

PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K/A
March 10, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K/A

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

For the month of March 2014

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

**Avenida República do Chile, 65
20031-912 - Rio de Janeiro, RJ**

Federative Republic of Brazil

(Address of principal executive office)

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

Form 20-F Form 40-F

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

Yes No

REASON FOR AMENDMENT

The reason for this amendment is to include Management's Report on Internal Control over Financial Reporting and the report of KPMG Auditores Independentes with our consolidated financial statements that were furnished to the SEC in a report on Form 6-K on February 26, 2014, and to implement minor typographical corrections.

Management's Report on Internal Control over Financial Reporting

Petróleo Brasileiro S.A. – Petrobras announces that its management is responsible for establishing and maintaining effective internal control over financial reporting and for its assessments of the effectiveness of internal control over financial reporting.

Our internal control over financial reporting is a process designed by, or under the supervision of our Audit Committee and our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS, as issued by the IASB.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such assessment and criteria, the Company's management has concluded that Company's internal control over financial reporting was effective as of December 31, 2013.

On May 14, 2013, COSO published an updated *Internal Control - Integrated Framework* (2013) and related illustrative documents. As of December 31, 2013, the company is utilizing the original framework published in 1992. The transition period for adoption of the updated framework ends December 15, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm, as stated in their report dated February 25, 2014 included in our 2013 Audited Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Consolidated financial statements at

December 31, 2013, 2012 and 2011 with

report of independent registered
public accounting firm

Petróleo Brasileiro S.A. – Petrobras

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Petróleo Brasileiro S.A. - Petrobras

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of income and comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Petróleo Brasileiro S.A. - Petrobras and its subsidiaries (the "Company") at December 31, 2013, and December 31, 2012, and the results of their operations and their cash flows for the years ended December 31, 2013, and December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013 based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

We also have audited the adjustments to the 2011 financial statements to retrospectively apply the change in accounting for employee benefit plans for the revisions to IAS 19 Employee Benefits as described in Note 2.3. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2011 consolidated financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2011 consolidated financial statements taken as a whole.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Rio de Janeiro, February 25, 2014

/s/ PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5 "F" RJ

/s/ Marcos Donizete Panassol

Contador CRC 1SP155975

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Petróleo Brasileiro S.A. – Petrobras

Rio de Janeiro - RJ

We have audited, before the effects of the adjustments to retrospectively apply the change in accounting described in Note 2.3, the accompanying consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows of Petróleo Brasileiro S.A. – Petrobras and subsidiaries for the year ended December 31, 2011. The 2011 financial statements before the effects of the adjustments discussed in note 2.3 are not presented herein. The 2011 consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements, before the effects of the adjustments to retrospectively apply the change in accounting described in note 2.3, present fairly, in all material respects, the consolidated results of Petrobras and its subsidiaries' operations and their cash flows for the year ended December 31, 2011, in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in accounting described in note 2.3 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by a successor auditor.

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil

March 30, 2012

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Financial Position

December 31, 2013, 2012 and January 1, 2012 (In millions of US Dollars)

Assets	Note	12.31.2012		201.01.2012		Liabilities	Note	12.31.2013 (*)	
		12.31.2013 (*)	(*)	(*)	(*)			12.31.2013 (*)	(*)
Current assets						Current liabilities			
Cash and cash equivalents	6	15,868	13,520	19,057		Trade payables	16	11,919	12,124
Marketable securities	7	3,885	10,431	8,961		Current debt	17	8,001	7,479
Trade and other receivables, net	8.1	9,670	11,099	11,756		Finance lease obligations	18.1	16	18
Inventories	9	14,225	14,552	15,165		Income taxes payable	21.1	281	345
Recoverable income taxes	21.1	1,060	1,462	2,018		Other taxes payable	21.2	4,669	5,783
Other recoverable taxes	21.2	3,911	4,110	4,830		Dividends payable	21.2	3,970	3,011
Advances to suppliers		683	927	740		Payroll, profit sharing and related charges		2,052	2,163
Other current assets		946	1,550	2,065		Pension and medical benefits	22	816	788
		50,248	57,651	64,592		Others		2,429	2,359
								34,153	34,070
Assets classified as held for sale	10.3	2,407	143	–		Liabilities on assets classified as held for sale	10.3	1,073	–
		52,655	57,794	64,592				35,226	34,070
Non-current assets						Non-current liabilities			
Long-term receivables						Non-current debt	17	106,235	88,484
Trade and other receivables,	8.1	4,532	4,441	3,253		Finance lease obligations	18.1	73	86

net								
Marketable securities	7	131	176	3,064	Deferred income taxes	21.3	9,906	11,976
Judicial deposits	31	2,504	2,696	2,080	Pension and medical benefits	22	11,757	19,436
Deferred income taxes	21.3	1,130	1,277	787	Provisions for legal proceedings	31	1,246	1,265
Other tax assets	21.2	5,380	5,223	4,912	Provision for decommissioning costs	20	7,133	9,441
Advances to suppliers		3,230	3,156	3,141	Others		724	772
Others		1,875	1,887	1,725				
		18,782	18,856	18,962			137,074	131,460
					Total liabilities		172,300	165,530
					Shareholders' equity	24		
Investments	11.2	6,666	6,106	6,530	Share capital		107,371	107,362
Property, plant and equipment	12.1	227,901	204,901	182,918	Additional paid in capital		395	349
Intangible assets	13.1	15,419	39,739	43,412	Profit reserves		75,689	67,238
		268,768	269,602	251,822	Accumulated other comprehensive income (loss) attributable to the shareholders of Petrobras		(34,928)	(14,235)
					Non-controlling interests		596	1,152
Total Assets					Total Equity		149,123	161,866
		321,423	327,396	316,414	Total liabilities and shareholder's equity		321,423	327,396

(*) Amounts restated, as set out in note 2.3.

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Income

December 31, 2013, 2012 and 2011 (In millions of US Dollars, unless otherwise indicated)

	Note	2013	2012	2011
Sales revenues	25	141,462	144,103	145,915
Cost of sales		(108,254)	(107,534)	(99,595)
Gross profit		33,208	36,569	46,320
Income (expenses)				
Selling expenses		(4,904)	(4,927)	(5,346)
General and Administrative expenses		(4,982)	(5,034)	(5,161)
Exploration costs		(2,959)	(3,994)	(2,630)
Research and development expenses		(1,132)	(1,143)	(1,454)
Other taxes		(780)	(386)	(460)
Other operating expenses, net	26	(2,237)	(4,185)	(3,984)
		(16,994)	(19,669)	(19,035)
Net income before financial results, profit sharing and income taxes		16,214	16,900	27,285
Finance Income		1,815	3,659	3,943
Finance Expenses		(2,673)	(2,016)	(1,424)
Foreign exchange and inflation indexation charges		(1,933)	(3,569)	(2,443)
Net finance income (expense)	28	(2,791)	(1,926)	76
Share of profit / gains on interest in equity-accounted investments		507	43	230
Profit sharing	23	(520)	(524)	(867)
Net income before income taxes		13,410	14,493	26,724
Income taxes	21.4	(2,578)	(3,562)	(6,732)
Net income		10,832	10,931	19,992
Net income (loss) attributable to:				
Shareholders of Petrobras		11,094	11,034	20,121
Non-controlling interests		(262)	(103)	(129)
		10,832	10,931	19,992

Basic and diluted earnings per weighted-average of common and preferred share in U.S. dollars	24.6	0.85	0.85	1.54
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The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Comprehensive Income

December 31, 2013, 2012 and 2011 (In millions of US Dollars)

	2013	2012 (*)	2011 (*)
Net income	10,832	10,931	19,992
Items that will not be reclassified to profit or loss:			
Actuarial gains / (losses) on defined benefit pension plans	7,248	(4,693)	(1,807)
Deferred income tax	(2,153)	1,533	710
Cumulative translation adjustments	(20,397)	(14,049)	(21,859)
	(15,302)	(17,209)	(22,956)
Items that may be reclassified subsequently to profit or loss:			
Unrealized gains / (losses) on available-for-sale securities			
Recognized in shareholders' equity	1	498	81
Reclassified to profit or loss	(43)	(714)	8
Deferred income tax	15	72	(30)
	(27)	(144)	59
Unrealized gains / (losses) on cash flow hedge			
Recognized in shareholders' equity	(6,265)	(3)	(33)
Reclassified to profit or loss	312	7	5
Deferred income tax	2,030	1	–
	(3,923)	5	(28)
Share of other comprehensive income of equity-accounted investments	(236)	–	6
	(4,186)	(139)	37
Other comprehensive income (loss):	(19,488)	(17,348)	(22,919)
Total Comprehensive income (loss)	(8,656)	(6,417)	(2,927)
Comprehensive income (loss) attributable to:			
Shareholders of Petrobras	(8,263)	(6,136)	(2,773)
Non-controlling interests	(393)	(281)	(154)
Total comprehensive income (loss)	(8,656)	(6,417)	(2,927)

(*) Amounts restated, as set out in note 2.3.

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Cash Flows

December 31, 2013, 2012 and 2011 (In millions of US Dollars)

	2013	2012	2011
Cash flows from Operating activities			
Net income attributable to the shareholders of Petrobras	11,094	11,034	20,121
Adjustments for:			
Non-controlling interests	(262)	(103)	(129)
Share of (profit) loss of equity-accounted investments	(507)	(43)	(230)
Depreciation, depletion and amortization	13,188	11,119	10,535
Impairment charges on property, plant and equipment and other assets	1,125	880	1,056
Exploration expenditures written off	1,892	2,847	1,480
(Gains) / losses on disposal / write-offs of non-current assets	(1,764)	2	527
Foreign exchange variation, indexation and finance charges	3,167	4,308	3,799
Deferred income taxes, net	402	1,266	3,599
Pension and medical benefits (actuarial expense)	2,566	2,091	1,730
Decrease / (Increase) in assets			
Trade and other receivables, net	(1,142)	(1,522)	(2,326)
Inventories	(2,128)	(1,864)	(5,035)
Other assets	(212)	(1,990)	(2,537)
Increase/(Decrease) in liabilities			
Trade payables	1,108	1,039	2,455
Taxes payable	(1,517)	(151)	(1,991)
Pension and medical benefits	(796)	(735)	(837)
Other liabilities	75	(290)	1,481
Net cash provided by operating activities	26,289	27,888	33,698
Cash flows from Investing activities			
Capital expenditures	(45,110)	(40,802)	(41,377)
Investments in investees	(199)	(146)	(336)
Receipts from disposal of assets (divestment)	3,820	276	–
Investments in marketable securities	5,718	2,051	6,683
Dividends received	146	241	411
Net cash (used in) investing activities	(35,625)	(38,379)	(34,619)
Cash flows from Financing activities			
Acquisition of Non-controlling interest	(70)	255	27

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Proceeds from long-term financing	39,542	25,205	23,951
Repayment of principal	(18,455)	(11,347)	(8,750)
Repayment of interest	(5,066)	(4,772)	(4,574)
Dividends paid	(2,656)	(3,272)	(6,422)
Net cash provided by financing activities	13,295	6,069	4,232
Effect of exchange rate changes on cash and cash equivalents	(1,611)	(1,115)	(1,909)
Net increase/ (decrease) in cash and cash equivalents	2,348	(5,537)	1,402
Cash and cash equivalents at the beginning of the year	13,520	19,057	17,655
Cash and cash equivalents at the end of the year	15,868	13,520	19,057

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Consolidated Statement of Changes in Shareholders' Equity

December 31, 2013, 2012 and 2011 (In millions of US Dollars)

	Additional paid in capital		Accumulated other comprehensive income			Profit	
	Share Capital	Incremental costs attributable to the issue of new shares	Change in interest in subsidiaries	Cumulative translation adjustment	Actuarial gains (losses) on defined benefit plans		Other comprehensive income and deemed cost
Balance at January 1, 2011 (*)	107,341	(279)	286	30,130	(3,343)	215	5,806
Capital increase with reserves	14						
Realization of deemed cost						(6)	
Change in interest in subsidiaries			309				
Net income							
Other comprehensive income				(22,433)	(1,097)	37	
Appropriations:							
Allocation of net income							1,006
Dividends							
Balance at December 31, 2011 (*)	107,355	(279)	595	7,697	(4,440)	246	6,812
Capital increase with reserves	7						
Realization of deemed cost						(5)	
Change in interest in subsidiaries			33				

Net income						
Other comprehensive income			(14,434)	(3,160)	(139)	
Appropriations:						
Allocation of net income						552
Dividends						
Balance at December 31, 2012 (*)	107,362 (279)	628	(6,737)	(7,600)	102	7,364
Capital increase with reserves	9					
Realization of deemed cost					(5)	
Change in interest in subsidiaries		46				
Net income						
Other comprehensive income			(21,597)	5,095	(4,186)	
Distributions:						
Allocation of net income						555
Dividends						
Balance at December 31, 2013	107,371 (279)	674	(28,334)	(2,505)	(4,089)	7,919
	107,371	395			(34,928)	

(*) Amounts restated, as set out in note 2.3.

The Notes form an integral part of these Financial Statements.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

December 31, 2013 and 2012 (Expressed in millions of US Dollars, unless otherwise indicated)

1. The Company and its operations

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

2. Basis of preparation

2.1. Statement of compliance and authorization of financial statements

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

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

The annual consolidated financial information was approved and authorized for issue by the Company’s Board of Directors in a meeting held on February 25, 2014.

2.2. Functional and presentation currency

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

Petrobras has selected the U.S. Dollar as its presentation currency. The financial statements have been translated into the presentation currency in accordance with IAS 21 - The effects of changes in foreign exchange rates. All assets and liabilities are translated into U.S. dollars at the closing rate at the date of the financial statements; income and expenses, as well as the cash flows are translated into U.S. dollars using the average exchange rates prevailing during the year. Equity items are translated using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. All exchange rate differences arising

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

The cumulative translation adjustments were set to nil at January 1, 2009 (the date of transition to IFRS).

2.3. Prior period restatements

The Statements of Financial Position as of December 31, 2012 and January 1, 2012 have been restated for comparative purposes, including the following effects:

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

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

a) Amendments to IAS 19 – “Employee benefits”

Effective for annual periods beginning on January 1, 2013, amendments to IAS 19 – “Employee benefits” eliminated the option to defer actuarial gains and losses (corridor approach) and requires net interest to be calculated by applying the discount rate used for measuring the obligation to the net benefit asset or liability.

The impact of such amendments, for the year ended December 31, 2012 is: an increase in the Company’s net actuarial liability of US\$10,161 (US\$6,179 at January 1, 2012), as well as a corresponding decrease in deferred tax liabilities of US\$2,988 (US\$1,657 at January 1, 2012) and a decrease of US\$7,173 in the shareholders’ equity (US\$4,522 at January 1, 2012).

b) Offsetting deferred income taxes

Deferred income tax assets were offset against deferred income tax liabilities by the Company, considering the balance of deferred income taxes of each of the consolidated subsidiaries. The impact of such change for the year ended December 31, 2012 was a decrease of US\$ 4,249 in noncurrent assets and liabilities (US\$ 3,500 at January 1, 2012).

Those restatements had no significant impact on the Company’s profit or loss or cash flows.

The effects of such changes in the statement of financial position, statement of changes in shareholders’ equity and statement of comprehensive income, for comparative purposes, are set out following:

Statement of Financial Position	12.31.2012			01.01.2012		
	As presented (*)	(a) Impact of IAS 19 amendment	(b) Offsetting Deferred Income Taxes	Restated (*)	(a) Impact of IAS 19 amendment	(b) Offsetting Deferred Income Taxes
Non-current assets						
Deferred income taxes	5,526	–	(4,249)	1,277	4,287	–
Non-current liabilities						
Pension and medical benefits	9,275	10,161		19,436	8,878	6,179

Deferred income taxes	19,213	(2,988)	(4,249)	11,976	17,715	(1,657)	(3,500)
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Shareholders' equity

Other comprehensive income (loss)	(7,144)	(7,091)	—	(14,235)	7,943	(4,440)	—
Retained earnings (profit reserves)	67,320	(82)		67,238	60,224	(82)	—

(*) As presented for the period ended December 31, 2012.

	12.31.2012		12.31.2011		01.01.2011	
	Actuarial gains (losses) on defined benefit plans	Retained earnings	Actuarial gains (losses) on defined benefit plans	Retained earnings	Actuarial gains (losses) on defined benefit plans	Retained earnings
Statement of Shareholders' Equity						
Other comprehensive income						
As presented (*)	—	—	—	—	—	—
Restated	(7,600)	—	(4,440)	—	(3,343)	—
Retained earnings						
As presented (*)	—	—	—	—	—	—
Restated	—	(82)	—	(82)	—	(82)

(*) As presented for the period ended December 31, 2012.

	2012		2011
	As presented (*)	Restated	As presented (*)
Statement of comprehensive income			
Other comprehensive income			
Actuarial gains (losses) on defined benefit plans	—	(4,693)	—
Deferred income taxes on actuarial gains (losses)	—	1,533	—

(*) As presented for the period ended December 31, 2012.

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3. Summary of significant accounting policies

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

3.1. Basis of consolidation

The consolidated financial statements include the financial information of Petrobras and the entities it controls (its subsidiaries). Control is achieved when Petrobras: i) has power over the investee; ii) is exposed, or has rights, to variable returns from involvement with the investee; and iii) has the ability to use its power to affect its returns.

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

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

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The entities and structured entities set out following are consolidated:

Subsidiaries	Equity capital - Subscribed, paid in and voting %	
	2013	2012
Petrobras Distribuidora S.A. - BR and its subsidiaries	100.00	100.00
Braspetro Oil Services Company - Brasoil and its subsidiaries (i)	100.00	100.00
Petrobras International Braspetro B.V. - PIBBV and its subsidiaries (i) (ii)	100.00	100.00
Petrobras Comercializadora de Energia Ltda. - PBEN (iii)	100.00	100.00
Petrobras Negócios Eletrônicos S.A. – E-PETRO (iv)	100.00	100.00
Petrobras Gás S.A. - Gaspetro and its subsidiaries	99.99	99.99
Petrobras International Finance Company - PifCo (i)	100.00	100.00
Petrobras Transporte S.A. - Transpetro and its subsidiaries	100.00	100.00
Downstream Participações Ltda.	99.99	99.99
Petrobras Netherlands B.V. - PNBV and its subsidiaries (i)	100.00	100.00
5283 Participações Ltda.	100.00	100.00
Fundo de Investimento Imobiliário RB Logística - FII	99.00	99.00
Baixada Santista Energia S.A.	100.00	100.00
Sociedade Fluminense de Energia Ltda. – SFE (vi)	–	100.00
Termoaçú S.A. (vii) (viii)	100.00	–
Termoceaná Ltda.	100.00	100.00
Termomacaé Ltda.	100.00	100.00
Termomacaé Comercializadora de Energia Ltda.	100.00	100.00
Termobahia S.A.	98.85	98.85
Ibiritermo S. A. (x)	50.00	50.00
Petrobras Biocombustível S.A.	100.00	100.00
Refinaria Abreu e Lima S.A. (vi)	–	100.00
Companhia Locadora de Equipamentos Petrolíferos S.A. – CLEP	100.00	100.00
Comperj Participações S.A. (vi)	–	100.00
Comperj Estirênicos S.A. (vi)	–	100.00
Comperj MEG S.A. (vi)	–	100.00
Comperj Poliolefinas S.A. (vi)	–	100.00
Cordoba Financial Services GmbH - CFS and its subsidiary (i)	100.00	100.00
Breitener Energética S.A. and its subsidiaries	93.66	93.66

Cayman Cabiunas Investment CO. (ix)	–	100.00
Innova S.A.	100.00	100.00
Companhia de Desenvolvimento de Plantas Utilidades S.A. - CDPU (v)	–	100.00
Companhia de Recuperação Secundária S.A. - CRSEC (vi)	–	100.00
Arembepe Energia S.A.	100.00	100.00
Energética Camaçari Muricy S.A.	100.00	71.60
Companhia Integrada Têxtil de Pernambuco S.A. - Citepe	100.00	100.00
Companhia Petroquímica de Pernambuco S.A. - PetroquímicaSuape	100.00	100.00
Petrobras Logística de Exploração e Produção S.A. - PB-LOG	100.00	100.00
Liquigás S.A.	100.00	100.00
Araucária Nitrogenados S.A. (vii)	100.00	–
Fábrica Carioca de Catalizadores S.A. - FCC (viii) (x)	50.00	–
(i) Foreign-incorporated companies with non-Brazilian Real consolidated financial statements.		
(ii) 11.87% interest of 5283 Participações Ltda.		
(iii) 0.09% interest of Petrobras Gás S.A. - Gaspetro.		
(iv) 0.05% interest of Downstream.		
(v) Companies merged into Comperj Participações S.A.		
(vi) Companies merged into Petrobras		
(vii) Acquisition of control (business combination).		
(viii) Equity-method accounted investee in 2012.		
(ix) Extinguished company		
(x) Joint operation		

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Consolidated structured entities	Country	Main segment
Charter Development LLC – CDC (i)	U.S.A	E&P
Companhia de Desenvolvimento e Modernização de Plantas Industriais – CDMPI	Brazil	RT&M
PDET Offshore S.A.	Brazil	E&P
Nova Transportadora do Nordeste S.A. - NTN	Brazil	Gas & Power
Nova Transportadora do Sudeste S.A. - NTS	Brazil	Gas & Power
Fundo de Investimento em Direitos Creditórios Não-padronizados do Sistema Petrobras	Brazil	Corporate

(i) Foreign-Incorporated Companies with non-Brazilian Real consolidated financial statements.

Petrobras has no equity interest in the structured entities above, and control is not determined by voting rights, but by the power the Company has over the relevant operating activities of such entities.

3.2. Business segment reporting

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

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

Information for each business area is presented as defined by the current organizational structure. The Company operates under the following segments:

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

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

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

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

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

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

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

3.3. Financial instruments

3.3.1. Cash and cash equivalents

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

3.3.2. Marketable securities

Marketable securities comprise investments in debt or equity securities. These instruments are initially measured at fair value and are classified and subsequently measured as set out below:

- Fair value through profit or loss - includes securities purchased and held for trading in the short term. These instruments are subsequently measured at fair value with changes recognized in profit or loss.
- Held-to-maturity - includes securities with fixed or determinable payments, for which management has the ability and intent to hold until maturity. These instruments are subsequently measured at amortized cost using the effective interest rate method.
- Available-for-sale – includes securities that are either designated in this category or not classified as fair value through profit or loss or held-to-maturity securities. These instruments are subsequently measured at fair value. Subsequent changes in fair value are recognized within other comprehensive income, in the shareholders' equity and reclassified to profit or loss when securities are derecognized.

Subsequent changes attributable to interest, foreign exchange, and inflation are recognized in profit or loss for all categories, when applicable.

3.3.3. Trade receivables

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

The Company recognizes a provision for impairment of trade receivables when there is objective evidence that a loss event occurred after the initial recognition of the receivable and has an impact on the estimated future cash flows, which can be reliably estimated. Such evidence includes insolvency, defaults or a significant probability of a debtor filing for bankruptcy.

3.3.4. Loans and financing (Debt)

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

3.3.5. Derivative financial instruments

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

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

3.3.6. Hedge accounting

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

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

In hedging relationships which qualify for fair value hedge accounting, the gain or loss from remeasuring the hedging instrument at fair value is recognized in profit or loss.

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

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

3.4. Inventories

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

value.

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

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

Biofuels mainly include ethanol and biodiesel inventories.

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

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

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

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3.5. Investments in other companies

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

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

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

Profit or loss, assets and liabilities related to joint ventures and associates are accounted for by the equity method.

In a joint operation the Company recognizes the amount of its assets, liabilities and related income and expenses. In addition, the Company recognizes its share of the sales revenue and expenses and the joint assets and joint liabilities.

3.6. Business combinations and goodwill

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

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

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

Goodwill arising from investments in associates and joint ventures without change of control is accounted for as part of these investments. It is measured by the excess of the consideration transferred over the interest in the fair value of the net assets.

3.7. Oil and Gas exploration and development expenditures

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

-Costs related to geological and geophysical activities are expensed when incurred.

-Amounts paid for obtaining concessions for exploration of oil and natural gas (capitalized acquisition costs) are initially capitalized.

-Costs directly associated with exploratory wells pending determination of proved reserves are capitalized within property, plant and equipment. Exploratory wells that have found oil and gas reserves, but those reserves cannot be classified as proved, continue to be capitalized if the well has found a sufficient quantity of reserves to justify its completion as a producing well and progress on assessing the reserves and the economic and operating viability of the project is under way. An internal commission of technical executives of Petrobras reviews these conditions monthly for each well, by analysis of geoscience and engineering data, existing economic conditions, operating methods and government regulations.

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-Costs related to exploratory wells drilled in areas of unproved reserves are expensed when determined to be dry or non-economical (did not encounter potentially economic oil and gas quantities).

-Costs related to the construction, installation and completion of infrastructure facilities, such as platforms, pipelines, drilling of development wells and other related costs incurred in connection with the development of proved reserve areas and successful exploratory wells are capitalized within property, plant and equipment.

3.8. Property, plant and equipment

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

Expenditures on major maintenance of industrial units and vessels are capitalized if the recognition criteria are met. Expenditures comprise: replacement of certain assets or parts of assets, equipment assembly services, as well as other related costs. Such maintenance occurs, on average, every four years. Capitalized expenditures are depreciated on a straight line basis based on the estimated time of the maintenance cycle.

General and specific borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized as part of the costs of these assets. General borrowing costs are capitalized based on the Company's weighted average of the cost of borrowings outstanding applied over the balance of assets under construction. Borrowing costs are amortized during the useful life or by applying the unit-of-production method to the related assets.

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

i) Depreciation (amortization) of oil and gas producing properties, including related equipment and facilities is computed based on a unit-of-production basis over the proved developed oil and gas reserves, applied on a field by field basis; and

ii) Amortization of amounts paid for obtaining concessions for exploration of oil and natural gas of producing properties, such as signature bonus (capitalized acquisition costs) is recognized using the unit-of-production method, computed based on the units of production over the total proved oil and gas reserves, applied on a field by field basis.

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

3.9. Intangible assets

Intangible assets are measured at the acquisition cost, less accumulated amortization and impairment losses and comprise rights and concessions, including the signature bonus paid for obtaining concessions for exploration of oil and natural gas (capitalized acquisition costs) and the Assignment Agreement, referring to the right to carry out prospection and drilling activities for oil, natural gas and other liquid hydrocarbons located in blocks in the pre-salt area (“Cessão Onerosa”); public service concessions; trademarks; patents; software and goodwill.

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Signature bonuses paid for obtaining concessions for exploration of oil and natural gas and amounts related to the Assignment Agreement are initially capitalized within intangible assets and are transferred to property, plant and equipment upon the declaration of commerciality.

Signature bonuses and amounts related to the Assignment Agreement are not amortized until they are transferred to property, plant and equipment. Intangible assets with a finite useful life, other than amounts paid for obtaining concessions for exploration of oil and natural gas of producing properties, are amortized over the useful life of the asset on a straight-line basis.

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

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

3.10. Impairment

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

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

Value in use is estimated based on the present value of the risk-adjusted (for specific risks) future cash flows expected to arise from the continuing use of an asset or cash-generating unit (based on assumptions that represent the Company's best estimates), discounted at a pre-tax discount rate. This rate is obtained from the Company's weighted average cost of

capital post-tax (WACC). Cash flow projections are mainly based on the following assumptions: prices based on the Company's most recent strategic plan; production curves associated with existing projects in the Company's portfolio, operating costs reflecting current market conditions, and investments required for carrying out the projects.

For the impairment test, assets are grouped at the smallest identifiable group that generates largely independent cash inflows from other assets or groups of assets (the cash-generating unit). Assets related to exploration and development of oil and gas are tested annually for impairment on a field by field basis.

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

3.11. Leases

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

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

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

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

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

Contingent rents are recognized as expenses when incurred.

3.12. Assets classified as held for sale

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

However, events or circumstances may extend past the period to complete the sale by more than one year if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence of the commitment to the plan to sell the asset.

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