

PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
May 08, 2018
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of May, 2018

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS
(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS
(Translation of Registrant's name into English)

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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

UNAUDITED

INTERIM

FINANCIAL STATEMENTS

—

March 31, 2018 and 2017 with report of independent registered public
accounting firm

Petróleo Brasileiro S.A. – Petrobras

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Directors of

Petróleo Brasileiro S.A. - Petrobras

We have reviewed the interim consolidated statement of financial position of Petróleo Brasileiro S.A. - Petrobras and subsidiaries (the “Company”) as of March 31, 2018, and the related interim consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for the three-month periods ended March 31, 2018 and 2017 and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of financial position of the Company as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated March 14, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of financial position as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Estimates related to overpayments on the acquisition of property plant and equipment

As discussed in Note 3 to the financial statements, on September 30, 2014, the Company wrote off US\$2,527 million of overpayments on the acquisition of property plant and equipment incorrectly capitalized according to testimony obtained from Brazilian criminal investigations. The note also describes that no additional information has been identified through this date which could materially impact the estimation methodology adopted for the write off previously recorded.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Rio de Janeiro, May 7, 2018

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG Auditores Independentes, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Petróleo Brasileiro S.A. – Petrobras

Unaudited Consolidated Statement of Financial Position

March 31, 2018 and December 31, 2017

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

| Assets | Note | 03.31.2018 | 12.31.2017 | Liabilities | Note | 03.31.2018 | 12.31.2017 |
|------------------------------------|------|------------|------------|---|------|------------|------------|
| Current assets | | | | Current liabilities | | | |
| Cash and cash equivalents | 6 | 19,966 | 22,519 | Trade payables | 14 | 5,424 | 5,767 |
| Marketable securities | 6 | 1,175 | 1,885 | Finance debt | 15.2 | 4,630 | 7,001 |
| Trade and other receivables, net | 7.1 | 4,703 | 4,972 | Finance lease obligations | 16.1 | 26 | 25 |
| Inventories, net | 8 | 8,834 | 8,489 | Income taxes payable | 19.1 | 489 | 299 |
| Recoverable income taxes | 19.1 | 490 | 479 | Other taxes payable | 19.1 | 4,247 | 4,548 |
| Other recoverable taxes | 19.1 | 2,017 | 1,958 | Payroll and related charges | | 1,480 | 1,309 |
| Advances to suppliers | | 79 | 78 | Pension and medical benefits | 20.1 | 897 | 844 |
| Others | | 2,982 | 1,433 | Provisions for legal proceedings | 28.1 | 3,242 | 2,256 |
| | | 40,246 | 41,813 | Others | | 2,921 | 2,508 |
| Assets classified as held for sale | 9.2 | 3,504 | 5,318 | | | 23,356 | 24,557 |
| | | 43,750 | 47,131 | Liabilities related to assets classified as held for sale | 9.2 | 148 | 391 |
| | | | | | | 23,504 | 24,948 |
| Non-current assets | | | | Non-current liabilities | | | |
| Long-term receivables | | | | Finance debt | 15.2 | 97,730 | 102,045 |
| Trade and other receivables, net | 7.1 | 4,851 | 5,175 | Finance lease obligations | 16.1 | 202 | 204 |
| Marketable securities | 6 | 63 | 64 | Income taxes payable | 19.1 | 677 | 671 |
| Judicial deposits | 28.2 | 6,100 | 5,582 | Deferred income taxes | 19.4 | 1,687 | 1,196 |
| Deferred income taxes | 19.4 | 3,455 | 3,438 | Pension and medical benefits | 20.1 | 21,243 | 20,986 |
| Other tax assets | 19.1 | 3,030 | 3,075 | Provisions for legal proceedings | 28.1 | 3,973 | 4,770 |
| Advances to suppliers | | 987 | 1,032 | Provision for decommissioning costs | 18 | 14,180 | 14,143 |
| Others | | 3,270 | 3,084 | Others | | 1,195 | 901 |
| | | 21,756 | 21,450 | | | 140,887 | 144,916 |
| | | | | Total liabilities | | 164,391 | 169,864 |
| Investments | 10 | 3,813 | 3,795 | Equity | | | |
| Property, plant and equipment | 11 | 176,288 | 176,650 | Share capital (net of share issuance costs) | 21.1 | 107,101 | 107,101 |
| Intangible assets | 12 | 2,349 | 2,340 | Capital transactions | | 1,067 | 1,067 |
| | | | | Profit reserves | | 54,903 | 53,056 |
| | | | | | 21.2 | (81,248) | (81,422) |

| | | | | | |
|--------------|---------|---------|--|---------|---------|
| | | | Accumulated other comprehensive (deficit) Attributable to the shareholders of Petrobras | 81,823 | 79,802 |
| | 204,206 | 204,235 | Non-controlling interests | 1,742 | 1,700 |
| | | | | 83,565 | 81,502 |
| Total assets | 247,956 | 251,366 | Total liabilities and equity | 247,956 | 251,366 |

The notes form an integral part of these financial statements.

Petróleo Brasileiro S.A. – Petrobras

Unaudited Consolidated Statement of Income

March 31, 2018 and 2017

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

| | | March 31, Note 2018 | March 31, 2017 |
|--|------|------------------------|-------------------|
| Sales revenues | 22 | 22,958 | 21,737 |
| Cost of sales | | (14,704) | (14,174) |
| Gross profit | | 8,254 | 7,563 |
| Income (expenses) | | | |
| Selling expenses | | (1,273) | (760) |
| General and administrative expenses | | (660) | (733) |
| Exploration costs | 13 | (136) | (94) |
| Research and development expenses | | (153) | (107) |
| Other taxes | | (148) | (92) |
| Other income and expenses | 23 | (392) | (1,239) |
| | | (2,762) | (3,025) |
| Income before finance income, results in equity-accounted investments and income taxes | | 5,492 | 4,538 |
| Finance income | | 339 | 297 |
| Finance expenses | | (1,804) | (1,890) |
| Foreign exchange gains (losses) and inflation indexation charges | | (770) | (872) |
| Net finance income (expense) | 25 | (2,235) | (2,465) |
| Results in equity-accounted investments | 10 | 158 | 195 |
| Net income before income taxes | | 3,415 | 2,268 |
| Income taxes | 19.5 | (1,219) | (737) |
| Net income for the period | | 2,196 | 1,531 |
| Net income attributable to: | | | |
| Shareholders of Petrobras | | 2,145 | 1,417 |
| Non-controlling interests | | 51 | 114 |
| Net income for the period | | 2,196 | 1,531 |
| Basic and diluted earnings per weighted-average of common and preferred share - in U.S. dollars | 21.3 | 0.16 | 0.11 |

The notes form an integral part of these financial statements.

Petróleo Brasileiro S.A. – Petrobras

Unaudited Consolidated Statement of Comprehensive Income

March 31, 2018 and 2017

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

| | March 31, 2018 | March 31, 2017 |
|---|-------------------|-------------------|
| Net income for the period | 2,196 | 1,531 |
| Items that may be reclassified subsequently to the statement of income: | | |
| Unrealized gains / (losses) on securities measured at fair value through other comprehensive income | | |
| Recognized in equity | (2) | (13) |
| Deferred income tax | 1 | – |
| | (1) | (13) |
| Unrealized gains / (losses) on cash flow hedge - highly probable future exports | | |
| Recognized in equity | (338) | 1,736 |
| Reclassified to the statement of income | 820 | 774 |
| Deferred income tax | (164) | (853) |
| | 318 | 1,657 |
| Unrealized gains on cash flow hedge - others | | |
| Recognized in equity | – | 1 |
| | – | 1 |
| Cumulative translation adjustments (*) | | |
| Recognized in equity | (179) | 1,361 |
| Reclassified to the statement of income | – | 37 |
| | (179) | 1,398 |
| Share of other comprehensive income in equity-accounted investments | | |
| Recognized in equity | 60 | 118 |
| Reclassified to the statement of income | – | 22 |
| | 60 | 140 |
| Total other comprehensive income: | 198 | 3,183 |
| Total comprehensive income | 2,394 | 4,714 |
| Comprehensive income attributable to: | | |
| Shareholders of Petrobras | 2,340 | 4,593 |
| Non-controlling interests | 54 | 121 |
| Total comprehensive income | 2,394 | 4,714 |

(*) Includes US\$ 16 (US\$ 14 in the first quarter of 2017) of cumulative translation adjustments in associates and joint ventures.

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A. – Petrobras

Unaudited Consolidated Statement of Cash Flows

March 31, 2018 and 2017

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

| | March 31, 2018 | March 31, 2017 |
|--|----------------|----------------|
| Cash flows from Operating activities | | |
| Net income for the period | 2,196 | 1,531 |
| Adjustments for: | | |
| Pension and medical benefits (actuarial expense) | 599 | 692 |
| Results in equity-accounted investments | (158) | (195) |
| Depreciation, depletion and amortization | 3,409 | 3,423 |
| Impairment of assets (reversal) | 18 | (7) |
| Allowance (reversals) for expected credit loss on trade and others receivables | 137 | (2) |
| Exploratory expenditures write-offs | 8 | 8 |
| Gains and losses on disposals/write-offs of assets | (1,005) | 39 |
| Foreign exchange, indexation and finance charges | 2,656 | 2,497 |
| Deferred income taxes, net | 195 | 475 |
| Revision and unwinding of discount on the provision for decommissioning costs | 183 | 192 |
| Reclassification of cumulative translation adjustment and other comprehensive income | – | 59 |
| Inventory write-down to net realizable value | 18 | 23 |
| Decrease (Increase) in assets | | |
| Trade and other receivables, net | 558 | 481 |
| Inventories | (352) | 386 |
| Judicial deposits | (528) | (302) |
| Other assets | (1,442) | (144) |
| Increase (Decrease) in liabilities | | |
| Trade payables | (418) | (1,046) |
| Other taxes payable | 596 | 95 |
| Pension and medical benefits | (204) | (156) |
| Other liabilities | 836 | (581) |
| Income taxes paid | (453) | (84) |
| Net cash provided by operating activities | 6,849 | 7,384 |
| Cash flows from Investing activities | | |
| Acquisition of PP&E and intangibles assets | (3,058) | (3,187) |
| Investments in investees | (7) | (11) |
| Proceeds from disposal of assets - Divestment | 2,313 | 596 |
| Divestment (Investment) in marketable securities | 728 | (88) |
| Dividends received | 221 | 64 |
| Net cash used in investing activities | 197 | (2,626) |
| Cash flows from Financing activities | | |
| Investments by non-controlling interest | 37 | (41) |
| Proceeds from financing | 5,938 | 4,142 |

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| | | |
|--|----------|---------|
| Repayment of principal | (13,524) | (9,223) |
| Repayment of interest | (1,851) | (1,670) |
| Net cash used in financing activities | (9,400) | (6,792) |
| Effect of exchange rate changes on cash and cash equivalents | (199) | 42 |
| Net decrease in cash and cash equivalents | (2,553) | (1,992) |
| Cash and cash equivalents at the beginning of the period | 22,519 | 21,205 |
| Cash and cash equivalents at the end of the period | 19,966 | 19,213 |

The notes form an integral part of these financial statements.

Petróleo Brasileiro S.A. – Petrobras

Unaudited Consolidated Statement of Changes in Shareholders' Equity

March 31, 2018 and 2017

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

| | Share capital (net of share issuance costs) | | | Accumulated other comprehensive income (deficit) and deemed cost | | | | Profit Reserves | | | |
|-------------------------------|---|----------------------|----------------------|--|--|---|---|-----------------|-----------|----------------|------------------|
| | Share Capital | Share issuance costs | Capital Transactions | Cumulative translation adjustment | Cash flow hedge - highly probable future exports | Actuarial gains (losses) on defined benefit pension plans | Other comprehensive income (loss) and deemed cost | Legal | Statutory | Tax incentives | Profit retention |
| Balance at January 1, 2017 | 107,380 | (279) | 628 | (60,248) | (11,297) | (11,600) | (948) | 7,919 | 2,182 | 720 | 42,322 |
| Realization of deemed cost | - | - | - | - | - | - | (1) | - | - | - | - |
| Capital transactions | - | - | - | - | - | - | - | - | - | - | - |
| Net income | - | - | - | - | - | - | - | - | - | - | - |
| Other comprehensive income | - | - | - | 1,391 | 1,657 | - | 128 | - | - | - | - |
| Balance at March 31, 2017 | 107,380 | (279) | 628 | (58,857) | (9,640) | (11,600) | (821) | 7,919 | 2,182 | 720 | 42,322 |
| Balance at December 31, 2017 | 107,380 | (279) | 1,067 | (61,043) | (9,573) | (10,015) | (791) | 7,919 | 2,182 | 720 | 42,235 |
| Initial application of IFRS 9 | - | - | - | - | - | - | (20) | - | - | - | - |
| Balance at January 1, 2018 | 107,380 | (279) | 1,067 | (61,043) | (9,573) | (10,015) | (811) | 7,919 | 2,182 | 720 | 42,235 |
| Realization of deemed cost | - | - | - | - | - | - | (1) | - | - | - | - |
| Capital transactions | - | - | - | - | - | - | - | - | - | - | - |
| Net income | - | - | - | - | - | - | - | - | - | - | - |

| | | | | | | | | | | | |
|----------------------------|---------|---------|-------|----------|---------|----------|----------|-------|-------|-----|--------|
| Other comprehensive income | - | - | - | (182) | 318 | - | 59 | - | - | - | - |
| Appropriations: Dividends | - | - | - | - | - | - | - | - | - | - | - |
| | 107,380 | (279) | 1,067 | (61,225) | (9,255) | (10,015) | (753) | 7,919 | 2,182 | 720 | 42,235 |
| Balance at March 31, 2018 | | 107,101 | 1,067 | | | | (81,248) | | | | 53,056 |

The notes form an integral part of these financial statements.

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements - unaudited

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

1. The Company and its operations

Petróleo Brasileiro S.A. (Petrobras), hereinafter referred to as “Petrobras” or “Company,” is a partially state-owned enterprise, controlled by the Brazilian Federal Government, of indefinite duration, governed by the terms and conditions under the Brazilian Corporate Law (Law 6,404 of December 15, 1976), Law 13,303 of June 30, 2016 and its Bylaws.

The Company aims to enter a market tier called Level 2 at the Brazilian stock exchange (B3), a market tier that requires a high level of corporate governance standards. If it becomes part of the Level 2 market tier, the Company, its managers and fiscal council members will also be subject to provisions set out in the Level 2 Regulation (Regulamento de Listagem do Nível 2 de Governança Corporativa da Brasil Bolsa Balcão – B3).

The provisions of the Level 2 Regulation shall prevail over statutory provisions, in the event of damage to the rights of investors of public offers provided for in the Company's Bylaws, except for the provisions of articles 30 (paragraphs 4 and 5), 40 (paragraphs 3 and 4) and 58.

The Company is dedicated to prospecting, drilling, refining, processing, trading and transporting crude oil from producing onshore and offshore oil fields and from shale or other rocks, as well as oil products, natural gas and other liquid hydrocarbons. In addition, Petrobras carries out energy related activities, such as research, development, production, transport, distribution and trading of all forms of energy, as well as other related or similar activities.

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

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

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

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

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

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

this case, for every financial year, the Federal Government shall compensate the Company.

2. Basis of preparation

2.1. Statement of compliance and authorization of unaudited consolidated interim financial statements

These unaudited consolidated interim financial statements have been prepared and presented in accordance with IAS 34 – “Interim Financial Reporting” as issued by the International Accounting Standards Board (IASB). They present the significant changes in the period, avoiding repetition of certain notes to the financial statements previously reported. Hence, it should be read together with the Company’s audited annual financial statements for the year ended December 31, 2017, which include the full set of notes.

These unaudited consolidated interim financial statements were approved and authorized for issue by the Company’s Board of Directors in a meeting held on May 7, 2018.

2.2. Functional and presentation currency

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

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements - unaudited

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

Petrobras has selected the U.S. Dollar as its presentation currency to facilitate a more direct comparison to other oil and gas companies. The financial statements have been translated from the functional currency (Brazilian Real) into the presentation currency (U.S. Dollar). All assets and liabilities are translated into U.S. dollars at the closing exchange rate at the date of the financial statements; income and expenses, as well as cash flows are translated into U.S. dollars using the average exchange rates prevailing during the period. All exchange differences arising from the translation of the consolidated financial statements from the functional currency into the presentation currency are recognized as cumulative translation adjustments (CTA) within accumulated other comprehensive income in the consolidated statements of changes in shareholders' equity.

| Brazilian Real x U.S. Dollar | Mar 2018 | Dec 2017 | Sep 2017 | Jun 2017 | Mar 2017 |
|---------------------------------|----------|----------|----------|----------|----------|
| Quarterly average exchange rate | 3.24 | 3.25 | 3.16 | 3.22 | 3.15 |
| Period-end exchange rate | 3.32 | 3.31 | 3.17 | 3.31 | 3.17 |

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

In the third quarter of 2014, the Company wrote off US\$2,527 of capitalized costs representing amounts that Petrobras overpaid for the acquisition of property, plant and equipment in prior years. For additional information about this write off and its approach to estimate amounts overpaid by the Company, see note 3 to the audited consolidated financial statements ended December 31, 2017.

On the preparation of these unaudited interim financial statements ended March 31, 2018, the Company has not identified any additional information that would affect the adopted calculation methodology to write off the amounts overpaid. The Company has monitored the progress of investigations by Brazilian authorities under the Lava Jato Operation, as well as an internal investigation carried out by independent law firms. The Company will continue to monitor these investigations for additional information and will review their potential impact on the adjustment made.

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

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

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

To the extent that any of the proceedings resulting from the Lava Jato investigation involve leniency agreements or plea agreements for return of funds, the Company may be entitled to receive a portion of such funds. Nevertheless, the

Company is unable to reliably estimate further recoverable amounts at this moment. Any future recoverable amount will be recognized as income when received or when their economic benefits become virtually certain.

The total funds collected through March 31, 2018 under the Lava Jato investigation amounted to US\$ 456 (US\$ 455 through December 31, 2017).

3.1. Investigations involving the Company

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

On November 21, 2014, Petrobras received a subpoena from the U.S. Securities and Exchange Commission (SEC) requesting certain documents and information about the Company with respect to, among other things, the Lava Jato investigation and any allegations regarding a violation of the U.S. Foreign Corrupt Practices Act. The U.S. Department of Justice (DoJ) is conducting a similar inquiry, and the Company is cooperating with both investigations and intends to continue to do so, working with the independent Brazilian and U.S. law firms that were hired to conduct an independent internal investigation. The investigations carried out by the SEC and DoJ may require the Company to pay penalties or provide other financial relief, or consent to injunctions or orders on future conduct or suffer other penalties.

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

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements - unaudited

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

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

4.Summary of significant accounting policies

The same accounting policies and methods of computation were followed in these consolidated interim financial statements as those followed in the preparation of the annual financial statements of the Company for the year ended December 31, 2017, except for the changes arising from the adoption of IFRS 9 - Financial Instruments, IFRS 15 - Revenue from Contracts with Customers and IFRIC 22 Foreign Currency Transactions and Advance Consideration. The provisions under these standards and interpretation became effective on January 1, 2018.

4.1.IFRS 9 - Financial Instruments

IFRS 9 establishes, among others, new requirements for classification and measurement of financial assets, measurement and recognition of impairment of financial assets, changes in the terms of financial assets and liabilities, hedge accounting and disclosure.

As permitted by IFRS 9, the company did not restate prior periods with respect to classification and measurement (including impairment and modification of financial assets and liabilities) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were recognized at January 1, 2018 in retained earnings within equity. Information on the consolidated impacts is presented below:

| Item of Consolidated Statement of Financial Position | Balance at 12.31.2017 | Adjustment by initial application of IFRS 9 | Balance at Note 01.01.2018 |
|--|-----------------------|---|----------------------------|
| Current assets | | | |
| Trade and other receivables, net | 4,972 | (103) | 4.1.34,869 |
| Non-current assets | | | |
| Trade and other receivables, net | 5,175 | (19) | 4.1.35,156 |
| Deferred income taxes | 3,438 | 146 | 3,584 |
| Others | 3,084 | (2) | 4.1.33,082 |
| Current liabilities | | | |
| Finance debt | 7,001 | 1 | 4.1.27,002 |
| Non-current liabilities | | | |
| Finance debt | 102,045 | 355 | 4.1.2102,400 |
| Equity | | | |
| Accumulated other comprehensive (deficit) | (81,422) | (20) | 4.1.1(81,442) |
| Retained earnings | – | (299) | (299) |
| Non-controlling interests | 1,700 | (15) | 1,685 |

The new hedge accounting requirements were applied prospectively. The cash flow hedge relationships of highly probable future exports for the purposes of IAS 39 were considered as hedges for IFRS 9 purposes, since they also qualify for hedge accounting in accordance with the new standard.

The main accounting policies following the adoption of IFRS 9 at January 1, 2018 are shown below:

4.1.1. Classification and measurement of financial assets

Financial assets are generally classified and subsequently measured based on the business model in which assets are managed and their contractual cash flow characteristics, as follows:

• Amortised cost: when the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the business model's objective is to hold financial assets in order to collect contractual cash flows;

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Fair value through other comprehensive income: i) when the contractual terms of a debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and the business model's objective to collect contractual cash flows and sell financial assets; and ii) equity instruments not held for trading purposes for which the Company has made an irrevocable election in their initial recognition to present changes in fair value in other comprehensive income rather than within profit or loss; and
 Fair value through profit or loss: if the financial asset does not meet the criteria for the two aforementioned categories. The table below presents comparative information of marketable securities between the former classification and measurement in accordance with IAS 39 and the current requirements following the effectiveness of IFRS 9:

| Classification according to IAS 39 | Carrying amount according to IAS 39 at December 31, 2017 | | | Classification according to IFRS 9 | Carrying amount according to IFRS 9 at January 1, 2018 | | |
|------------------------------------|--|--------|-------|---|--|--------|-------|
| | Brazil | Abroad | Total | | Brazil | Abroad | Total |
| Trading securities | 1,067 | – | 1,067 | Fair value through profit or loss | 1,276 | - | 1,276 |
| Available-for-sale securities | 153 | 609 | 762 | Fair value through other comprehensive income | 13 | 609 | 622 |
| Held-to-maturity securities | 120 | – | 120 | Amortised cost | 51 | - | 51 |
| | 1,340 | 609 | 1,949 | | 1,340 | 609 | 1,949 |

4.1.2. Modification of contractual cash flows

When the contractual cash flows of a financial liability measured at amortized cost are renegotiated or modified and this change is not substantial, its gross carrying amount should reflect the discounted present value of its cash flows under the new terms using the original effective interest rate. The difference between the book value immediately prior to such modification and the new gross carrying amount is recognized as gain or loss in profit or loss.

4.1.3. Impairment of financial assets

An allowance for expected credit losses is recognized on a financial asset that is measured at amortized cost, including lease receivables, and on financial assets measured at fair value through other comprehensive income.

The Company measures expected credit losses for short-term trade receivables using a provision matrix based on unadjusted historical observed default rates when such information represents the best estimate, or such information adjusted by current and forward-looking information available without undue cost or effort.

The Company measures the allowance for expected credit losses of other financial assets based on their 12-month expected credit losses. However, whenever their credit risks have increased significantly since their initial recognition, the allowance for expected credit losses is based on their lifetime expected credit losses.

Significant increase in credit risk since initial recognition

When determining whether there has been a significant increase in credit risk, the Company compares the risk of default on initial recognition and at the reporting date by using certain indicators, such as the actual or expected significant change in the financial instrument's external credit rating and information on payment delays.

Regardless of the assessment of significant increase in credit risk, a delinquency period of 30 days past due triggers the definition of significant increase in credit risk on a financial asset, unless otherwise demonstrated by reasonable and sustainable information.

The Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is considered to have low credit risk at the reporting date. The financial instrument has a low credit risk in case of low risk of default, the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Company determines if a financial instrument has low credit risk based on external credit ratings or internal methodologies.

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Definition of default

The Company assumes that a default occurs whenever financial assets are at least 90 days past due and or the counterparty does not comply with the legal obligation to pay its debts when due.

Measurement of expected credit losses

The measurement of credit loss comprises the difference between all contractual cash flows that are due to the Company and all the cash flows that the Company expects to receive, discounted at the original effective interest rate weighted by the probability of default.

The probability of default, losses (the magnitude of the loss if a default occurs) and exposure to default are factored into the measurement of the expected credit loss.

The evaluation of default probability takes into account data of the main credit rating agencies, as well as internal valuation methodologies. The loss due to a default also takes into account the probability of expected cash flows from collateral (collateral assets) and other credit enhancements that are part of the contractual terms, less the costs of obtaining and selling that collateral. Exposure to default comprises the gross carrying amount of the financial asset at the reporting date.

Disclosure

The Company recognizes in profit or loss the impairment on financial assets measured at amortized cost.

4.1.4.Hedge Accounting

At inception of the hedge relationship, the Company documents its objective and strategy, including identification of the hedging instrument, the hedged item, the nature of the hedged risk and evaluation of hedge effectiveness requirements. The hedge relationship meets all of the hedge effectiveness requirements when:

- An economic relationship exists between the hedged item and the hedging instrument;
 - The effect of credit risk does not dominate the value changes that result from the economic relationship; and
 - The hedge ratio is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company uses to hedge that quantity of hedged item.
- The Company applies cash flow hedge accounting for certain transactions. Hedging relationships qualify for cash flow hedges when they involve the hedging of exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that may impact the statement of income.

Gains or losses relating to the effective portion of such hedges are recognized in other comprehensive income within equity and recycled to the statement of income in finance income (expense) in the periods when the hedged item affects the statement of income. The gains or losses relating to the ineffective portion are immediately recognized in finance income (expense).

When the hedging instrument expires or settled in advance or no longer meets the criteria for hedge accounting, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective is recorded separately in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is immediately reclassified from equity to the statement of income.

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

4.2.IFRS 15 - Revenue from Contracts with Customers

The company has determined when and by what amounts revenue from contracts with customer should be recognized according to the following five step approach: 1) identify the contract with a customer; 2) identify the separate performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the separate performance obligations in the contract, 5) recognize revenue when the entity satisfies a performance obligation. A performance obligation is satisfied when the customer obtains control of that good or service.

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For the purposes of the transition requirements, the Company applied this standard retrospectively with the cumulative effect of its application recognized at its effective date within retained earnings. However, the changes arising from the adoption of IFRS 15 only affected the way certain revenues from contracts with customers are disclosed within the statement of income and did not affect net income. Accordingly, there were no impacts within retained earnings (equity).

The following table presents the impacts of adoption of this standard for the first quarter of 2018:

| | Amount at 03.31.2018 | Initial application of IRFS 15 | | | Amount without effects of initial application of IRFS 15 - 03.31.2018 |
|--|-------------------------|-----------------------------------|----------|--------|---|
| | | Agent | Breakage | Others | |
| Sales revenues | 22,958 | 588 | (68) | (24) | 23,454 |
| Cost of sales | (14,704) | (588) | 60 | – | (15,232) |
| Gross profit | 8,254 | – | (8) | (24) | 8,222 |
| Income and expenses | (2,762) | – | 8 | 24 | (2,730) |
| Income before finance income, results in equity-accounted investments and income taxes | 5,492 | – | – | – | 5,492 |

The Company acting as an agent

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

Non-exercised right Income (breakage)

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

4.3. IFRIC 22 Foreign Currency Transactions and Advance Consideration

Based on the transition provisions of IFRIC 22, the Company has applied the new requirements prospectively from January 1, 2018. IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

5.Accounting estimates

The preparation of interim financial statements requires the use of estimates and assumptions for certain assets, liabilities and other transactions. These estimates and assumptions include oil and gas reserves and their impacts to other parts of the financial statements, the main assumptions and cash-generating units identified for impairment testing of assets, pension and medical benefits liabilities, provisions for legal proceedings, dismantling of areas and environmental remediation, deferred income taxes, cash flow hedge accounting and impairment of trade receivables. Although our management uses assumptions and judgments that are periodically reviewed, the actual results could differ from these estimates.

Except for the impairment of trade receivables estimate, which has been based on the expected credit losses model since the effectiveness of IFRS 9 at January 1, 2018 (see note 4.1.3), information on those accounting estimates is presented in note 5 to the Company's annual financial statements for the year ended December 31, 2017.

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The Company uses judgment for inputs and assumptions, such as risk of default, the determination of whether or not there has been a significant increase in credit risk and expectation of recovery, that are factored into the estimate of expected credit losses.

6. Cash and cash equivalents and Marketable securities

Cash and cash equivalents

| | 03.31.2018 | 12.31.2017 |
|---|------------|------------|
| Cash at bank and in hand | 1,802 | 1,570 |
| Short-term financial investments | | |
| - In Brazil | | |
| Brazilian interbank deposit rate investment funds and other short-term deposits | 1,694 | 1,176 |
| Other investment funds | 202 | 17 |
| | 1,896 | 1,193 |
| - Abroad | | |
| Time deposits | 7,433 | 6,237 |
| Automatic investing accounts and interest checking accounts | 7,383 | 11,287 |
| Other financial investments | 1,452 | 2,232 |
| | 16,268 | 19,756 |
| Total short-term financial investments | 18,164 | 20,949 |
| Total cash and cash equivalents | 19,966 | 22,519 |

The principal uses of funds in the first quarter of 2018 were for debt service obligations (US\$ 15,375), including pre-payment of debts, and acquisition of PP&E and intangibles assets (US\$ 3,058). The uses of funds were principally provided by operating activities (US\$ 6,849), proceeds from financing (US\$ 5,938) and disposal of assets (US\$ 2,313).

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

Expected credit losses on cash and cash equivalents were not material at March 31, 2018.

Marketable securities

| | 03.31.2018 | | | 01.01.2018 | | |
|---|--------------|----------|--------------|--------------|------------|--------------|
| | In Brazil | Abroad | Total | In Brazil | Abroad | Total |
| Fair value through profit or loss | 1,175 | – | 1,175 | 1,276 | – | 1,276 |
| Fair value through other comprehensive income | 12 | – | 12 | 13 | 609 | 622 |
| Amortised cost | 51 | – | 51 | 51 | – | 51 |
| Total | 1,238 | – | 1,238 | 1,340 | 609 | 1,949 |
| Current | 1,175 | – | 1,175 | 1,276 | 609 | 1,885 |
| Non-current | 63 | – | 63 | 64 | – | 64 |

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

At March 31, 2018, expected credit losses on marketable securities measured at amortised cost or fair value through other comprehensive income were immaterial. In addition, the amounts of marketable securities at December 31, 2017 classified by categories in accordance with the former accounting practice (IAS 39) are presented in note 4.1.

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7.Trade and other receivables

7.1.Trade and other receivables, net

| | 03.31.2018 | 12.31.2017 |
|---|--------------|---------------|
| Trade receivables -Third parties | 6,583 | 6,995 |
| Related parties | | |
| Investees (note 17.1) | 496 | 530 |
| Receivables from the electricity sector (note 7.4) (*) | 5,277 | 5,247 |
| Petroleum and alcohol accounts -receivables from Brazilian Government | 249 | 251 |
| Finance lease receivables | 542 | 550 |
| Receivables from divestments in the Nova Transportadora do Sudeste | 879 | 872 |
| Other receivables | 1,711 | 1,647 |
| | 15,737 | 16,092 |
| Expected credit losses - ECL | (6,183) | (5,945) |
| Total | 9,554 | 10,147 |
| Current | 4,703 | 4,972 |
| Non-current | 4,851 | 5,175 |

(*) Includes the amount of US\$ 229 at March 31, 2018 (US\$ 239 at December 31, 2017) regarding finance lease receivable from Amazonas Distribuidora de Energia.

Trade and other receivables were previously classified as loans and receivables in accordance with former IAS 39. As set out in note 4.1.3, following the adoption of IFRS 9, such assets are currently classified as measured at amortised cost, except for certain receivables with final prices linked to changes in commodity price after their transfer of control, which are classified as measured at fair value through profit and loss and amounts to US\$ 46.

7.2.Trade receivables overdue - Third parties

| | 03.31.2018 | 12.31.2017 |
|---------------------|--------------|--------------|
| Up to 3 months | 438 | 596 |
| From 3 to 6 months | 60 | 52 |
| From 6 to 12 months | 83 | 83 |
| More than 12 months | 3,595 | 3,573 |
| Total | 4,176 | 4,304 |

7.3.Changes in allowance for expected credit losses

| | 03.31.2018 | 12.31.2017 |
|-----------------------------------|------------|------------|
| Opening balance | 5,945 | 5,426 |
| Initial application of IFRS 9 | 122 | – |
| Additions | 143 | 708 |
| Write-offs | (6) | (110) |
| Cumulative translation adjustment | (21) | (79) |
| Closing balance | 6,183 | 5,945 |
| Current | 2,150 | 2,068 |
| Non-current | 4,033 | 3,877 |

For the first quarter of 2017, the Company had a net impairment reversal of trade receivables in the amount of US\$ 2.

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

| | As of 12.31.2017 | Amounts Sales received | Transfers (*) | Allowance Write-offs for ECL | As of Interest CTA 03.31.2018 |
|---|---------------------|---------------------------|-------------------|---------------------------------|----------------------------------|
| Related parties | | | | | |
| (Eletrobras Group) | | | | | |
| Eletrobras Distribuição | | | | | |
| Amazonas - AME-D | 2,563 | 15 (216) | 202 | – (103) | 60 (12) 2,509 |
| Centrais Elétricas de Rondônia - CERON | 375 | – (2) | – | – | 2 (1) 374 |
| Others | 112 | – (6) | – | 3 | 2 (2) 109 |
| Subtotal | 3,050 | 15 (224) | 202 | – (100) | 64 (15) 2,992 |
| Third parties | | | | | |
| Cia de Gás do Amazonas - Cigás | | | | | |
| Centrais Elétricas do Pará - Celpa | 2 | 16 (17) | – | – | – – 1 |
| Others | 9 | 44 (43) | – | – | – – 10 |
| Subtotal | 152 | 388 (144) | (202) | – (26) | – – 168 |
| Trade receivables, net | 3,202 | 403 (368) | – | – (126) | 64 (15) 3,160 |
| Trade receivables - Eletrobras Group | | | | | |
| (-) Allowance for impairment | (2,197) | – – | – | – (100) | – 12 (2,285) |
| Subtotal | 3,050 | 15 (224) | 202 | – (100) | 64 (15) 2,992 |
| Trade receivables - Third parties | | | | | |
| (-) Allowance for impairment | (324) | – – | – | – (26) | – 3 (347) |
| Subtotal | 152 | 388 (144) | (202) | – (26) | – – 168 |
| Trade receivables - Total | | | | | |
| (-) Allowance for impairment | (2,521) | – – | – | – (126) | – 15 (2,632) |
| Trade receivables, net | 3,202 | 403 (368) | – | – (126) | 64 (15) 3,160 |

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

The Company supplies fuel oil, natural gas, and other products for thermoelectric power generated and distributed by entities controlled by Eletrobras and independent electricity producers (Produtores Independentes de Energia – PIE) that operate in the city of Manaus and in the isolated electricity system in the northern region of Brazil, as the Brazilian National Interconnected Power Grid (Sistema Interligado Nacional) has not yet met the demand for electricity in this area.

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

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

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

As a result, on December 31, 2014, the Company entered into debt acknowledgement agreements concerning the balance of its receivables as of November 30, 2014 with the following subsidiaries of Eletrobras: Eletroacre, Ceron and Boa Vista. Eletrobras acknowledged it owed US\$ 2,202 to the Company, of which US\$ 1,889 were collateralized by payables from the CDE to the CCC. This amount has been adjusted by the Selic interest rate (Brazilian short-term interest rate) on a monthly basis and the first of 120 monthly installments was paid in February 2015. Despite some periodic delays, these payments have continued.

The payables from the CDE to the CCC are supported by a debt acknowledgement agreement between both parties, which was duly authorized by the Brazilian Ministry of Mines and Energy through the Interministerial Ordinance No. 652/2014. Pursuant to Resolutions 504 and 952 enacted by ANEEL in 2015, this agreement was also recognized by this authority and valued at US\$ 2,780.

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

Accordingly, the Company has adopted measures to reduce the default rate, such as judicial collection of overdue receivables, suspension of fuels supply on credit, register of these entities as delinquent companies in the CADIN (Registry of Delinquent Credits of Federal Agencies and Entities) and in ANEEL records. ANEEL canceled this registration alleging fuel purchases are non-intra sector debt. The Company had appealed the ANEEL decision and the authority denied it.

Pursuant to judicial decisions rendered on March 30, 2017, April 19, 2017 and September 29, 2017, Petrobras has supplied natural gas to AME-D as the Judiciary had assumed that the electricity supply to the population is more relevant than the economic interest of the Company. Accordingly, in the first quarter of 2018 the Company accounted for allowances for expected credit loss totaling US\$126 primarily due to such supply.

Considering the restructuring changes of the electricity sector in the last few years, the Company expected a decrease on defaults rates, which actually had not occurred. According to the provisions approved at Eletrobras' Shareholder's General Meeting, held on February 8, 2018, the process of privatization of power distributors controlled by Eletrobras is ongoing and the Company made negotiations with Eletrobras aiming at reaching an agreement that would resolve disputes and mitigate future defaults concerning receivables from the sale of natural gas.

During April 2018, the Company intensified the aforementioned negotiations and, on April 30, 2018, reached an agreement with the Eletrobras group, which made possible a new structure of collateralization related to the debt acknowledged agreements signed on December 31, 2014, the signing of new debt acknowledged agreements collateralized by Eletrobras and debt assumption instruments with respect to oil products supply.

See note 32 for detailed information on such agreements.

8. Inventories

| | 03.31.2018 | 12.31.2017 |
|-------------------------|------------|------------|
| Crude oil | 3,980 | 3,647 |
| Oil products | 2,692 | 2,814 |
| Intermediate products | 616 | 613 |
| Natural gas and LNG (*) | 95 | 67 |
| Biofuels | 209 | 173 |
| Fertilizers | 37 | 25 |
| Total products | 7,629 | 7,339 |

| | | |
|--------------------------------|-------|-------|
| Materials, supplies and others | 1,205 | 1,150 |
| Total | 8,834 | 8,489 |

(*) Liquefied Natural Gas

At March 31, 2018, the Company had pledged crude oil and oil products volumes as collateral for the Terms of Financial Commitment (TFC) signed by Petrobras and Petros in 2008, in the amount of US\$ 4,268 (US\$ 4,067 as of December 31, 2017), as set out in note 20.1.

9. Disposal of Assets and other changes in organizational structure

The Company has an active partnership and divestment program, which takes into account opportunities for divestments in several areas in which it operates. The divestment portfolio is dynamic, meaning that market conditions, legal matters and negotiations may affect the Company's evaluation of ongoing and potential transactions. This program is an essential initiative in the Company's 2018-2022 Business and Management Plan (2018-2022 BMP) and its decision-making methodology was reviewed and approved by the Brazilian Federal Auditor's Office (Tribunal de Contas da União – TCU). Along with other initiatives, the partnership and divestment program will enable the Company to reduce and improve its indebtedness and debt profile, respectively. For the 2017-2018 period, the target of proceeds from divestments is US\$ 21 billion.

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9.1. Disposal of assets

Second installment of the exploratory block BM-S-8 sale

On July 28, 2016 the Board of Directors of Petrobras approved the disposal of the Company's 66% interest in the exploratory block BM – S-8 to Statoil Brasil Óleo e Gás Ltda, which includes the Carcará area located in the pre-salt of Santos Basin, for the amount of US\$ 2.5 billion.

The first installment of US \$ 1.25 billion, corresponding to 50% of the transaction value, was received on November 22, 2016, and the remaining amount relates to two contingent payments.

The production sharing agreement with respect to the Norte de Carcará area, entered into by the Brazilian Federal Government, Statoil, Petrogal and Exxon, was made official on February 2, 2018 through the Brazilian Federal Register (official gazette). This fact completed the conditions precedent for the second payment of the exploratory block BMS-8. Accordingly, the Company received US\$ 300 on March 21, 2018 and accounted it for within other income and expenses.

The third installment of this sale, in the amount of US\$ 950, is still pending of certain future events related to the signing of a unitization agreement.

Disposal of Liquigás

On November 17, 2016 the Company's Board of Directors approved the disposal of its wholly-owned subsidiary Liquigás Distribuidora S.A, a group entity from the RT&M business segment (Refining, Transportation and Marketing), to Companhia Ultragaz S.A., a subsidiary of Ultrapar Participações S.A. In January 2017, this sale was approved at Ultrapar's and Petrobras' Shareholders' Meetings in the amount of US\$ 828.

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

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

On February 28, 2018, the CADE court ruled on this matter and dismissed this sale. The sales and purchase agreement was subject to a termination clause providing for compensation to the Company in case of such decision. Accordingly, the Company received US\$ 88 on March 13, 2018 and the related assets and liabilities are no longer classified as held for sale.

Disposal of Suape and Citepe petrochemical plants

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

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

This transaction was approved at Petrobras' Shareholders' Meeting on March 27, 2017.

On February 7, 2018, the CADE approved this transaction provided the execution of an Agreement on Concentration of Control (Acordo de Controle de Concentração – ACC).

Due to some customary conditions precedent, the assets and liabilities in the scope of this transaction remained classified as held for sale at March 31, 2018.

On April 30, 2018, this transaction was completed with the payment of US\$ 435 after adjustments and the fulfillment of all conditions precedent established in the purchase and sale agreement.

Strategic alliance with Total

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

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Transfer of the Company's 22.5% stake in the concession area named as Iara, comprising Sururu, Berbigão and West of Atapu fields, which are subject to unitization agreements with Entorno de Iara (an area under the Assignment Agreement in which the Company holds 100% and is located in the Block BM-S-11). The Company will continue to operate the block;

Transfer of the Company's 35% stake in the concession area of Lapa field, located in the Block BM-S-9. Total will also become the operator and the Company will retain a 10% interest in this area; and

Transfer of the Company's 50% interests in Termobahia S.A, including the power plants Celso Furtado and Rômulo Almeida. In 2016, the Company recognized an impairment loss on this transaction in the amount of US\$ 47.

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

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

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

This transaction totaled US\$ 1.95 billion, including price adjustments, but not including the long-term line of credit and the contingent payments. Accordingly, the Company recognized US\$ 689 as other income and expenses in the first quarter of 2018.

The closing of the power plants deal is still subject to approval by the relevant authorities and other customary conditions precedent and the assets and liabilities thereof remained classified as held for sale at March 31, 2018.

Sale of Azulão field

On November 22, 2017, the Company entered into an agreement with Parnaíba Gás Natural S.A., a subsidiary of Eneva S.A, concerning the assignment of its entire participation in the Azulão Field (Concession BA-3), located in the state of Amazonas, in the amount of US\$ 54.6.

At March 31, 2018, the completion of this deal was subject to the fulfillment of usual conditions precedent, therefore, the related assets and liabilities remained classified as held for sale at that date.

This transaction was concluded on April 30, 2018 upon fulfillment of the conditions precedent, adjustments set forth in the agreement and payment of US\$ 56.5 to the Company.

Strategic alliance with Statoil

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

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

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

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

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

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

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The SPA has a total amount of US\$ 2.9 billion, made up of US\$ 118 paid at the signature date of the agreement, contingent payments relating to investments in projects to increase the recovery factor of the field, limited to US\$ 550, and the remaining amount will be paid at the transaction closing. Accordingly, the related assets and liabilities remained classified as held for sale at December 31, 2017 and, as a result, an impairment charge of US\$ 405 was recognized in December 2017.

On March 13, 2018, the CADE approved this transaction. However, its closing still depends on the fulfillment of other conditions precedent, such as the approval of ANP. Therefore, the related assets and liabilities remained classified as held for sale at March 31, 2018.

9.2.Assets classified as held for sale

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

| | | | 03.31.2018 | | 12.31.2017 | |
|---|--------------|--------------|------------|-----------|--------------|--------------|
| | | | Gas | | | |
| | | | & | | | |
| | E&P | Distribution | RT&M | Power | Total | Total |
| Assets classified as held for sale | | | | | | |
| Cash and Cash Equivalents | – | – | 9 | – | 9 | 8 |
| Trade receivables | 1 | – | 85 | – | 86 | 117 |
| Inventories | – | – | 92 | – | 92 | 128 |
| Investments | – | – | – | – | – | 5 |
| Property, plant and equipment | 2,995 | 4 | 17 | 95 | 3,111 | 4,751 |
| Others | – | – | 206 | – | 206 | 309 |
| Total | 2,996 | 4 | 409 | 95 | 3,504 | 5,318 |
| Liabilities on assets classified as held for sale | | | | | | |
| Trade Payables | 14 | – | 32 | – | 46 | 102 |
| Finance debt | – | – | – | – | – | – |
| Provision for decommissioning costs | 86 | – | – | – | 86 | 170 |
| Others | – | – | 16 | – | 16 | 119 |
| Total | 100 | – | 48 | – | 148 | 391 |

As of March 31, 2018, the amounts refer to assets and liabilities classified as held for sale following the approvals of the disposal of Petroquímica Suape and Citepe, as well as interests in the thermoelectric power generation plants Rômulo Almeida and Celso Furtado, 25% of Roncador field and entire interest in Azulão field. At December 31, 2017, the amounts also comprise assets and liabilities pertained to Liquegás and the concession areas named as Iara and Lapa.

9.3. Other changes in organizational structure

Sale and merger of Nova Fronteira Bioenergia

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

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

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

On February 16, 2018, PBIO disposed, through a public auction held in the Brazilian stock exchange (B3), these 24 million of shares, at the share price of US\$ 5.72 dollars. The settlement of the transaction occurred on February 21, 2018, closing the complete disposal of PBIO's interests in São Martinho's capital.

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10. Investments

10.1. Investments in associates and joint ventures

| | Balance at 12.31.2017 | Investments | Restructuring, capital decrease and others | Results in equity-accounted investments | CTA | OCI | Dividends | Balance at 03.31.2018 |
|------------------------------------|--------------------------|-------------|--|---|-----------|-----------|--------------|-----------------------------|
| Joint Ventures | | | | | | | | |
| Petrobras Oil & Gas B.V. - PO&G | 1,410 | - | - | - | 1 | - | (201) | 1,210 |
| State-controlled | | | | | | | | |
| natural gas distributors | 345 | - | - | 23 | (2) | - | (2) | 364 |
| Compañía Mega S.A. - MEGA | 49 | - | - | (4) | 37 | - | - | 82 |
| Petrochemical joint ventures | 29 | - | 6 | - | - | - | - | 35 |
| Other joint ventures | 104 | 6 | (4) | 3 | 1 | - | - | 110 |
| Associates | | | | | | | | |
| Nova | | | | | | | | |
| Transportadora do Sudeste | 331 | - | - | 14 | - | - | (16) | 329 |
| Petrochemical | | | | | | | | |
| associates | 1,461 | - | (1) | 119 | (22) | 54 | (2) | 1,609 |
| Other associates | 48 | - | 5 | 3 | - | - | (1) | 55 |
| Other investments | 18 | - | - | - | 1 | - | - | 19 |
| Total | 3,795 | 6 | 6 | 158 | 16 | 54 | (222) | 3,813 |

10.2. Investments in non- consolidated listed companies

| Associate | Thousand-share lot | | Type | Quoted stock exchange prices (US\$ per share) | | Market value | |
|--------------|--------------------|------------|-------------|---|------------|--------------|------------|
| | 03.31.2018 | 12.31.2017 | | 03.31.2018 | 12.31.2017 | 03.31.2018 | 12.31.2017 |
| Braskem S.A. | 212,427 | 212,427 | Common | 14.70 | 13.15 | 3,122 | 2,794 |
| Braskem S.A. | 75,793 | 75,793 | Preferred A | 14.44 | 12.96 | 1,095 | 982 |

| | |
|-------|-------|
| 4,217 | 3,776 |
|-------|-------|

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

Braskem's shares are publicly traded on stock exchanges in Brazil and abroad. As of March 31, 2018, the quoted market value of the Company's investment in Braskem was US\$ 4,217 based on the quoted values of both Petrobras' interest in Braskem's common stock (47% of the outstanding shares), and preferred stock (22% of the outstanding shares). However, there is extremely limited trading of the common shares, since non-signatories of the shareholders' agreement hold only approximately 3% of the common shares.

Since July 2017, the Company has been negotiating with Odebrecht S.A. to revise the terms and conditions of the Braskem S.A. Shareholder's Agreement, signed on February 8, 2010. This revision aims to improve Braskem's corporate governance and the corporate relationship between the parties, with the purpose of creating value for all Braskem shareholders. Negotiations aiming at a corporate restructuring with a unification of Braskem's shares classes are still ongoing.

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

Information on the main estimates used in the cash flow projections to determine the value in use of Braskem is set out in Note 14 to the audited financial Statements for the year ended December 31, 2017.

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11. Property, plant and equipment

11.1. By class of assets

| | Land, buildings and improvement | Equipment and other assets (*) | Assets under construction (**) | Exploration and development costs (oil and gas producing properties) (***) | Total |
|---|--|-----------------------------------|-----------------------------------|---|----------|
| Balance at January 1, 2017 | 6,982 | 78,724 | 38,569 | 51,195 | 175,470 |
| Additions | 2 | 1,167 | 11,031 | 31 | 12,231 |
| Additions to / review of estimates of decommissioning costs | - | - | - | 4,503 | 4,503 |
| Capitalized borrowing costs | - | - | 1,972 | - | 1,972 |
| Write-offs | (14) | (6) | (545) | (35) | (600) |
| Transfers (****) | 316 | 3,296 | (7,631) | 3,079 | (940) |
| Depreciation, amortization and depletion | (437) | (7,320) | - | (5,366) | (13,123) |
| Impairment recognition | (145) | (937) | (568) | (892) | (2,542) |
| Impairment reversal | 52 | 831 | 165 | 692 | 1,740 |
| Cumulative translation adjustment | (91) | (753) | (472) | (745) | (2,061) |
| Balance at December 31, 2017 | 6,665 | 75,002 | 42,521 | 52,462 | 176,650 |
| Cost | 9,914 | 128,603 | 42,521 | 86,491 | 267,529 |
| Accumulated depreciation, amortization and depletion | (3,249) | (53,601) | - | (34,029) | (90,879) |
| Balance at December 31, 2017 | 6,665 | 75,002 | 42,521 | 52,462 | 176,650 |
| Additions | - | 204 | 2,656 | 1 | 2,861 |
| Additions to / review of estimates of decommissioning costs | - | - | - | 1 | 1 |
| Capitalized borrowing costs | - | - | 496 | - | 496 |
| Write-offs | - | (9) | (28) | (6) | (43) |
| Transfers (****) | 244 | 937 | (3,257) | 2,491 | 415 |
| Depreciation, amortization and depletion | (113) | (1,704) | - | (1,559) | (3,376) |
| Impairment recognition | - | (10) | - | - | (10) |
| Cumulative translation adjustment | (34) | (228) | (184) | (260) | (706) |
| Balance at March 31, 2018 | 6,762 | 74,192 | 42,204 | 53,130 | 176,288 |
| Cost | 10,118 | 129,239 | 42,204 | 87,218 | 268,779 |
| | (3,356) | (55,047) | - | (34,088) | (92,491) |

Accumulated depreciation,
amortization and depletion

| | | | | | |
|---------------------------|-------|--------|--------|--------|---------|
| Balance at March 31, 2018 | 6,762 | 74,192 | 42,204 | 53,130 | 176,288 |
| | 40 | 20 | | | |

(25 to 50) (3 to 31)

Weighted average useful life in
years

(except land)

Units of production method

(*) It is composed of platforms, refineries, thermoelectric power plants, natural gas processing plants, pipelines, rights of use and other operating, storage and production plants, also including exploration and production assets depreciated based on the units of production method.

(**) See note 27 for assets under construction by business area.

(***) It is composed of exploration and production assets related to wells, abandonment and dismantling of areas, signature bonuses associated to proved reserves and other costs directly associated to the exploration and production of oil and gas.

(****) It includes transfers to/from assets held for sale.

In the first quarter of 2018, additions to property, plant and equipment primarily relate to the development of oil and gas production in the pre-salt of Santos Basin, notably in Lula, Búzios and Atapu fields, as well as in Libra area.

At March 31, 2018, property, plant and equipment include assets under finance leases of US\$ 116 (US\$ 118 as of December 31, 2017).

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

Petrobras and the Brazilian Federal Government entered into the Assignment Agreement in 2010, which grants the Company the right to carry out prospecting and drilling activities for oil, natural gas and other liquid hydrocarbons located in the pre-salt area, subject to a maximum production of five billion barrels of oil equivalent. The agreement has a term of forty years and is renewable for a further five years subject to certain conditions. As of March 31, 2018, the Company’s property, plant and equipment include the amount of US\$ 22,507 related to the Assignment Agreement (US\$ 22,614 as of December 31, 2017).

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

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

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

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

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

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

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

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

The identification of the volume exceeding five million barrels of oil equivalent provides an opportunity to both parties reach an agreement in case of compensation to the Company arising from the review. Therefore, aiming to support an eventual negotiation where this compensation would be paid through the right over exceeding volume, the Company is complementing its assessment based on reports issued by the independent experts it has engaged.

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

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12. Intangible assets

12.1. By class of assets

| | Rights and Concessions | Acquired in-house | Software Developed | Goodwill | Total |
|-----------------------------------|------------------------|-------------------|--------------------|------------|---------|
| Balance at January 1, 2017 | 2,678 | 68 | 306 | 220 | 3,272 |
| Addition | 935 | 16 | 61 | - | 1,012 |
| Capitalized borrowing costs | - | - | 4 | - | 4 |
| Write-offs | (81) | - | (2) | - | (83) |
| Transfers | (1,656) | 2 | - | - | (1,654) |
| Amortization | (20) | (29) | (101) | - | (150) |
| Impairment recognition | (33) | - | - | - | (33) |
| Cumulative translation adjustment | (22) | - | (4) | (2) | (28) |
| Balance at December 31, 2017 | 1,801 | 57 | 264 | 218 | 2,340 |
| Cost | 2,006 | 496 | 1,225 | 218 | 3,945 |
| Accumulated amortization | (205) | (439) | (961) | - | (1,605) |
| Balance at December 31, 2017 | 1,801 | 57 | 264 | 218 | 2,340 |
| Addition | 1 | 8 | 12 | - | 21 |
| Capitalized borrowing costs | - | - | 1 | - | 1 |
| Write-offs | (2) | - | - | - | (2) |
| Transfers | - | 4 | 1 | 26 | 31 |
| Amortization | (4) | (7) | (22) | - | (33) |
| Cumulative translation adjustment | (6) | (1) | - | (2) | (9) |
| Balance at March 31, 2018 | 1,790 | 61 | 256 | 242 | 2,349 |
| Cost | 2,032 | 534 | 1,233 | 242 | 4,041 |
| Accumulated amortization | (242) | (473) | (977) | - | (1,692) |
| Balance at March 31, 2018 | 1,790 | 61 | 256 | 242 | 2,349 |
| Estimated useful life in years | (*) | 5 | 5 | Indefinite | |

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

On March 29, 2018, the Company acquired seven blocks in the fifteenth round of bids under the concession regime. The Company will be the operator in two blocks located in Campos basin, which were acquired in partnership with Exxon and Statoil. Another two blocks within Campos basin were acquired in partnership with Exxon and Qatar Petroleum and will be operated by Exxon. The other three blocks are located in Potiguar basin, of which two were

acquired in partnership with Shell and will be operated by the Company, and one was totally acquired by Company.

The total amount of the signature bonus to be paid by the Company up to September 2018 is US\$ 662.

13.Exploration and evaluation of oil and gas reserves

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

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

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| | 03.31.2018 | 12.31.2017 |
|---|------------|------------|
| Capitalized Exploratory Well Costs / Capitalized Acquisition Costs (*) | | |
| Property plant and equipment | | |
| Opening Balance | 4,522 | 5,133 |
| Additions to capitalized costs pending determination of proved reserves | 222 | 797 |
| Capitalized exploratory costs charged to expense | (4) | (107) |
| Transfers upon recognition of proved reserves | (135) | (1,227) |
| Cumulative translation adjustment | (23) | (74) |
| Closing Balance | 4,582 | 4,522 |
| Intangible Assets | 1,382 | 1,390 |
| Capitalized Exploratory Well Costs / Capitalized Acquisition Costs | 5,964 | 5,912 |

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

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

| | Jan-Mar/2018 | Jan-Mar/2017 |
|---|--------------|--------------|
| Exploration costs recognized in the statement of income | | |
| Geological and geophysical expenses | 91 | 85 |
| Exploration expenditures written off (includes dry wells and signature bonuses) | 8 | 8 |
| Contractual penalties | 36 | – |
| Other exploration expenses | 1 | 1 |
| Total expenses | 136 | 94 |
| Cash used in : | Jan-Mar/2018 | Jan-Mar/2017 |
| Operating activities | 92 | 87 |
| Investment activities | 224 | 207 |
| Total cash used | 316 | 294 |

In the first quarter of 2018, the Company recognized a provision in the amount of US\$ 36 arising from potential contractual penalties for non-compliance with minimum percentages of local content in 125 blocks for which the exploratory phases were concluded.

14. Trade payables

| | 03.31.2018 | 12.31.2017 |
|--------------------------------|------------|------------|
| Third parties in Brazil | 3,580 | 3,671 |
| Third parties abroad | 1,045 | 1,380 |
| Related parties | 799 | 716 |
| Balance in current liabilities | 5,424 | 5,767 |

15. Finance debt

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

The Company has covenants that were not in default at March 31, 2018 in its loan agreements and notes issued in the capital markets requiring, among other obligations i) the presentation of interim financial statements within 90 days of the end of each quarter (not reviewed by Independent Registered Public Accounting Firm) and audited financial statements within 120 days of the end of each fiscal year, with a grace period ranging from 30 to 60 days, depending on the agreement; ii) Negative Pledge / Permitted Liens clause; iii) clauses of compliance with the laws, rules and regulations applicable to the conduct of its business including (but not limited to) environmental laws; (iv) clauses in financing agreements that require both the borrower and the guarantor to conduct their business in compliance with anti-corruption laws and anti-money laundering laws and to institute and maintain policies necessary for such compliance; (v) clauses in financing agreements that restrict relations with entities or even countries sanctioned primarily by the United States (including, but not limited to, the Office of Foreign Assets Control (OFAC), Department of State and Department of Commerce), the European Union and United Nations; and vi) covenants with respect to debt level in some of its loan agreements with the Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social - BNDES).

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15.1. Repayment of debts and new financings

In the first quarter of 2018, proceeds from financing amounted to US\$ 5,938, principally reflecting: (i) global notes issued in the capital market in the amount of US\$ 1,962 and maturing in 2029; (ii) funds raised from the domestic and international banking market in the amount of US\$ 3,924 with average term of 6.5 years.

In addition, the Company used US\$ 15,375 for repayment of principal and interest, mainly reflecting: (i) US\$ 5,833 relating to repurchase of global bonds (tender offer) previously issued by the Company in the capital market maturing from 2019 to 2021, with premium paid to bond holders amounting to US\$420; (ii) pre-payment of banking loans in the domestic and international market totaling US\$ 6,292; and (iii) pre-payment of US\$ 245 with respect to financings with BNDES.

15.2. Changes in current and non-current debt

A roll-forward schedule of current and non-current debt is set out as follows:

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| | Export | | | | Total |
|---|-----------------|----------------|----------------|--------|----------|
| | Credit Agencies | Banking Market | Capital Market | Others | |
| Current and Non-current | | | | | |
| In Brazil | | | | | |
| Opening balance at January 1, 2017 | – | 23,617 | 2,267 | 37 | 25,921 |
| Principal amortization | – | (2,059) | (166) | (2) | (2,227) |
| Interest amortization | – | (2,084) | (200) | (2) | (2,286) |
| Additions (new funding obtained) | – | 5,224 | 1,577 | – | 6,801 |
| Transaction costs during the period (*) | – | 2,106 | 185 | 5 | 2,296 |
| Foreign exchange/inflation indexation charges | – | 27 | 87 | – | 114 |
| Pre-payments | – | (8,414) | – | – | (8,414) |
| Cumulative translation adjustment (CTA) | – | (174) | (101) | – | (275) |
| Balance as of December 31, 2017 | – | 18,243 | 3,649 | 38 | 21,930 |
| Abroad | | | | | |
| Opening balance at January 1, 2017 | 5,353 | 37,143 | 49,167 | 542 | 92,205 |
| Principal amortization | (914) | (3,210) | (973) | (47) | (5,144) |
| Interest amortization | (125) | (1,281) | (2,831) | (14) | (4,251) |
| Additions (new funding obtained) | 226 | 8,192 | 10,249 | 121 | 18,788 |
| Transaction costs during the period (*) | 163 | 1,460 | 3,208 | 20 | 4,851 |
| Foreign exchange/inflation indexation charges | 8 | 117 | 931 | 1 | 1,057 |
| Pre-payments | (1,051) | (11,005) | (7,936) | (353) | (20,345) |
| Cumulative translation adjustment (CTA) | 11 | (151) | 96 | (1) | (45) |
| Balance as of December 31, 2017 | 3,671 | 31,265 | 51,911 | 269 | 87,116 |
| Total Balance as of December 31, 2017 | 3,671 | 49,508 | 55,560 | 307 | 109,046 |
| Current | | | | | 7,001 |
| Non-current | | | | | 102,045 |
| Current and Non-current | | | | | |
| In Brazil | | | | | |
| Opening balance at January 1, 2018 | – | 18,243 | 3,649 | 38 | 21,930 |
| Initial application of IFRS9 | – | 65 | – | – | 65 |
| Principal amortization | – | (376) | (34) | (1) | (411) |
| Interest amortization | – | (189) | (54) | (1) | (244) |
| Additions (new funding obtained) | – | 2,009 | – | – | 2,009 |
| Transaction costs during the period (*) | – | 344 | 49 | 2 | 395 |
| Foreign exchange/inflation indexation charges | – | 2 | 28 | 1 | 31 |
| Pre-payments | – | (2,597) | – | – | (2,597) |
| Cumulative translation adjustment (CTA) | – | (62) | (16) | (1) | (79) |
| Balance as of March 31, 2018 | – | 17,439 | 3,622 | 38 | 21,099 |
| Abroad | | | | | |
| Opening balance at January 1, 2018 | 3,671 | 31,265 | 51,911 | 269 | 87,116 |

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| | | | | | |
|---|-------|---------|---------|-----|---------|
| Initial application of IFRS9 | – | 207 | 84 | – | 291 |
| Principal amortization | (245) | (225) | – | – | (470) |
| Interest amortization | (39) | (193) | (1,018) | – | (1,250) |
| Additions (new funding obtained) | – | 1,968 | 1,961 | – | 3,929 |
| Transaction costs during the period (*) | 34 | 335 | 822 | 4 | 1,195 |
| Foreign exchange/inflation indexation charges | 10 | 29 | 221 | – | 260 |
| Pre-payments | – | (3,939) | (5,873) | – | (9,812) |
| Cumulative translation adjustment (CTA) | (10) | (34) | 45 | 1 | 2 |
| Balance as of March 31, 2018 | 3,421 | 29,413 | 48,153 | 274 | 81,261 |
| Total Balance as of March 31, 2018 | 3,421 | 46,852 | 51,775 | 312 | 102,360 |
| Current | | | | | 4,630 |
| Non-current | | | | | 97,730 |

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

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In order to reflect the changes in accounting practices arising from the application of IFRS 9, the Company remeasured its financing agreements in force at January 1, 2018 which previously had their contractual clauses renegotiated and the modifications thereof did not result in substantial changes, as set out in note 4.1. Accordingly, the balance of current and non-current debt increased by US\$ 356 due to the initial application of IFRS 9, which were recognized within equity at January 1, 2018. During the first quarter of 2018, there were no renegotiations in financing agreements.

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

| | Opening balance at January 1, 2018 (*) | Additions (new funding obtained) | Amortization (**) | Transaction costs during the period | Foreign exchange and indexation charges | Cumulative translation adjustment (CTA) | Balance as of March 31, 2018 |
|--------------|---|--|----------------------|---|--|--|------------------------------------|
| Finance debt | 109,402 | 5,938 | (14,784) | 1,590 | 291 | (77) | 102,360 |

Reconciliation to
the Statement of
Cash Flows
Transfer to held for
sale
Purchase of
property, plant and
equipment on
credit
Expenses with debt
restructuring
Compensating
balances
Finance Leases
Net cash used in
financing activities

-

(419)

(177)

5

5,938 (15,375)

(*) Includes adjustments from initial application of IFRS 9.

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

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

2023

| Maturity in | 2018 | 2019 | 2020 | 2021 | 2022 | and onwards | Total (*) | Fair value |
|-------------------------------------|-------|-------|-------|--------|--------|-------------|-----------|------------|
| Financing in Brazilian Reais (R\$): | 1,553 | 1,449 | 3,258 | 2,550 | 4,522 | 7,427 | 20,759 | 19,458 |
| Floating rate debt | 674 | 1,050 | 2,953 | 2,249 | 4,136 | 5,848 | 16,910 | |
| Fixed rate debt | 879 | 399 | 305 | 301 | 386 | 1,579 | 3,849 | |
| Average interest rate | 6.3% | 6.3% | 6.4% | 7.0% | 6.8% | 6.0% | 6.4% | |
| Financing in U.S.Dollars (US\$): | 1,872 | 1,295 | 4,627 | 5,569 | 12,641 | 148,599 | 74,603 | 80,210 |
| Floating rate debt | 980 | 1,292 | 3,314 | 3,109 | 9,610 | 14,844 | 33,149 | |
| Fixed rate debt | 892 | 3 | 1,313 | 2,460 | 3,031 | 33,755 | 41,454 | |
| Average interest rate | 5.6% | 6.0% | 5.9% | 6.0% | 5.7% | 6.5% | 6.2% | |
| Financing in R\$ indexed to US\$: | 67 | 63 | 63 | 63 | 63 | – | 319 | 338 |
| Floating rate debt | 2 | – | – | – | – | – | 2 | |
| Fixed rate debt | 65 | 63 | 63 | 63 | 63 | – | 317 | |
| Average interest rate | 3.1% | 3.0% | 3.0% | 2.8% | 2.4% | - | 3.0% | |
| Financing in Pound Sterling (£): | 46 | – | – | – | – | 2,410 | 2,456 | 2,612 |
| Fixed rate debt | 46 | – | – | – | – | 2,410 | 2,456 | |
| Average interest rate | 6.1% | – | – | – | – | 6.3% | 6.2% | |
| Financing in Japanese Yen (¥): | 98 | – | – | – | – | – | 98 | 101 |
| Floating rate debt | 98 | – | – | – | – | – | 98 | |
| Average interest rate | 0.4% | – | – | – | – | – | 0.4% | |
| Financing in Euro (€): | 57 | – | 235 | 471 | 734 | 2,621 | 4,118 | 5,135 |
| Floating rate debt | – | – | 187 | – | – | – | 187 | |
| Fixed rate debt | 57 | – | 48 | 471 | 734 | 2,621 | 3,931 | |
| Average interest rate | 4.9% | 4.5% | 4.6% | 4.7% | 4.8% | 4.6% | 4.7% | |
| Financing in other currencies: | 7 | – | – | – | – | – | 7 | 7 |
| Fixed rate debt | 7 | – | – | – | – | – | 7 | |
| Average interest rate | 14.0% | – | – | – | – | – | 14.0% | |
| Total as of March 31, 2018 | 3,700 | 2,807 | 8,183 | 8,653 | 17,960 | 61,057 | 102,360 | 107,861 |
| Average interest rate | 5.7% | 6.0% | 6.0% | 6.1% | 5.9% | 6.4% | 6.2% | |
| Total as of December 31, 2017 | 7,001 | 6,476 | 9,641 | 12,745 | 18,014 | 55,169 | 109,046 | 116,621 |
| Average interest rate | 5.6% | 5.9% | 5.9% | 5.9% | 5.7% | 6.4% | 6.1% | |

* The average maturity of outstanding debt as of March 31, 2018 is 9.26 years (8.62 years as of December 31, 2017).

The fair value of the Company's finance debts is mainly determined and categorized into a fair value hierarchy as follows:

Level 1- quoted prices in active markets for identical liabilities, when applicable, amounting to US\$ 49,306 as of March 31, 2018 (US\$ 54,248 as of December 31, 2017); and

Level 2 – discounted cash flows based on discount rate determined by interpolating spot rates considering financing debts indexes proxies, taking into account their currencies and also the Petrobras' credit risk, amounting to US\$ 58,555 as of March 31, 2018 (US\$ 62,373 as of December 31, 2017).

The sensitivity analysis for financial instruments subject to foreign exchange variation is set out in note 30.2.

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

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was the weighted average of the borrowing costs applicable to the borrowings that were outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. In the first quarter of 2018 the capitalization rate was 6.26% p.a. (6.21% p.a. in the first quarter of 2017).

15.6. Lines of credit

| Financial | | Available | | Amount | | |
|-----------|--------------------|------------|-------------|-------------------|------|---------|
| Company | institution | Date | Maturity | (Lines of Credit) | Used | Balance |
| Abroad | | | | | | |
| PGT BV | CHINA EXIM | 10/24/2016 | Not defined | 1,000 | – | 1,000 |
| PGT BV | Syndicate of banks | 3/7/2018 | 2/7/2023 | 4,350 | – | 4,350 |
| Total | | | | 5,350 | – | 5,350 |

In Brazil

| | | | | | | |
|------------|-------------------------|------------|-------------|-------|-------|-------|
| PNBV | BNDES | 9/3/2013 | 1/31/2019 | 2,972 | 828 | 2,144 |
| Petrobras | Banco do Brasil | 3/23/2018 | 1/26/2023 | 602 | – | 602 |
| Transpetro | BNDES | 11/7/2008 | 8/12/2041 | 530 | 207 | 323 |
| Transpetro | Banco do Brasil | 7/9/2010 | 4/10/2038 | 23 | 11 | 12 |
| Transpetro | Caixa Econômica Federal | 11/23/2010 | Not defined | 99 | – | 99 |
| Total | | | | 4,127 | 1,046 | 3,081 |

On March 7, 2018, the Company entered into a revolving credit facility (RCF) with a syndicate of 17 banks, in the amount of US\$ 4,350. The Company may use this line of credit up to the month prior to maturity and the maintenance of the limit with the banks will cost 0.51% p.a. In the case of use, funds raised will bear interest at 6M Libor + 1.3% p.a. rate if the Company is investment grade rated at the date of the withdrawal. Otherwise, it will bear interest at 6M Libor + 1.7% p.a. rate.

15.7. Collateral

Most of the Company's debt is unsecured, but certain specific funding instruments to promote economic development are collateralized.

Financing agreements with China Development Bank (CDB) maturing in 2026 and 2027 are also collateralized based on future oil exports for specific buyers limited to 200 thousand barrels per day up to 2019, 300 thousand barrels per day from 2020 to 2026, and 100 thousand barrels per day in 2027. This collateral may not exceed the amount of the related debt (US\$ 10,125 at March 31, 2018 and US\$ 10,815 at December 31, 2017). On January 30, 2018, the

Company pre-paid the balance of a financing agreement maturing in 2019 in the amount of US\$ 2,800.

The loans obtained by structured entities are collateralized based on the projects' assets, as well as liens on receivables of the structured entities. Bonds issued by the Company in the capital market are unsecured.

The global notes issued by the Company in the capital market through its wholly-owned subsidiary Petrobras Global Finance B.V. – PGF are unsecured. However, Petrobras fully, unconditionally and irrevocably guarantees these notes, as set out in note 33.

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16. Leases

16.1. Future minimum lease payments / receipts – finance leases

| | Future | | Receipts | | Payments | |
|---------------------------------------|--------|-----------------|----------|-----------------|----------|-----|
| | value | Annual interest | Present | Future | Present | |
| Estimated lease payments / receivable | value | Annual interest | value | Annual interest | value | |
| 2018 | 93 | (52) | 41 | 29 | (16) | 13 |
| 2019-2022 | 604 | (266) | 338 | 191 | (99) | 92 |
| 2023 and thereafter | 482 | (89) | 393 | 366 | (243) | 123 |
| As of March 31, 2018 | 1,179 | (407) | 772 | 586 | (358) | 228 |
| Current | | | 54 | | | 26 |
| Non-current | | | 718 | | | 202 |
| As of March 31, 2018 | | | 772 | | | 228 |
| Current | | | 54 | | | 25 |
| Non-current | | | 735 | | | 204 |
| As of December 31, 2017 | | | 789 | | | 229 |

16.2. Future minimum lease payments – operating leases

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

| | |
|-------------------------|--------|
| 2018 | 7,004 |
| 2019 | 6,553 |
| 2020 | 6,231 |
| 2021 | 6,418 |
| 2022 | 5,771 |
| 2023 and thereafter | 63,785 |
| As of March 31, 2018 | 95,762 |
| As of December 31, 2017 | 92,019 |

As of March 31, 2018, the balance of estimated future minimum lease payments under operating leases includes US\$ 52,181 (US\$ 52,701 as of December 31, 2017) with respect to assets under construction, for which the lease term has not commenced.

In the first quarter of 2018, the Company recognized expenditures of US\$ 2,246 (US\$ 2,682 in the first quarter of 2017) for operating leases installments.

17.Related-party transactions

The Company has a related-party transactions policy, which is annually revised and approved by the Board of Directors, and is applicable to all the Petrobras Group, in accordance with the Company's by-laws.

In order to ensure the goals of the Company are achieved and align them with transparency of processes and corporate governance best practices, this policy guides Petrobras and its workforce while entering into related-party transactions and dealing with potential conflicts of interest on these transactions, based on the following assumptions and provisions:

- Prioritization of the Company's interests regardless of the counterparty;
- Arm's length basis;
- Compliance with market conditions, especially concerning terms, prices and guarantees or with adequate compensatory payment;
- Accurate and timely disclosure in accordance with applicable authorities.

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The Audit Committee must approve in advance transactions between the Company and its associates, the Brazilian Federal Government, including its agencies or similar bodies and controlled entities, taking into account the materiality established by this policy. The Audit Committee reports monthly to the Board of Directors.

Transactions with entities controlled by key management personnel or by their close family members are also approved in advance by the Audit Committee regardless of the amount involved.

Transactions with the Brazilian Federal Government, including its agencies or similar bodies and controlled entities, which are under the scope of Board of Directors approval, must be preceded by the Audit Committee and Minority Shareholders Committee assessment and must have prior approval of, at least, 2/3 of the board members.

The related-party transactions policy also aims to ensure an adequate and diligent decision-making process for the Company's key management.

17.1. Transactions with joint ventures, associates, government entities and pension plans

The Company has engaged, and expects to continue to engage, in the ordinary course of business in numerous transactions with joint ventures, associates, pension plans, as well as with the Company's controlling shareholder, the Brazilian federal government, which includes transactions with banks and other entities under its control, such as financing and banking, asset management and others.

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

| | Jan-Mar/2018 | 03.31.2018 | | Jan-Mar/2017 | 12.31.2017 | |
|---|--------------|------------|-------------|--------------|------------|-------------|
| | Income | Income | | Income | Income | |
| | (expense) | Assets | Liabilities | (expense) | Assets | Liabilities |
| Joint ventures and associates | | | | | | |
| State-controlled gas distributors (joint ventures) | 544 | 286 | 125 | 472 | 294 | 141 |
| Petrochemical companies (associates) | 936 | 46 | 10 | 1,198 | 59 | 16 |
| Other associates and | | | | | | |
| joint ventures | (194) | 164 | 803 | 141 | 177 | 691 |
| Subtotal | 1,286 | 496 | 938 | 1,811 | 530 | 848 |
| Brazilian government – Parent and its controlled entities | | | | | | |
| Government bonds | 31 | 1,725 | - | 35 | 1,702 | - |
| Banks controlled by the Brazilian Government | (343) | 6,211 | 11,641 | (449) | 5,839 | 12,390 |
| Receivables from the Electricity sector (note 7.4) | 78 | 5,277 | - | 194 | 5,247 | - |
| Petroleum and alcohol account - receivables from the Brazilian Government | - | 249 | - | 1 | 251 | - |
| Others | 60 | 45 | 150 | 70 | 45 | 217 |
| Subtotal | (174) | 13,507 | 11,791 | (149) | 13,084 | 12,607 |
| Pension plans | - | 69 | 59 | - | 68 | 94 |

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| | | | | | | |
|--|-------|--------|--------|-------|--------|--------|
| Total | 1,112 | 14,072 | 12,788 | 1,662 | 13,682 | 13,549 |
| Revenues, mainly sales revenues | 1,770 | - | - | 2,005 | - | - |
| Purchases and services | (420) | | | (17) | - | - |
| Foreign exchange and inflation indexation charges, net | (84) | - | - | 66 | - | - |
| Finance income (expenses), net | (154) | - | - | (392) | - | - |
| Current assets | - | 2,599 | - | - | 2,521 | - |
| Non-current assets | - | 11,473 | - | - | 11,161 | - |
| Current liabilities | - | - | 1,372 | - | - | 1,544 |
| Non-current liabilities | - | - | 11,416 | - | - | 12,005 |
| Total | 1,112 | 14,072 | 12,788 | 1,662 | 13,682 | 13,549 |

In addition to the aforementioned transactions, Petrobras and the Brazilian Federal Government entered into the Assignment Agreement in 2010, which grants the Company the right to carry out prospecting and drilling activities for hydrocarbons located in the pre-salt area limited to the production of five billion barrels of oil equivalent.

For detailed information on Assignment Agreement, see note 11.2.

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The total compensation of Executive Officers and Board Members of Petrobras parent company is set out as follows:

| | Jan-Mar/2018 | | | Jan-Mar/2017 | | |
|--|--------------|---------------|-------|--------------|---------------|-------|
| | Officers | Board members | Total | Officers | Board members | Total |
| Wages and short-term benefits | 1.2 | 0.1 | 1.3 | 1.2 | 0.1 | 1.3 |
| Social security and other employee-related taxes | 0.3 | – | 0.3 | 0.3 | – | 0.3 |
| Post-employment benefits (pension plan) | 0.1 | – | 0.1 | 0.1 | - | 0.1 |
| Total compensation recognized in the statement of income | 1.6 | 0.1 | 1.7 | 1.6 | 0.1 | 1.7 |
| Average number of members in the period (*) | 8.00 | 9.00 | 17.00 | 8.00 | 9.00 | 17.00 |
| Average number of paid members in the period (**) | 8.00 | 5.00 | 13.00 | 8.00 | 8.00 | 16.00 |

(*) Monthly average number of members.

(**) Monthly average number of paid members.

In the first quarter of 2018 the board members and executive officers of the Petrobras group received US\$ 6 as compensation (US\$ 6 in the first quarter of 2017).

The compensation of the Advisory Committees to the Board of Directors is apart from the fixed compensation set for the Board Members and, therefore, has not been classified under compensation of Petrobras' key management personnel.

In accordance with Brazilian regulation applicable to companies controlled by the Brazilian Government, Board members who are also members of the Audit Committee are only compensated with respect to their Audit Committee duties. The total compensation concerning these members totaled US\$ 94 thousand in 2017 (US\$ 113 thousand with social security and related charges).

The monthly compensation of Audit Committee members is fixed to 10% of monthly average executive officers' compensation, excluding certain social security benefits and paid vacation.

In the first quarter of 2018, the Board of Directors approved the variable compensation program (PRV) of the Board of Executive Officers for the year 2018. The amount of compensation to be paid varies according to the percentage of achievement of the financial and operational targets, limited to 8 compensations. The program foresees compensations being disbursed through 5 years and may also trigger other compensations to officers from 2019 provided the achievement of certain prerequisites.

The Company's General Shareholder's Meeting held on April 26, 2018 determined the amount of US\$ 8 as the threshold of executive officers and board members compensation for the period from April 2018 to March 2019, as well as approved the increase in the number of board members to 11.

18.Provision for decommissioning costs

| Non-current liabilities | 03.31.2018 | 12.31.2017 |
|--|------------|------------|
| Opening balance | 14,143 | 10,252 |
| Adjustment to provision | 3 | 4,166 |
| Transfers related to liabilities held for sale | – | (117) |
| Payments made | (79) | (709) |
| Interest accrued | 181 | 757 |
| Others | 2 | 24 |
| Cumulative translation adjustment | (70) | (230) |
| Closing balance | 14,180 | 14,143 |

The estimates for abandonment and dismantling of oil and natural gas producing properties are revised annually at December 31 along with the annual process of oil and gas reserves certification and whenever an indication of significant change in the assumptions used in the estimates occurs.

For the first quarter of 2017, unwinding of the discount on the provision for decommissioning costs (interest accrued) amounted to US\$ 191.

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19. Taxes

19.1. Income taxes and other taxes

| Income taxes | Current assets | | Current liabilities | | Non-current liabilities | |
|--|----------------|------------|---------------------|------------|-------------------------|------------|
| | 03.31.2018 | 12.31.2017 | 03.31.2018 | 12.31.2017 | 03.31.2018 | 12.31.2017 |
| Taxes in Brazil | | | | | | |
| Income taxes | 452 | 442 | 255 | 39 | - | - |
| Income taxes - Tax settlement programs | - | - | 199 | 228 | 677 | 671 |
| | 452 | 442 | 454 | 267 | 677 | 671 |
| Taxes abroad | 38 | 37 | 35 | 32 | - | - |
| Total | 490 | 479 | 489 | 299 | 677 | 671 |

| Other taxes | Current assets | | Non-current assets | | Current liabilities | | Non-current liabilities (*) | |
|-----------------------------------|----------------|--------------|--------------------|--------------|---------------------|--------------|-----------------------------|------------|
| | 03.31.2018 | 12.31.2017 | 03.31.2018 | 12.31.2017 | 03.31.2018 | 12.31.2017 | 03.31.2018 | 12.31.2017 |
| Taxes in Brazil | | | | | | | | |
| Current / Deferred ICMS (VAT) | 910 | 934 | 674 | 707 | 952 | 1,021 | - | - |
| Current / Deferred PIS and COFINS | 897 | 820 | 2,264 | 2,282 | 825 | 820 | - | - |
| CIDE | 10 | 14 | - | - | 102 | 104 | - | - |
| Production taxes | - | - | - | - | 1,700 | 1,605 | - | - |
| Withholding | - | - | - | - | 88 | 157 | - | - |
| income taxes | | | | | | | | |
| Tax Settlement Program | - | - | - | - | 414 | 648 | - | - |
| Others | 182 | 170 | 76 | 72 | 144 | 165 | 92 | 86 |
| Total in Brazil | 1,999 | 1,938 | 3,014 | 3,061 | 4,225 | 4,520 | 92 | 86 |
| Taxes abroad | 18 | 20 | 16 | 14 | 22 | 28 | - | - |
| Total | 2,017 | 1,958 | 3,030 | 3,075 | 4,247 | 4,548 | 92 | 86 |

(*) Other non-current taxes are classified as other non-current liabilities.

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19.2. Brazilian federal settlement programs

In 2017, the Company joined certain settlement programs created by the Brazilian Federal Government, which enabled the settlement of significant disputes in which the Company was a defendant, with certain benefits, such as the use of tax loss carry forwards and reduction in interests, penalties and related charges. The settlement of disputes involving Brazilian Federal Tax Authorities, Brazilian Federal Agencies and similar bodies reduced tax disputes amounting to US\$ 11,552 that as shown below:

| Provisional measures | Signed into law | Brazilian federal settlement programs | Amount of | | |
|----------------------|-----------------|---|-----------------|-------|-------|
| | | | Disputes relief | | Debts |
| 766 | - | Tax Settlement Program - PRT (*) | 502 | - | 502 |
| 783 | 13.496 | Special Tax Settlement Program - PERT | 2,203 | 1,001 | 1,202 |
| 780 | 13.494 | Non-Tax Debts Settlement Program - PRD | 340 | 113 | 227 |
| 795 | 13.586 | Withholding income tax on remittances for payment of charter of vessels | 8,507 | 7,976 | 531 |
| | | | 11,552 | 9,090 | 2,462 |

(*) Benefit of using tax loss carryforwards to settle 80% of the debt.

Detailed information on those settlement programs are presented in note 21.2 to the Company's audited financial statements ended December 31, 2017.

The balances of respective liabilities carried on the statement of financial position as of March 31, 2018 are shown below:

| | Settlement | | | | | CTA 03.31.2018 |
|------------------------|--------------|--------------|----------------------|----------|------------|----------------|
| | 12.31.2017 | Payments | Inflation indexation | Others | | |
| PRT | | | | | | |
| Income taxes | 153 | - | - | - | - | 153 |
| Other taxes | - | - | - | - | - | - |
| Total | 153 | - | - | - | - | 153 |
| PERT | | | | | | |
| Income taxes | 744 | (15) | 15 | (19) | (4) | 721 |
| Others taxes | 40 | (60) | 2 | 19 | 1 | 2 |
| | 784 | (75) | 17 | - | (3) | 723 |
| PRD | | | | | | |
| Production taxes | 87 | (95) | 2 | 5 | 1 | - |
| Law 13.586/17 | | | | | | |
| Withholding income tax | 521 | (118) | 7 | 3 | - | 413 |
| Total | 1,545 | (288) | 26 | 8 | (2) | 1,289 |
| Current | | | | | | 613 |
| Non-current | | | | | | 677 |

The following table presents the settlement years of the outstanding amount of these programs:

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | onwards | Total |
|---------------|------|------|------|------|------|------|---------|-------|
| PRT | 153 | - | - | - | - | - | | 153 |
| PERT | 46 | 61 | 61 | 61 | 61 | 433 | | 723 |
| Law 13.586/17 | 413 | - | - | - | - | - | | 413 |
| Total | 612 | 61 | 61 | 61 | 61 | 433 | | 1,289 |

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19.3. Tax amnesty programs – State Tax (Programas de Anistias Estaduais)

The Company elected to settle in cash VAT (ICMS) tax disputes concerning the states of Rio Grande do Norte and Tocantins by joining states amnesty settlement programs and taking advance of their reliefs. Accordingly, in the first quarter of 2018, the Company charged US\$ 25 as other taxes.

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19.4. New taxation model for the oil and gas industry

On December 28, 2017, the Brazilian federal government enacted Law No. 13,586, which outlines a new taxation model for the oil and gas industry and, along with the Decree 9,128/2017, establishes a new special regime for exploration, development and production of oil, gas and other liquid hydrocarbons named Repetro-Sped.

Due to the application of this new model, the Company expects greater legal stability in the oil and gas industry in Brazil, which may encourage higher investments and reduce the number of litigations involving the industry players.

Regarding the Repetro-Sped, this regime enhances the former Repetro (Special Customs Regime for the Export and Import of Goods designated to Exploration and Production of Oil and Natural Gas Reserves), notably providing for tax relief over goods permanently held in Brazil in addition to the previous relief related to temporary admissions. Therefore, we are assessing transfers in the ownership of certain oil and gas assets from foreign subsidiaries to the parent company in Brazil. The regime will expire in December, 2040.

Following the creation of Repetro-Sped, the Brazilian states, pursuant to a decision of the Brazilian National Council of Finance Policies (CONFAZ), agreed to allow tax incentives relating to VAT (ICMS) to the extent each state enacts its specific regulation providing for the tax relief on oil and gas industry.

At the date of issue of these unaudited interim financial statements, the states of Rio de Janeiro, São Paulo, Bahia and Rio Grande do Norte were the only states enacting new regulations governing the VAT tax incentives authorized by the Brazilian Federal Government. The State of Espírito Santo also enacted a law providing for such incentive, however, the regulation is still pending.

For additional information on the main provisions under Law 13,586/17, Decree 9,128 /17 and VAT (ICMS) tax incentives over the Repetro-Sped, see notes 21.4.1 and 21.4.2 to the audited financial statements for the year ended December 31, 2017.

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19.5. Deferred income taxes - non-current

a) The changes in the deferred income taxes are presented as follows:

Income taxes in Brazil comprise corporate income tax (IRPJ) and social contribution on net income (CSLL). Brazilian statutory corporate tax rates are 25% and 9%, respectively.

| | Property, Plant and Equipment Exploration and decommissioning costs | Others (*) | Loans, trade and other receivables / payables and financing | Finance leases | Provision for legal proceedings | Tax losses | Inventories | Employee Benefits | Others | Total |
|---|--|-------------------|--|-------------------|---------------------------------------|---------------|-------------|----------------------|--------|---------|
| Balance at January 1, 2017 | (11,205) | 937 | 3,512 | (90) | 1,128 | 6,040 | 429 | 3,009 | 284 | 4,044 |
| Recognized in the statement of income for the year | 363 | (1,292) | (1,099) | (64) | 1,134 | 278 | 130 | (4) | 139 | (415) |
| Recognized in shareholders' equity (**) | – | – | (887) | – | – | (69) | – | (273) | 9 | (1,220) |
| Cumulative translation adjustment | 150 | 45 | 34 | 4 | (40) | (67) | (6) | (34) | (11) | 75 |
| Use of tax credits | – | – | – | – | – | (271) | – | – | – | (271) |
| Others | – | (188) | (16) | 20 | (21) | 120 | 16 | (10) | 108 | 29 |
| Balance at December 31, 2017 | (10,692) | (498) | 1,544 | (130) | 2,201 | 6,031 | 569 | 2,688 | 529 | 2,242 |
| Initial application of IFRS9 | – | – | 147 | – | – | – | – | – | – | 147 |
| Balance at January 1, 2018 | (10,692) | (498) | 1,691 | (130) | 2,201 | 6,031 | 569 | 2,688 | 529 | 2,389 |
| Recognized in the statement of income for the period | 749 | (497) | (635) | (30) | 53 | 325 | (104) | 101 | (157) | (195) |
| Recognized in shareholders' | – | – | (164) | – | – | – | – | 1 | – | (163) |

| | | | | | | | | | | |
|-----------------------------------|---------|-------|-----|-------|-------|-------|-----|-------|------|---------|
| equity (**) | | | | | | | | | | |
| Cumulative translation adjustment | 33 | 18 | 2 | 2 | (12) | (23) | – | (18) | 4 | 6 |
| Use of tax credits | – | – | – | – | – | (257) | – | – | (17) | (274) |
| Others | – | (9) | 17 | (21) | 2 | 11 | – | 9 | (4) | 5 |
| Balance at March 31, 2018 | (9,910) | (986) | 911 | (179) | 2,244 | 6,087 | 465 | 2,781 | 355 | 1,768 |
| Deferred tax assets | | | | | | | | | | 3,438 |
| Deferred tax liabilities | | | | | | | | | | (1,196) |
| Balance at December 31, 2017 | | | | | | | | | | 2,242 |
| Deferred tax assets | | | | | | | | | | 3,455 |
| Deferred tax liabilities | | | | | | | | | | (1,687) |
| Balance at March 31, 2018 | | | | | | | | | | 1,768 |

(*) Mainly includes impairment adjustments and capitalized borrowing costs.

(**) The amounts presented as Loans, trade and other receivables/payables and financing, relate to the tax effect on exchange rate variation recognized within other comprehensive income (cash flow hedge accounting) as set out note 30.2.

The Company recognizes the deferred tax assets based on projections of future taxable profits in a ten-year perspective supported by the Business and Management Plan, which is revised annually.

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19.6.Reconciliation between statutory tax rate and effective tax expense rate

The following table provides the reconciliation of Brazilian statutory tax rate to the Company's effective rate on income before income taxes:

| | Jan-Mar/2018 | Jan-Mar/2017 |
|--|--------------|--------------|
| Net income before income taxes | 3,415 | 2,268 |
| Nominal income taxes computed based on Brazilian statutory corporate tax rates (34%) | (1,161) | (770) |
| Adjustments to arrive at the effective tax rate: | – | – |
| • Different jurisdictional tax rates for companies abroad | 45 | 11 |
| • Brazilian income taxes on income of companies incorporated outside Brazil (*) | (25) | (7) |
| • Tax incentives | 23 | 43 |
| • Tax loss carryforwards (unrecognized tax losses) | (11) | 60 |
| • Non-taxable income (non-deductible expenses), net (**) | (80) | (79) |
| • Others | (10) | 5 |
| Income taxes expense | (1,219) | (737) |
| Deferred income taxes | (195) | (475) |
| Current income taxes | (1,024) | (262) |
| Total | (1,219) | (737) |
| Effective tax rate of income taxes | 35.7% | 32.5% |

(*) Relates to Brazilian income taxes on earnings of offshore investees, as established by Law No. 12,973/2014.

(**) Includes results in equity-accounted investments and expenses relating to health care plan .

20.Employee benefits (Post-Employment)

20.1.Pension and medical benefits

The Company sponsors defined benefit and variable contribution pension plans in Brazil and abroad, as well as defined-benefit medical plans for employees in Brazil (active and retirees) and their dependents. See note 22 to the audited consolidated financial statement for the year ended December 31, 2017 for detailed information about pension and medical benefits sponsored by the Company.

Changes in the net defined benefits are set out as follows:

| Pension Plans | Medical Plan | | |
|---------------|--------------|-----|------------|
| Petros | Petros 2 | AMS | OtherTotal |

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| | | | Plans | |
|--|-------------------|---------------|-----------|---------------|
| Balance at January 1, 2017 | 10,752,293 | 11,214 | 38 | 22,297 |
| (+) Remeasurement effects recognized in OCI | (654) (105) | (1,150) | 1 | (1,908) |
| (+) Costs incurred in the year | 1,256 76 | 1,383 | 11 | 2,726 |
| (-) Contributions paid | (230) – | (467) | (2) | (699) |
| (-) Payments related to the Term of Financial Commitment (TFC) | (223) – | – | – | (223) |
| Others | – – | – | (6) | (6) |
| Cumulative translation adjustment | (173) (4) | (178) | (2) | (357) |
| Balance at December 31, 2017 | 10,728,260 | 10,802 | 40 | 21,830 |
| Current | 443 – | 401 | – | 844 |
| Non-current | 10,285,260 | 10,401 | 40 | 20,986 |
| Balance at December 31, 2017 | 10,728,260 | 10,802 | 40 | 21,830 |
| (+) Costs incurred in the period | 278 16 | 303 | 2 | 599 |
| (-) Contributions paid | (93) – | (111) | – | (204) |
| Others | – – | – | 30 | 30 |
| Cumulative translation adjustment | (55) (2) | (56) | (2) | (115) |
| Balance at March 31, 2018 | 10,858,274 | 10,938 | 70 | 22,140 |
| Current | 497 – | 399 | 1 | 897 |
| Non-current | 10,361,274 | 10,539 | 69 | 21,243 |
| Balance at March 31, 2018 | 10,858,274 | 10,938 | 70 | 22,140 |

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Pension and medical benefit expenses, net recognized in the statement of income are set out as follows:

| | Pension Plans | | | Medical Plan | Other | Plans Total |
|---|---------------|----------|-----|--------------|-------|-------------|
| | Petros | Petros 2 | AMS | | | |
| Current service cost | 24 | 10 | 43 | 1 | | 78 |
| Net interest cost over net liabilities / (assets) | 254 | 6 | 260 | 1 | | 521 |
| Net costs for Jan-Mar/2018 | 278 | 16 | 303 | 2 | | 599 |
| Related to active employees: | | | | | | |
| Included in the cost of sales | 46 | 8 | 66 | – | | 120 |
| Included in operating expenses | 22 | 5 | 34 | 1 | | 62 |
| Related to retired employees | 210 | 3 | 203 | 1 | | 417 |
| Net costs for Jan-Mar/2018 | 278 | 16 | 303 | 2 | | 599 |
| Net costs for Jan-Mar/2017 | 318 | 20 | 351 | 3 | | 692 |

As of March 31, 2018, the Company had pledged crude oil and oil products volumes, totaling US\$ 4,268, as collateral for the Terms of Financial Commitment (TFC) signed by Petrobras and Petros in 2008 (US\$ 4,067 as of December 31, 2017).

In the first quarter of 2018, the Company's contribution to the defined contribution portion of the Petros Plan 2 was US\$ 70 (US\$ 75 in first quarter of 2017) recognized in the statement of income.

Deficit settlement plan – Petros Plan

The Petros Plan has in place a deficit settlement plan (PED) due to its accumulated deficit until 2015 in the amount of US\$ 5,788. This amount was updated based on interest and inflation and reached US\$ 8,253 at December 31, 2017. The PED was approved by the Executive Council of Petros Foundation on September 12, 2017 and assessed by the Company and the Secretariat of Management and Governance for the State-owned Companies (Secretaria de Coordenação e Governança das Empresas Estatais – SEST).

Pursuant to relevant regulation, the sponsors and participants will cover this deficit based on their respective proportions of regular contributions. Accordingly, the Company will cover approximately US\$ 4,141 of this deficit and the contributions will occur for 18 years through decreasing values, of which the estimated amount for the first year is US\$ 450.

The part of the additional contributions from participants and sponsors commenced in March 2018 and the Company has complied with judicial decisions.

Split of Petros Plan

On February 15, 2018, the PREVIC authorized the split of Petros Plan into two separate plans: Petros Plan – Renegotiated and Petros Plan – Non-renegotiated. The Petros Plan split have been in place since April 1, 2018.

This split arose from the renegotiation procedures held in 2006-2007 period and in 2012, when 75% of the participants accepted the option to change to a model that sets forth solely inflation indexation on the annual adjustment of their benefits. The other participants' benefits remained adjusted by the same rate as the Petrobras' workforce had their salaries adjusted.

20.2. Profit sharing

The Company's profit sharing benefits comply with Brazilian legal requirements and those of the Brazilian Secretariat of Coordination and Governance of State Owned Enterprises (SEST), of the Ministry of Planning, Budget and Management, and of the Ministry of Mines and Energy, and are computed based on the consolidated net income attributable to the shareholders of Petrobras.

The amount of profit sharing benefits is computed based on the results of six corporate indicators, for which annual goals are defined by the Executive Board and approved by the Board of Directors pursuant to the review of the Business and Management Plan (BMP). The annual goals are based on the results of the following corporate indicators:

- Maximum permissible levels of crude oil and oil products spill;
- Lifting cost excluding production taxes in Brazil;
- Crude oil and NGL production in Brazil;

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Feedstock processed excluding NGL in Brazil,
 Vessel operating efficiency; and
 Percentage of compliance with natural gas delivery schedules.

The results of the six individual goals are factored into a consolidated result that will determine the percentage of the profit to be distributed as a profit sharing benefit to employees (6.25% at March 31, 2018). However, in the event the Company records a net loss for the period and all the annual goals are achieved, the profit sharing benefit will be half a month salary for each employee added to half of the lowest amount of profit sharing paid in the prior year, as established in the Company's collective bargaining agreement.

The subsidiary Liquigás and the joint operations Fábrica Carioca de Catalizadores (FCC) and Ibiritermo have their specific methodology for profit sharing computation pursuant to their own collective bargaining agreement, apart from other entities of the group.

Based on the estimates in the first quarter of 2018, the Company recognized a provision of US\$ 139 as other income and expenses (US\$ 88 in the first quarter of 2017) regarding profit sharing benefits in accordance with clauses of the collective bargaining agreement, including US\$ 3 as complement of the profit sharing for 2017.

20.3. Voluntary Separation Incentive Plan

The Company has implemented voluntary separation incentive plans (PDIV) which have had the following cumulative adherence by employees since their announcement:

| | Enrollments | Separations | Cancellations | Outstanding |
|---|---------------|-----------------|----------------|-------------|
| Petrobras (PIDV 2014 and 2016) | 19,499 | (16,459) | (2,806) | 234 |
| Petrobras Distribuidora (PIDV BR 2014, 2015 and 2016) | 2,163 | (1,679) | (412) | 72 |
| Total | 21,662 | (18,138) | (3,218) | 306 |

As a result, the Company recognized a total of 18,138 separations in these plans, whose changes in the provision as of March 31, 2018 are set out as follows:

| | 03.31.2018 | 12.31.2017 |
|-------------------------------------|------------|------------|
| Opening Balance | 34 | 811 |
| Enrollments (*) | 10 | – |
| Revision of provisions | (3) | (237) |
| Separations in the period | (3) | (558) |
| Cumulative translation adjustment – | – | 18 |
| Closing Balance | 38 | 34 |
| Current | 38 | 34 |

(*) On January 29, 2018, Petrobras Distribuidora reopened its 2016 separation incentive plan PIDV (BR 2016) for new enrollments up to March 2, 2018.

21. Equity

21.1. Share capital (net of share issuance costs)

As of March 31, 2018, subscribed and fully paid share capital, net of issuance costs, was US\$ 107,101, represented by 7,442,454,142 outstanding common shares and 5,602,042,788 outstanding preferred shares, all of which are registered, book-entry shares with no par value.

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

21.2. Other comprehensive income

In first quarter of 2018, the Company primarily recognized as other comprehensive income the following effects:

• Cumulative translation adjustment loss of US\$ 179, mainly due to exchange rate differences arising from the translation of these consolidated financial statements to the presentation currency;

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- Foreign exchange rate variation gain of US\$ 318, after taxes and amounts reclassified to the statement of income, recognized in the Company's equity, as a result of its cash flow hedge accounting policy. At March 31, 2018, the cumulative balance of foreign exchange variation losses, net of tax effects, was US\$ 9,255 (see note 30.2).

21.3. Earnings per share

| | Jan-Mar/2018 | | | Jan-Mar/2017 | | |
|--|---------------|---------------|----------------|---------------|---------------|----------------|
| | Common | Preferred | Total | Common | Preferred | Total |
| Net income (loss) attributable to shareholders of Petrobras | 1,224 | 921 | 2,145 | 808 | 609 | 1,417 |
| Weighted average number of outstanding shares | 7,442,454,142 | 5,602,042,788 | 13,044,496,930 | 7,442,454,142 | 5,602,042,788 | 13,044,496,930 |
| Basic and diluted earnings (losses) per share - in U.S. dollars | 0.16 | 0.16 | 0.16 | 0.11 | 0.11 | 0.11 |
| Basic and diluted earnings (losses) per ADS equivalent - in U.S. dollars (*) | 0.32 | 0.32 | 0.32 | 0.22 | 0.22 | 0.22 |

(*) Petrobras' ADSs are equivalent to two shares.

22. Sales revenues

| | Jan-Mar/2018 | Jan-Mar/2017 |
|---|--------------|--------------|
| Diesel | 6,234 | 6,107 |
| Automotive gasoline | 4,103 | 4,368 |
| Jet fuel | 939 | 776 |
| Liquefied petroleum gas | 1,156 | 837 |
| Naphtha | 572 | 840 |
| Fuel oil (including bunker fuel) | 307 | 315 |
| Other oil products | 1,035 | 876 |
| Subtotal oil products | 14,346 | 14,119 |
| Natural gas | 1,358 | 1,078 |
| Ethanol, nitrogen products and renewables | 528 | 899 |
| Electricity | 518 | 498 |
| Services and others | 305 | 218 |
| Domestic market | 17,055 | 16,812 |
| Exports | 4,171 | 3,681 |
| Sales abroad (*) | 1,732 | 1,244 |
| Foreign market | 5,903 | 4,925 |
| Sales revenues (**) | 22,958 | 21,737 |

(*) Sales revenues from operations outside of Brazil, including trading and excluding exports.

(**) Sales revenues by business segment are set out in note 27.

In the first quarter of 2018 and 2017, there was no customer whose sales revenues totaled 10% or more of the Company's sales revenues.

The impacts of the adoption of IFRS 15 in the first quarter of 2018 are presented in note 4.2.

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23. Other income and expenses

| | Jan-Mar/2018 | Jan-Mar/2017 |
|---|--------------|----------------|
| Pension and medical benefits - retirees | (417) | (487) |
| Gains / (losses) related to legal, administrative and arbitration proceedings | (392) | (399) |
| Unscheduled stoppages and pre-operating expenses | (239) | (432) |
| Gains/(losses) with Commodities Derivatives | (217) | – |
| Profit sharing | (139) | (88) |
| Institutional relations and cultural projects | (35) | (51) |
| Operating expenses with thermoelectric power plants | (25) | (24) |
| Health, safety and environment | (25) | (13) |
| Impairment | (18) | 7 |
| Allowance for impairment of other receivables | (7) | (35) |
| Voluntary Separation Incentive Plan - PIDV | (7) | 87 |
| Reclassification of cumulative translation adjustments - CTA | – | (37) |
| Amounts recovered from Lava Jato investigation | 1 | – |
| Expenses/Reimbursements from E&P partnership operations | 56 | 92 |
| Gains / (losses) on disposal/write-offs of assets (*) | 1,005 | (39) |
| Others | 67 | 180 |
| Total | (392) | (1,239) |

(*) It primarily comprises the gain on the sale of Iara and Lapa fields and the contingent payment received relating to the sale of exploratory block BM-S-8, as set out in note 9.

24. Costs and Expenses by nature

| | Jan-Mar/2018 | Jan-Mar/2017 |
|--|--------------|--------------|
| Raw material and products for resale | (4,457) | (4,011) |
| Materials, third-party services, freight, rent and other related costs | (5,091) | (3,763) |
| Depreciation, depletion and amortization | (3,409) | (3,423) |
| Employee compensation | (2,229) | (2,465) |
| Production taxes | (2,462) | (2,014) |
| (Losses) /Gains on legal, administrative and arbitration proceedings | (392) | (399) |
| Unscheduled stoppages and pre-operating expenses | (239) | (432) |
| Gains/(losses) with Commodities Derivatives | (217) | – |
| Other taxes | (148) | (92) |
| Allowance for impairment of trade receivables | (137) | 2 |
| Institutional relations and cultural projects | (35) | (51) |

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| | | |
|---|-----------------|-----------------|
| Health, safety and environment | (25) | (13) |
| Impairment (losses)/reversals | (18) | 7 |
| Exploration expenditures written off (includes dry wells and signature bonuses) | (8) | (8) |
| Reclassification of cumulative translation adjustment | – | (37) |
| Amounts recovered from Lava Jato investigation | 1 | – |
| Changes in inventories | 395 | (461) |
| Gains and losses on disposal/write-offs of assets (*) | 1,005 | (39) |
| Total | (17,466) | (17,199) |
| In the Statement of income | | |
| Cost of sales | (14,704) | (14,174) |
| Selling expenses | (1,273) | (760) |
| General and administrative expenses | (660) | (733) |
| Other taxes | (148) | (92) |
| Exploration costs | (136) | (94) |
| Research and development expenses | (153) | (107) |
| Other income and expenses | (392) | (1,239) |
| Total | (17,466) | (17,199) |

(*) Includes returned areas and cancelled projects, as well as the divestment in Iara and Lapa fields, in addition to the receipt of the second payment in the divestment exploratory block BMS-8, as set out in note 9.1.

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25. Net finance income (expense)

| | Jan-Mar/2018 | Jan-Mar/2017 |
|--|--------------|--------------|
| Debt interest and charges | (2,016) | (2,112) |
| Foreign exchange gains (losses) and indexation charges on net debt (*) | (999) | (983) |
| Income from investments and marketable securities (Government Bonds) | 139 | 134 |
| Financial result on net debt | (2,876) | (2,961) |
| Capitalized borrowing costs | 497 | 487 |
| Gains (losses) on derivatives | 109 | 35 |
| Interest income from marketable securities | 6 | – |
| Unwinding of discount on the provision for decommissioning costs | (183) | (192) |
| Other finance expenses and income, net | 93 | 55 |
| Other foreign exchange gains (losses) and indexation charges, net | 119 | 111 |
| Net finance income (expenses) | (2,235) | (2,465) |
| Income | 339 | 297 |
| Expenses | (1,804) | (1,890) |
| Foreign exchange gains (losses) and indexation charges | (770) | (872) |
| Total | (2,235) | (2,465) |

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

26. Supplemental information on statement of cash flows

| | Jan-Mar/2018 | Jan-Mar/2017 |
|---|--------------|--------------|
| Additional information on cash flows: | | |
| Amounts paid/received during the period: | | |
| Withholding income tax paid on behalf of third-parties | 249 | 285 |
| Capital expenditures and financing activities not involving cash | | |
| Purchase of property, plant and equipment on credit | 1 | 1 |
| Provision/(reversals) for decommissioning costs | 1 | 14 |
| Use of deferred tax and judicial deposit for the payment of contingency | 6 | 45 |

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27. Segment information

The operating segment information is reported in the manner in which the Company’s senior management assesses business performance and makes decisions regarding investments and resource allocation.

| | Exploration | Refining, | Gas | | | | | | |
|---|------------------------|------------------|----------|--------------|-----------|--------------|-------|--|--|
| | and | Transportation & | | | | | | | |
| | Production & Marketing | Power | Biofuels | Distribution | Corporate | Eliminations | Total | | |
| Consolidated assets by operating segment-03.31.2018 | | | | | | | | | |
| Current assets | 7,175 | 11,892 | | | | | | | |