues	337,260	304,890	11
Gross profit	80,437	69,895	15
Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes	(21,322)	34,364	(162)
Net finance income (expense)	(3,900)	(6,202)	37
Adjusted EBITDA - R\$ million ¹	59,140	62,967	(6)
Consolidated net income (loss) attributable to the shareholders of Petrobras	(21,587)	23,570	(192)
Basic and diluted earnings (losses) per share ²	(1,65)	1,81	(191)
Market capitalization (Parent Company)	127,506	214,688	(41)
Gross margin (%)	24	23	1
Operating margin (%) ³	(4)	11	(15)
Net margin (%)	(6)	8	(14)
Adjusted EBITDA ⁴	18	21	(3)
Total assets	793,375	752,967	5
Property, plant and equipment	608,248	585,616	4
Net debt ⁵	282,089	221,563	27
Shareholders' equity	310,722	349,334	(11)
Relationship capital / Third Party Capital liquid ⁶	43/57	49/51	-

¹ Our adjusted EBITDA (according to CVM Instruction 527 of October 4, 2012) is the net income before net finance income (expense), income taxes, depreciation, depletion and amortization, share of earnings in equity-accounted investments and impairment, which provides an additional information about our ability to pay debt, carry out investments and cover our working capital needs. Adjusted EBITDA is not an IFRS measure and may not be comparable with the same measure as reported by other companies.

² Basic and diluted earnings (losses) per share calculated based on the weighted average number of shares.

³ 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.

⁴ Adjusted EBITDA margin equals Adjusted EBITDA divided by sales revenues.

⁵ 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.

⁶ Net third parties cash and time deposits.

RECONCILIATION OF EBITDA

	R\$ million		
	2014	2013	2014 X 2013 (%)
Net income (loss)	(21,924)	23,007	(195)
Net finance income (expense)	3,900	6,202	(37)
Income taxes	(3,892)	5,148	(176)
Depreciation, depletion and amortization	30,677	28,467	8
EBITDA	8,761	62,824	(86)
Share of earnings in equity-accounted investments	(451)	(1,095)	59
Impairment losses / (reversals)	44,636	1,238	-

Write-off - overpayments incorrectly capitalized	6,194	-	-
Adjusted EBITDA	59,140	62,967	(6)

In 2014, the Company decided not to include in the calculation of the Adjusted EBITDA the *write-off of overpayments incorrectly capitalized*, because the Company's future cash generation and its current balance of cash and cash equivalents are not impacted by those adjustments, thus providing a more appropriate information about the potential of gross cash generation.

MAIN ECONOMIC INDICATORS

	R\$ million		
	2014	2013	2014 x 2013 (%)
Quotes			
Brent crude (US\$/bbl)	98.99	108.66	(9)
Average commercial selling rate for U.S. dollar	2.35	2.16	9
Period-end commercial selling rate for U.S. dollar	2.66	2.34	13
Variation of the period-end commercial selling rate for U.S. dollar (%)	13.40	14.60	(1)
Selic interest rate - average (%)	10.86	8.19	3
Average price indicators			
Domestic basic oil products price (R\$/bbl)	226.52	209.17	8
Domestic Sales Price			
. Crude oil (U.S. dollars/bbl) ⁷	87.84	98.19	(11)
. Natural gas (U.S. dollars/bbl)	47.93	47.68	1
International Sales Price			
. Crude oil (U.S. dollars/bbl)	82.93	89.86	(8)
. Natural gas (U.S. dollars/bbl)	21.18	21.08	0

⁷ Average between the exports prices and the internal transfer prices from Exploration & Production to Refining, Transportation and Marketing.

Sales volumes

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.

Sales Volumes – (Mbbbl/d) /day

	2014	2013	2014 x 2013 (%)
Diesel	1,001	984	2
Gasoline	620	590	5
Fuel oil	119	98	21
Naphtha	163	171	(5)
LPG	235	231	2
Jet fuel	110	106	4
Others	210	203	3
Total oil products	2,458	2,383	3
Ethanol, nitrogen fertilizers, renewables and other products	99	91	9
Natural gas	446	409	9
Total domestic market	3,003	2,883	4
Exports	393	395	(1)
International sales	571	514	11
Total international market	964	909	6
Total	3,967	3,792	5

Impairment

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

As a result, the Company reported impairment charges of R\$44,636 million, 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.

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.

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

	R\$ million
E&P	1,969
RTM	3,427
Gas & Power	652
Distribution	23
International	23
Corporate	100
Total	6,194

For a more detailed description, see Note 3 of the Company’s audited consolidated financial statements of the period ended December 31, 2014.

Consolidated Results

The Company reported a consolidated net loss of R\$ 21,587 million in 2014, compared to net income for 2013, R\$ 23,570. Mainly reflecting the following factors:

Gross Profit

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

- 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 (in 2013 and September 07, 2014) 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%).
- 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 Biofuels - ANP (R\$ 610 million); and
- The review of the Company's pension and medical benefit obligations (R\$ 506 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 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.

LUCRO LÍQUIDO (PREJUÍZO) ATRIBUÍVEL AOS ACIONISTAS DA PETROBRAS

	R\$ million		
	2014	2013	2014 x 2013 (%)
E&P	32,264	42,213	(24)
RTM	(38,927)	(17,734)	120
Gas & Power	(936)	1,256	(175)
Biofuel	(298)	(254)	17
Distribution	1,185	1,813	(35)
International	(3,204)	3,648	(188)

Exploration & Production

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.

Refining, transportation and marketing

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%).

Gas & Power

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.

Biofuel

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

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 (7%) and higher average margins in fuel trading (6%).

International

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.

Liquidity and Capital Resources

Cash Flows

	R\$ million	
	2014	2013
Adjusted cash and cash equivalents at the beginning of period ⁸	46,257	48,497
Government bonds and time deposits at the beginning of period	(9,085)	(20,869)
Cash and cash equivalents at the beginning of period	37,172	27,628
Net cash provided by (used in) operating activities	62,241	56,210
Net cash provided by (used in) investing activities	(85,208)	(76,674)
Capital expenditures and investments in operating segments	(81,795)	(98,038)
Proceeds from disposal of assets (divestment)	9,399	8,383
Investments in marketable securities	(12,812)	12,981
(=) Net cash flow	(22,967)	(20,464)
Net financings	35,134	33,176
Proceeds from long-term financing	72,871	83,669
Repayments	(37,737)	(50,493)
Dividends paid to shareholders	(8,735)	(5,776)
Acquisition of non-controlling interest	(250)	(137)
Effect of exchange rate changes on cash and cash equivalents	3,885	2,745
Cash and cash equivalents at the end of period	44,239	37,172
Government bonds and time deposits at the end of period	24,707	9,085
Adjusted cash and cash equivalents at the end of period ⁸	68,946	46,257

⁸ 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.

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 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 Agency - 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.

Debt

The consolidated debts, referring to loans and financing in the country and abroad, reached R \$ 351,035 million, as shown below:

Consolidated debt

	R\$ million		
	12.31.2014	12.31.2013	Δ%
Current debt ⁹	31,565	18,782	68
Non-current debt ¹⁰	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 ¹¹	282,089	221,563	27
Net debt/(net debt+shareholders' equity)	48%	39%	9
Total net liabilities	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

	U.S.\$ million		
	12.31.2014	12.31.2013	Δ%
Current debt	11,884	8,017	48
Non-current debt	120,274	106,308	13
Total	132,158	114,325	16
Net debt	106,201	94,579	12

Current debt

⁹ Includes Finance lease obligations (R\$ 42 million on December 31, 2014 and R\$ 38 million on December 31, 2013).

¹⁰ Includes Finance lease obligations (R\$ 148 million on December 31, 2014 and R\$ 171 million on December 31, 2013).

¹¹ Total liabilities net of adjusted cash and cash equivalents.

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.

Contractual Obligations

The following table summarizes our contractual obligations and commitments pending at 12.31.2014:

OBRIGAÇÕES CONTRATUAIS

	R\$ million			
	Total	Payments due by period		
		2015	2016-2019	2020 onward
Items of the financial position statement: ¹²				
Debt obligations	350,845	31,523	176,645	142,677
With transfer of benefits, risks and controls of assets	190	12	41	137
Decommissioning off areas	21,958	1,181	1,580	19,197
Total of items of the financial position statement	372,993	32,716	178,266	162,011
Other contractual commitments				
Natural gas ship or pay	10,529	1,876	7,433	1,220
Hired services	240,374	77,278	100,078	63,018
Purchase commitment of natural gas	27,311	4,714	17,396	5,201
Without transfer of benefits, risks and controls of assets	314,505	38,898	102,262	173,345
Purchase commitments	84,951	43,446	38,893	2,612
Total other commitments	677,670	166,212	266,062	245,396
Total	1,050,663	198,928	444,328	407,407

¹² Does not include employees' postretirement benefit plan obligations. See Note 22 of the Consolidated Financial Statements

Assets and Liabilities subject to Exchange Variation

The Company has assets and liabilities subject to foreign exchange rate variation, for which the main exposure is to the Real relative to the U.S. dollar and the U.S. dollar relative to the Euro. Beginning in mid-May 2013, the Company extended the use of the hedge accounting practice to hedge highly probable future exports.

On December 31, 2014, were designated as hedging instruments, the amount of US\$ 50,858 million (R\$ 135,088), corresponding to approximately 70% of the total net debt exposed to changes in foreign exchange rate, as shown in table below:

CHANGES IN THE PRINCIPAL AMOUNT

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

On December 31, 2014, the amount of foreign exchange variation recorded in "other comprehensive income", in the shareholders' equity, was of R\$ 26,670 million (R\$ 17,602 million, net of deferred income tax).

The balances of assets and liabilities in foreign currency of controlling companies outside of Brazil are not included on the exposure below when transacted in a currency equivalent to their respective functional currencies. On December 31, 2014, the Company had a net liability position regarding foreign exchange exposure. Therefore, the appreciation of the Real relative to other currencies results in a foreign exchange variation income, while the depreciation of the Real results in a foreign exchange variation expense.

ITENS

	R\$ million	
	31.12.2014	31.12.2013
Assets	30,600	16,853
Liabilities,	(222,279)	(150,581)
Hedge Accounting))
Total	135,088	95,443
	(56,591)	(38,285)

Taxes and Production Taxes

The economic contribution of Petrobras, measured through the generation of current taxes and social contributions, amounted to R\$ 71,247 million.

ECONOMIC CONTRIBUTION

	R\$ million		
	2014	2013	2014 x 2013 (%)
Economic Contribution - Brazil			
ICMS	47,991	43,383	11
PIS/COFINS	16,183	15,851	2
Income Tax and Social Contribution	(5,635)	4,580	(223)
OTers	6,153	4,773	29
Subtotal Brazil	64,692	68,587	(6)
Economic Contribution - International	6,555	6,135	7

Total	<u>71,247</u>	<u>74,722</u>	(5)
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Production taxes in Reais in Brazil remained relatively flat in the period, due mainly to the 2% decrease in the reference price for domestic oil, that reached an average of R\$/bbl 203.41 (US\$/bbl 87.14) in Jan-Dec/2014 compared to R\$/bbl 208.40 (US\$/bbl 96.59) in Jan-Dec/2013, which offset the production increase in the period.

PRODUCTION TAXES

	R\$ million		
	2014	2013	2014 x 2013 (%)
Brazil			
Royalties	15,474	15,057	3
Special participation charges	14,803	15,161	(2)
Rental of areas	164	170	(4)
Subtotal - Brazil	30,441	30,388	-
International	1,148	913	26
Total	31,589	31,301	1

GLOSSARY

Bioelectricity: electricity generated from renewable biological raw material (biomass). The bioelectricity of Petrobras Biocombustível is produced in power generation complexes attached to ethanol plants, which use bagasse from sugarcane as an input in the production of energy.

Bioproducts: also referred to as renewable chemicals, these are commercial products obtained from renewable biological raw material (biomass) by means of dedicated processes (eg green plastics) or as byproducts of the biofuel production process (eg, glycerin and organic acids).

BioQAV: jet fuel made from renewable raw material, which allows mixing with kerosene derived from petroleum (currently authorized up to 50%) without requiring operational and design changes in the turbines.

Boe/d: barrels of oil equivalent per day.

Brent: oil used as a major reference in the international oil market. Dated Brent contracts or derivatives in the financial market concern multiple contracts of purchase and sale of petroleum in the world.

Combined cycle: gas and steam turbines combined in a single plant, both generating electricity from burning the same fuel. For this, the existing heat in the exhaust gases of the gas turbine is recovered to produce steam for powering the steam turbine.

Completion: phase of oil exploration in which the equipment required to bring, in a controllable manner, the desired fluid to surface and enable the installation of well monitoring equipment is installed in the well.

Condensate: mixture of gaseous hydrocarbons in the reservoir that becomes liquid at the surface, under normal atmospheric conditions.

Diesel S-10: fuel with 10 ppm (Parts per million), Euro V type (high quality and very low sulfur content) and following international specifications.

Discovery Assessment Plan (PAD): the document containing the set of operations to be performed in an area where a discovery occurred to assess its economic viability. A PAD must be submitted by the franchisee for approval by the Brazilian Oil Agency.

FPSO: ship with capacity to produce, store and dispose of oil and/or natural gas for shuttle tankers.

Gasoline A: fuel produced in refineries and composed of 100% oil.

Gasoline C: petrol with added anhydrous ethanol, intended for the final consumer.

Green Diesel: Renewable Diesel which can be mixed in any ratio with petroleum product without requiring changes in the engines. The production process for green diesel of Petrobras Biofuel in partnership with Galp generates a clean energy fuel similar to oil-derivative diesel.

Impairment: a reduction in a value of an asset.

Intermediate: oil that has undergone some refining process but is not yet a final product. Thus, it is refined (processed) again, until it becomes a byproduct.

Light gas oil: one of the intermediate fractions of oil. In the atmospheric distillation tower, fractions are divided according to their boiling point. The intermediate oil fractions such as light gas oil, kerosene and gasoline are released out in the middle part of the atmospheric distillation tower.

Master Sales Agreement: non-binding agreement that contains the terms and conditions for the sale and purchase of liquefied natural gas.

Middle distillates: made from petroleum such as diesel, kerosene, naphtha and jet fuel products.

Profit oil: volume of oil produced net of fees and taxes.

Re-exportation: operation in which a cargo of liquefied natural gas is imported and subsequently exported from the country.

Reserve/production ratio: measures the longevity of current proven reserves considering the constant level of production.

Reserve replacement ratio: measures the replacement of production by reserve additions, extensions, revisions of estimates or improvement of recovery.

Rich (or wet) natural gas: gas with compounds heavier than propane, comprised of LPG fractions and natural gasoline.

Ring fence: exploration area adjacent to a field where there have been previous discoveries.

Second-generation Ethanol (2G): ethanol of agricultural residues, obtained by fermentation of the sugars contained in the cellulosic structure of the sugarcane bagasse. The final product is chemically identical to first-generation (corn) or advanced (cane) ethanol. The spread of this technology is to increase production of ethanol in the same hectare of land, with a large reduction of CO₂ compared to first generation biofuels.

Shale oil/gas: includes without distinction all source rocks (silty shales, siliceous shales, siltstones and clay loam) that function as oil source, reservoir and seal. Its production requires the use of hydraulic fracturing.

Simple cycle: turbine operating solely.

Smart completion: set of operations to case and equip the well for water or gas production or injection, using different well monitoring sensors and valves with remote operations to control the flow produced or injected.

Social Fuel Seal: granted by the Ministry of Agrarian Development for biodiesel producers that use raw material from family farming.

Tight Oil: oil produced from shale or other rock with very low permeability, using methods similar to the production of shale gas, such as horizontal drilling and hydraulic fracturing techniques. The production of tight oil is considered a non-conventional type of oil production.

WTI: the acronym WTI means West Texas Intermediate and is used to designate the current that brings together conventional onshore light and low sulfur content oil production of the PADD3 region in the U.S.A. The WTI is one of the main references for contracts for the sale of oil in the Atlantic Basin and is treated as a global benchmark for the oil market.

