

Annual Report 2017



SUMMARY



SAFETY

3

Message from the Chairman of the Board of Directors **03**

Message from the CEO of Petrobras **05**



ABOUT THE REPORT

7



MATERIALITY

8



OVERVIEW AND BUSINESS MODEL

9

Who we are **16**

Where we are **17**

How we generate value **18**

Business Model **19**



OUR CAPITALS

20

Human **21**

Intellectual **27**

Social and Relationship **34**

Natural **43**

Productive **50**

Financial **54**



EXTERNAL CONTEXT

64



BUSINESS PERFORMANCE

70

Exploration and Production of Oil and Gas **71**

Refining and Natural Gas **78**

Consolidated Financial Performance **97**



STRATEGIES AND PERSPECTIVES

99

Strategic Planning **100**

Business and Management Plan 2018-2022 **103**

Management System: Evolution Project **108**



GOVERNANCE AND COMPLIANCE

109

Corporate Governance **110**

Ethics **117**

Compliance and Internal Controls **118**



RISKS AND OPPORTUNITIES

122

Risk Management **123**

Crisis Management **125**

Opportunities **125**



OTHER INFORMATION

127

Annexes **128**

Acknowledgments **129**

Glossary **130**

Management and Editorial Staff **132**

Message from the Chairman of the Board of Directors

It is with great pleasure that I present Petrobras' first Integrated Report. This Report is more than just a new – and improved – way to report our results, performance and expectations. It also reflects an evolution in our management and in the way we plan our activities.

When producing oil, natural gas, electricity or any other product, we should no longer think only in financial and operational terms. We must view these processes as a whole, including the inputs (tangible and intangible) and products, both used and generated, and the impacts caused in the various stakeholders with which we relate.

We are committed to the fundamental concept of Integrated Reporting, demonstrating how the company has created value in the past and which elements are available to its management to continue to add value to the company, to those who interact with us, to our customers, suppliers and shareholders.

The practice of presenting the company in an integrated way is an essential step in this process, since when preparing the report we have to consider all aspects of the company, listing achievements, analyzing gaps and identifying opportunities to improve.

As a former member and current ambassador of the International Integrated Reporting Council (IIRC), I share the long-term view that we are moving towards a world where Integrated Thinking is increasingly rooted in business management, and where the cycle of Integrated Thinking and Reporting will ensure financial stability and sustainability.

“The way we work and
the impact we generate
are just as important as
our results.”

Nelson Carvalho
Chairman of the Board of Directors



Sustainability is not only related to environmental protection. Sustainability is durability, survival – mainly in relation to business and financial health – and growth. Integrated Thinking is a critical variable in the culture of corporations that want to stay relevant; and Integrated Reporting is the result of implementing Integrated Thinking practices.

Reporting and management go hand in hand. While building and reading this document, I was pleased to see all of the progress we have already made and are still making, strengthening our governance structure, lowering our total recordable injury, delivering consistent financial and operational results, implementing changes in human resource management, reducing and extending our debt, optimizing our asset portfolio, valuing our shares,

and gradually overcoming all of the main obstacles that have affected and still affect us, among many other improvements.

The advancements incorporated into our Bylaws foster a responsible administration of the State-owned company, and a greater balance of rights for all shareholders, through mechanisms where the minority shareholders are heard and their legitimate intentions are discussed and expressed in a transparent manner. The decision of placing safety alongside financial deleveraging as the key metrics of our Business and Management Plan is also a symbol of this Thinking, that the way we work and the impact we generate are as important as the results we achieve.

In addition, we have included initiatives related to the transition to a low-carbon economy and the digital transformation in the review of our Strategic Plan, strengthening our commitment to evolve with the society, generating long-term value.

As you will see herein, a lot has already been accomplished, although we recognize there is still much to be done. And it is this commitment with constant evolution that moves us – and I would like to invite our entire workforce to fight with us to move everyone at Petrobras – every day.

Thank you.



Message from the CEO of Petrobras

Reporting is an exercise of reflection, an opportunity to assess what has been done and what is yet to be done. This is what Petrobras' first Integrated Reporting provides us. We have developed the Annual Report, presenting comprehensive information on the company (previously disclosed in the Management Report) along with Sustainability information, focusing on social and environmental dimensions. These two integrated and complementary documents present the highlights of 2017 and our vision for the future.

And the first reflection the 2017 Integrated Reporting provides us is that we have reached a new moment at Petrobras. We are leaving behind the remains of the crisis that shook us in the recent past and moving forward,

“We are paving a
consistent path for
the sustainability of
our company”

Pedro Parente
Petrobras CEO

heads held high, seeking to do what is necessary, in the right way. But we also know that there is still much to be done, and we are fully committed to continue pursuing the goals of our business plan.

Our safety culture is being consolidated day after day. The total recordable injury (TRI), which measures the number of injuries per million hours worked, continued decreasing, from 1.63 in 2016 to 1.08 in 2017, reaching the level of the best companies in the industry. This evolution meant a reduction of approximately 1,700 injured workers in the period between 2015 and 2017. And we want to do even more. In 2018, we have the challenge of limiting TRI to 1 injury per million hours worked at risk.

We regret, and we do it with great sorrow, that we could not avoid fatal injuries. In 2017, we lost six employees and one went missing. We will continue making our best efforts to prevent this from happening again.

Under the financial perspective, we worked hard in managing our debt, which allowed us to decrease its size, reduce the interest rates and extend deadlines, aligning our amortization schedule with the maturation period of our projects.

In the operational area, we reached – for the third consecutive year – our production target, ratifying the predictability of our forecast. In Brazil, our average production of oil reached, for the fourth consecutive year, a historical record: in 2017 it reached 2.15 million barrels per day, an increase of 0.4% over the previous year.

Regarding our own production of natural gas, in 2017 we reached the unprecedented amount of 79.6 million cubic meters per day. With that, our total production in the country reached 2.65 million barrels of oil equivalent per day – volume 0.9% higher than 2016. This is a brand new record for Petrobras.

We increased the frequency of adjustments of diesel and gasoline prices for it to be more adherent to the market. We have also lighten up the adjustments to residential LPG – with no loss of profitability to our company – meeting the needs of our consumers. These are certainly important lessons for a company that was a monopoly for decades: operating in a competitive environment and thinking about their clients.

The full operation of our new management system provided us excellent cost-reduction results, which allows us to implement and monitor, with discipline and method, our strategic plan and our annual business plan. For the first time, these plans are consistently integrated, ensuring the company's strategic goals to be translated into concrete actions and targets, thus allowing us to reach the desired results.

In addition, we continue to increase the efficiency and effectiveness of our investments. It is always good to bear in mind that we operate in a capital-intensive industry, with long maturation deadline for its investments. The cost reductions and the increased effectiveness of our investments have provided continuous decreases in our lifting and refining costs, and in the so-called “breakeven price”, which is the value of a barrel of oil from which the net result of our exploration and production investments

outweigh our cost of capital. Our portfolio's “breakeven price” presented a reduction of USD 43/barrel in 2014 to USD 29/barrel in 2018¹.

Under the Partnership and Divestment Program, one of the pillars for the management of our asset portfolio and to ensure the necessary resources for our investments, it is important to emphasize the initial public offering² performed by Petrobras Distribuidora in November 2017, the largest IPO in the Brazilian stock exchange since 2013; and the strategic partnership with Statoil, the Norwegian company, that will provide technology to increase the oil recovery rate of our reservoirs.

The changes we promoted in our management system and in our decision-making processes made Petrobras more robust and reliable, culminating with the admission of the company in the Corporate Governance Program for State-Owned Companies and the request for admission to Level 2 in corporate governance at B3. In addition, we have implemented a number of actions for strengthening our internal control environment and were able to eliminate all significant deficiencies and material weaknesses identified in recent years.

And moving forward also means looking at what is yet to come. One of our key strategies is to prepare the company for a future based on a low carbon economy: what we are doing to reduce emissions, increase the use of natural gas as a cleaner source of energy, develop new technologies and expand the studies on renewable energy. We have voluntarily joined the Oil and Gas Climate Initiative (OGCI), the most important initiative in the industry to reduce emissions.

We have restructured our oil exploration portfolio following value leverage and risk reduction strategies through partnerships. We have purchased ten new exploration blocks, adding 11.4 thousand km², approximately 17%, to our portfolio, with an investment of BRL 2.9 billion in signing bonuses. We will almost double, on average, the number of exploration wells drilled per year, from 15 wells in 2016 and 2017 to 29 wells from 2018 to 2022.

We are surely on the right path. The path of hard, efficient and competent work, which brings righteous results and generates value for shareholders, employees and the society as a whole. We are paving a consistent path for the sustainability of our company, and we know this is an ongoing process. I would like to emphasize, and also thank, the commitment of our workforce, which has been relentless in seeking the aforementioned results.

Finally, and not least importantly, I reiterate that we do not tolerate any form of fraud or corruption and we do not accept the practice of ethical deviations. These principles govern our workforce, the Executive Board and the Board of Directors, and we shall not stray from them.

This Reporting is an attempt to increase the transparency and dialogue with our stakeholders. Therefore, I would like to invite you all to interact with us, providing any suggestions for improvement you may have.

Thank you!

¹ According to 2014/2018 and 2018/2022 Strategic Plans

² Initial Public Offering (IPO)

About the report

The Integrated Reporting promotes a more cohesive and efficient approach in the development of corporate reports, aiming at improving the quality of the information made available to the providers of financial capital, seeking to explain how the organization generates value over time and providing subsidies to capital allocation in a more efficient and productive manner. This publication (2017 Annual Report), along with the Sustainability 2017 and the Financial Statements form the basis of our Integrated Reporting.

Until 2017 we presented the Management Report with the highlights from the previous fiscal year. This year, with the 2017 Annual Report, we have moved forward with the reporting process, aiming at improving the transparency and connectivity of the information provided and demonstrating how value is generated over time. Therefore, the 2017 Annual Report seeks not only to comply with the current legislation, such as Law No. 6404 and the guidelines from the Brazilian Securities and Exchange Commission (CVM), but also with the principles and content elements recommended by the Integrated Reporting framework from the International Integrated Reporting Council (IIRC). In addition, the financial information contained in this report was prepared in accordance with the International Financial Reporting Standards (IFRS) and the accounting principles adopted in Brazil by the Accounting Pronouncements Committee (CPC).

This report was validated by our Executive Board and approved by our Board of Directors, which authorized its publication. In addition, the independent auditor (KPMG) read the information contained herein, in the context of the audit standards related to the company's financial statements for the fiscal year ended on December 31, 2017 as included in its report on such financial statements issued on March 14, 2018.

Have a good journey!

Before start reading the 2017 Annual Report, learn about the navigation features



Summary

< Previous page



Additional content in the Report



Business Model



Back to last visited page

> Next page



Additional content on our website



Materiality

NOTICE TO THE READER

This document contains forecasts reflecting only the expectations of our directors. The words “anticipates”, “believes”, “expects”, “forecast”, “intends”, “plans”, “projects”, “aims”, “shall” and other similar terms are intended to identify such forecasts, which evidently involve risks or uncertainties foreseen or not by the company.

Therefore, the future results of our operations may differ from current expectations, and the reader must not rely exclusively on the information contained herein.

The company does not undertake to update such predictions upon receipt of new information or future developments.

In case there are differences between the english and portuguese versions of this report the portuguese shall prevail.

We would like to receive your questions regarding this report and your suggestions for the next edition.



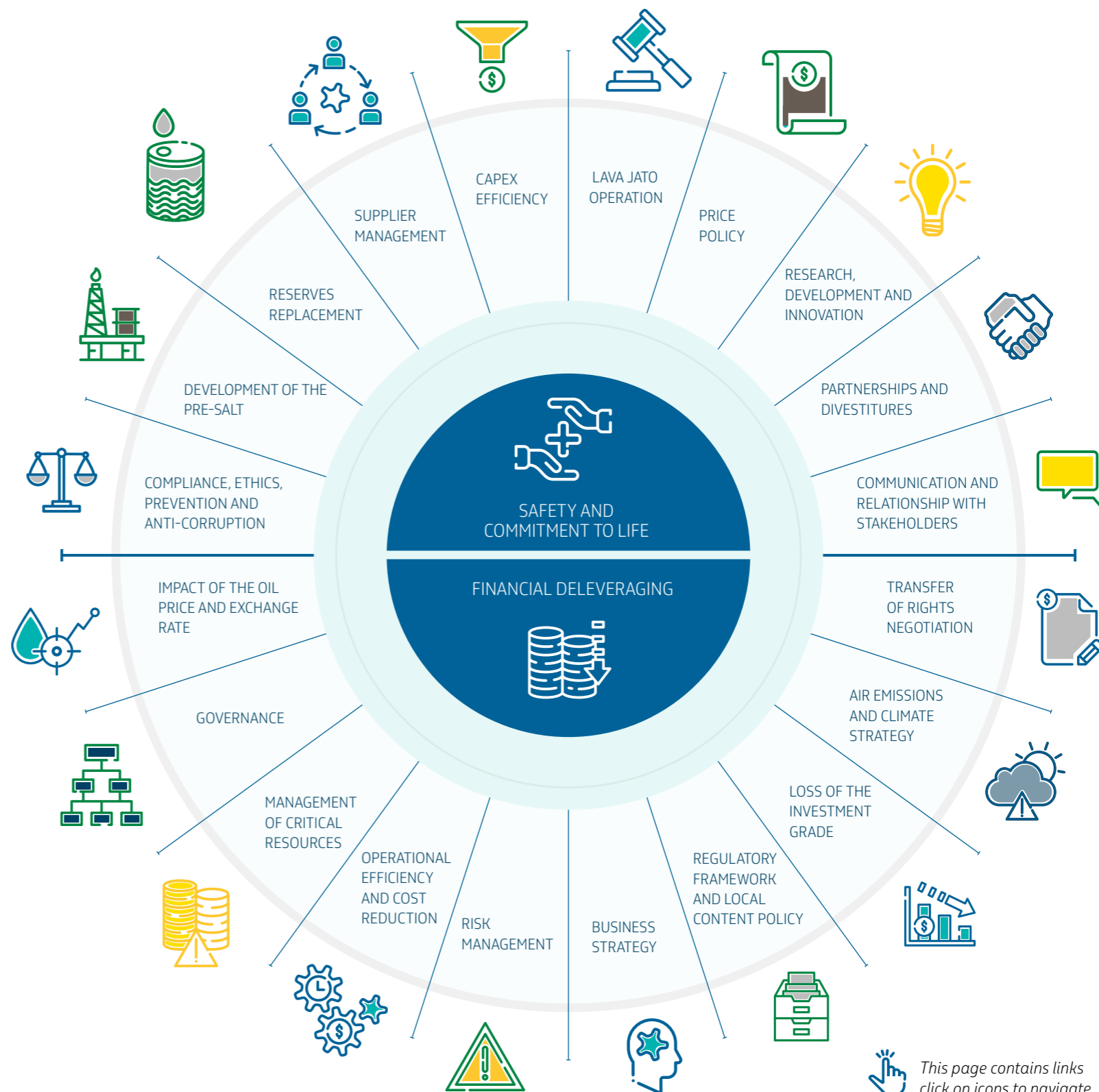
Contact us through our website

Materiality

The materiality matrix is the result of the identification, evaluation and prioritization of relevant issues that impact our ability to create value in the short, medium and long term. At the beginning of 2017, we reviewed our materiality by mapping the relevant topics by determining the expectations of our stakeholders, public opinion polls, market indexes, ratings, internal debates with experts, governance committee meetings and interviews with senior management.

The identified topics were then assessed by the senior management and by a group of managers and market analysts through the application of questionnaires on the impact of each topic on our business, as well as its relevance to investors and other stakeholders. As a result of this process, 22 material themes were identified:

The topics of safety, commitment to life and financial deleveraging are at the top of the list of material topics, aligned to our Strategic and Business and Management Plans.





SAFETY

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BR PETROBRAS

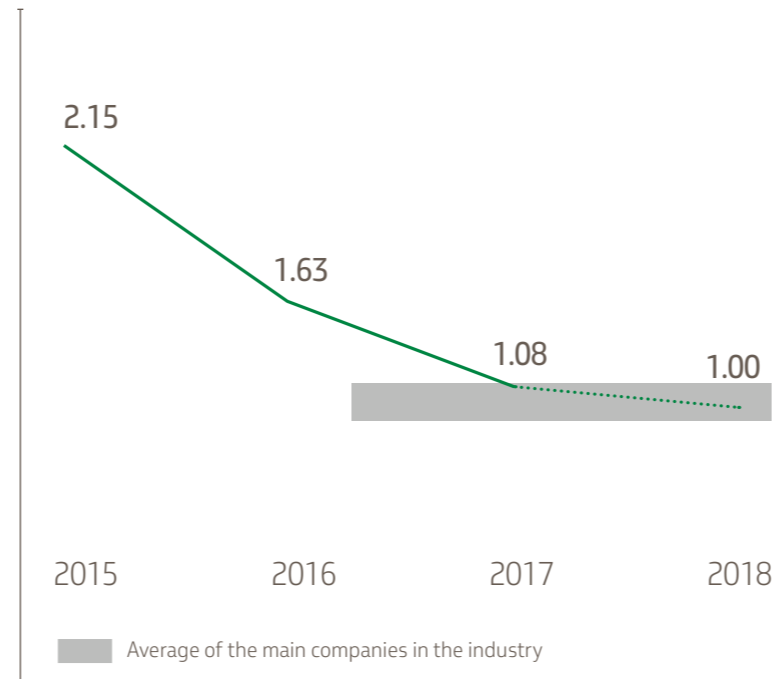
Safety is a value acknowledged in our Strategic and Business and Management Plans.

With the purpose of materializing this value into strategic objectives and, above all, prioritize actions aimed at the improvement of safety practices, a set of actions were established so as to involve the entire workforce. This chapter will present these actions in detail, showing the priority of the safety theme at all levels, processes and activities.

Since 2015, the company adopts the Total Recordable Injury (TRI) as one of its key metrics being monitored by senior management. The adoption of this index had the purpose of allowing the comparison of our safety results with those from other companies of the same size operating in the same industry. By adopting criteria similar to the one recognized and adopted by world-class oil and gas companies, we can establish comparative mechanisms to check our safety performance and, based on the results of several operating units, plan applicable preventive and mitigating actions for each area.

In our 2017-2021 Strategic and Business and Management Plans, our goal was to reduce TRI in 36%, decreasing from 2.15 in 2015 to 1.4 in 2018. However, our TRI in 2017 was already at 1.08. This number represents a reduction of about 1,700 workers injured in the period between 2015 and 2017.

TOTAL RECORDABLE INJURY – TRI



The 2018-2022 Business and Management Plan defined an alert threshold for TRI of 1.00. This result places us at the same level as the best oil and gas companies in the world in terms of safety. In order to maintain the conditions for continuously reducing the safety metrics, the 2017-2018 cycle of the Commitment to Life Program started in October 2017, with 19 macro actions detailed into 65 actions based on the safety of processes, incorporated to principles and guidelines benefiting not only safety, but also health and environment.

19
Macro Actions

65
Actions



30
Safety actions



21
Environment actions



14
Health actions

TRI's evolution is a direct consequence of the implementation of several initiatives for the promotion of our safety culture, with emphasis to the Commitment to Life Program; the safety trainings; the emergency preparation and response; and the Health, Safety and Environment (HSE) Management Assessment Program.

COMMITMENT TO LIFE PROGRAM

This is a set of initiatives focusing on preventing accidents and preserving life, launched in October 2016, to strengthen the safety guidelines at all stages of the process and, thus, reduce accidents and standardize practices. These initiatives have been structured based on the results of our HSE management assessments and the root causes identified in the process of investigating accidents in recent years. The internal actions related to the 2016-2017 cycle were 100% implemented. The Program has the following pillars:

Commitment to safety

- review of the Health, Safety and Environment Policy, highlighting the commitments to reduce the risks to the safety and health of the people and strengthen the safety of processes;

- implementation of the practice of holding a conference immediately after fatal accidents with the entire leadership;
- implementation of the Conduct Treatment Systematics with different approaches for error and violation, including the valuing of positive practices or attitudes;
- review of the Management Assessment Process with a focus on process safety and risk management, establishing the obligation of correcting critical deviations;
- adoption of proactive process safety and management practice indicators to monitor the HSE performance, incorporated into the annual assessment of executive managers.

Understanding of hazards and risks

- development and implementation of the Continuous Training Program of Internalization of Golden Rules;
- development of the Process Safety Training Program and its basic concepts for the leadership of operational areas.

Risk management

- uniform practices among the company's areas;
- application of digital technology solutions in risk management;
- improvement of contingency management and change management;

- review of the Systematics for Selecting Goods and Services Providers, so as to ensure that the contractors are able to face the risks to which they will be exposed;
- improvement of the HSE management in investment projects.

Learning from experience

- changes to the process of implementing Fatal Accident Investigation Committees, which are now appointed by the director of the business area where the accident took place and developed by an executive manager from another business area, with the participation of the HSE executive manager. In this way, we have expanded and disseminated the learning through out the company;
- execution of Petrobras HSE Congress in August 2017, with the participation of more than 1,000 members of the workforce, enabling the dissemination of good practices, the exchange of experiences and debates on the main issues related to our HSE and contingency processes.

Other actions were implemented to support the reduction of TRI, such as: (i) re-establishment of the HSE Executive Committee with the participation of executive managers from all operational areas; (ii) review of the Behavioral Audit Standard, establishing accomplishment goals by the leadership; (iii) implementation of the Daily Summary with key safety indicators, distributed to the leadership; (iv) inclusion of the “Commitment to Life” competence in the annual assessment of the entire workforce; (v) strengthening of the Managerial Inspections in order to identify points for improvement in the activities or in the safety of the facilities; (vi) promotion of integration between task supervisors and executors, aiming to identify training or improvement opportunities of the execution procedures; (vii) development and implementation of the HSE Communication Plan.

SENIOR MANAGEMENT MONITORING OF ACTIONS

The senior management takes active participation in the Commitment to Life Program, whether through a systematic follow-up in executive management meetings, Executive Board and Board of Directors, or participating in training aimed at leaders, thus consolidating the HSE culture at Petrobras.

The Board Visits Program was created in 2016. Through that Program, members of our Board of Directors make technical visits to our operating units with the purpose of checking the dissemination of the safety culture, such as the knowledge and practical use of the Golden Rules on daily tasks, through behavioral audits on our workforce. During 2017, the Board of Directors made technical visits to the Duque de Caxias Refinery (Reduc) in Rio de Janeiro, to the Operations Units of Rio Grande do Norte and Ceará and to the Jurong Aracruz Shipyard, in Espírito Santo. In 2018, visits are planned to Transpetro and Petrobras Distribuidora facilities. Our CEO and executive officers also carry out technical visits and behavioral audits.



SAFETY TRAINING

Golden Rules Training: the Commitment to Life Program has established, among other actions, the training and internalization of the Golden Rules for the entire workforce, mobilizing over 185 thousand workers in 2017. The Golden Rules have been created from the root causes of most of the fatal accidents that took place in the company over the past decade, aiming at the prevention of accidents.

Process safety training: training focusing on the safety of processes and target audience of approximately

16 thousand people related to the HSE, operation, maintenance, inspection and engineering areas. Training includes the recognition of risks, the implementation of protection layers in relation to known risks, operational safety and process safety.

Conduct Treatment Training: e-learning training with the purpose of assisting the manager in understanding and applying the HSE Conduct Treatment. Target audience of approximately 7 thousand leaders.

Incident Command System (ICS) Training: incident management training designed for integrated action of stakeholders in the emergency response actions such as companies, environmental agencies, firefighters, and civil defense. In 2017, more than 1,000 employees were trained in the ICS methodology. In the exploration and production segment, exercises were carried out following the methodology, including the participation of public agencies.



EMERGENCY PREPARATION AND RESPONSE

Among the exercises held in 2017, we emphasize the one held at the Operation Unit in Espírito Santo involving a complex scenario and field actions. The scenario of a major accident was designed to test and improve all our emergency response and crisis management structures. In addition to the Incident Management Team (IMT) and the local response structure, the Business Support Team (BST), comprised of the executive officer of the affected area and company managers, was also mobilized. The Crisis Management Team (CMT) was also activated, with the participation of the CEO, officers and executive managers. An exercise at that level involved different areas such as Exploration and Production; Refining and Natural Gas; Production and Technology Development; Health, Safety and Environment; Corporate Risks; Communication and Brands; Social Responsibility; Investor Relations; Legal; Intelligence and Corporate Security; Shared Services; Information Technology and Telecommunications; among other.

HSE MANAGEMENT ASSESSMENT PROGRAM

The HSE Management Assessment Program is a proactive, independent and integrated assessment process to evaluate the compliance with the requirements established in the HSE Management System.

The findings identified during the assessments are classified as critical, severe, moderate, and mild. Action plans are established, with deadlines for remediation taking into consideration the criticality level.

This process is monitored during critical analysis meetings with the senior leadership.

FATAL ACCIDENTS

Despite our best efforts in the quest for continuous improvement in the safety culture and management, in 2017 we registered and lament the occurrence of six fatal accidents:

1. Accident with employee on February 6, 2017: car crash on highway in Rio de Janeiro;
2. Accident with contractor's employee on May 23, 2017: fall during cargo handling, in Rio Grande do Norte;
3. Accident with three contractor's employee on June 9, 2017: steam boiler explosion on drillship, in Rio de Janeiro;

4. Accident with contractor's employee on December 2, 2017: crushing during movement of pipes on drillship, at the Gulf of Mexico in the United States.

On December 18, a man overboard accident took place, with the person missing. We are waiting for the legal term for the appropriation of the accident.

In all fatal accidents, the first action was for leaders of the units involved in the accidents to provide personal support to the families of the affected employees. The leaders involved in the occurrences immediately disclosed the information to the senior management, issuing a

preliminary warning in order to start the scope analysis regarding the incident and implementing emergency actions for blocking similar occurrences. According to the standard, we held the investigation and analysis process under the coordination of executive managers and multidisciplinary team in order to identify the causes of the accidents. We consolidated and disclosed actions that may prevent the recurrence of such accidents. The lessons learned from the accidents are discussed in forums involving managers and disclosed to our workforce.



OVERVIEW AND BUSINESS MODEL

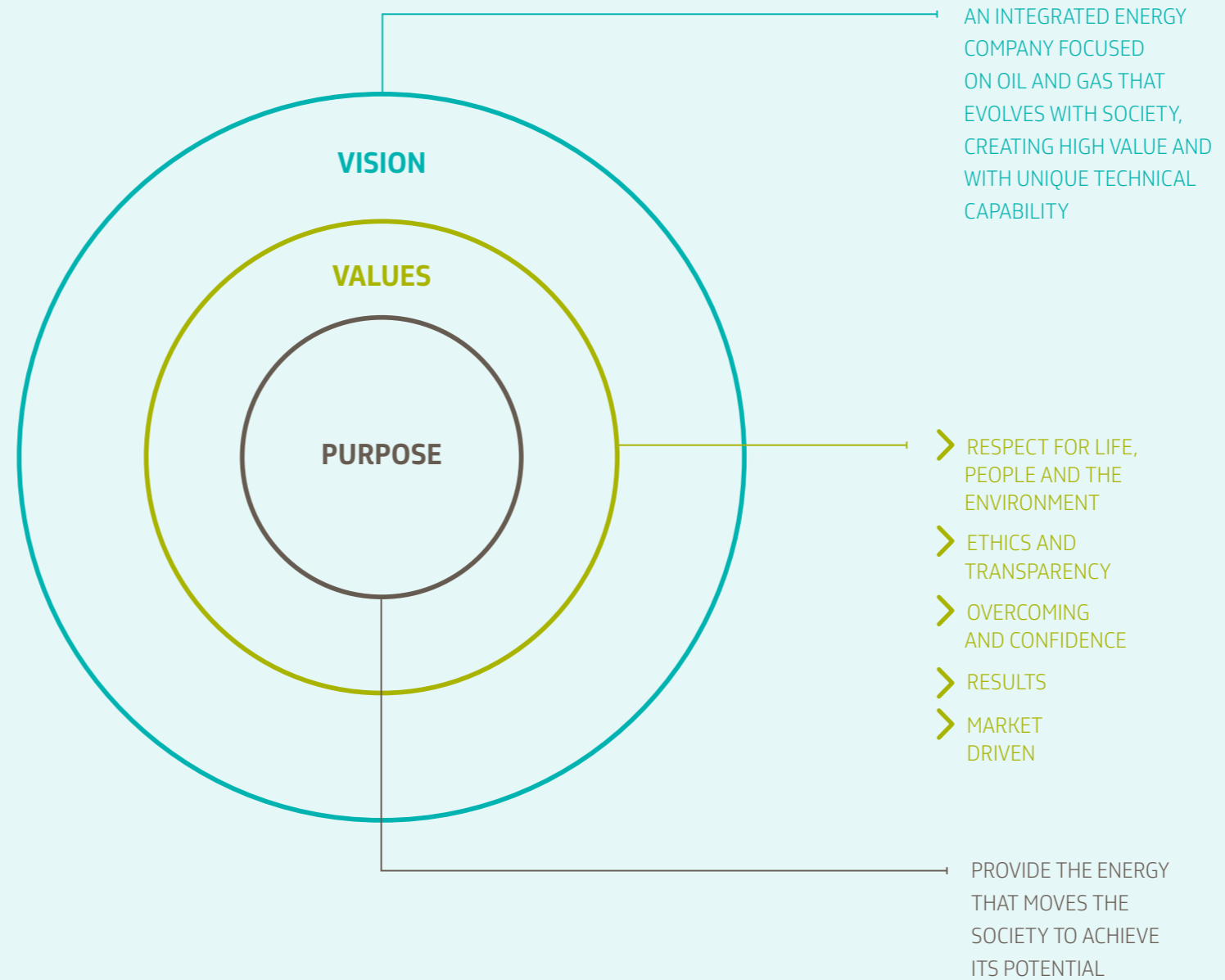
Who
we are
16

Where
we are
17

How we
generate value
18

Who we are

We are a publicly-traded company that has the purpose of providing the energy to move society to achieve its potential. Through the unique technical capability of our workforce, we operate in the exploration and production, refining, natural gas, power, logistics, marketing, distribution, petrochemical, fertilizer, and biofuel segments.

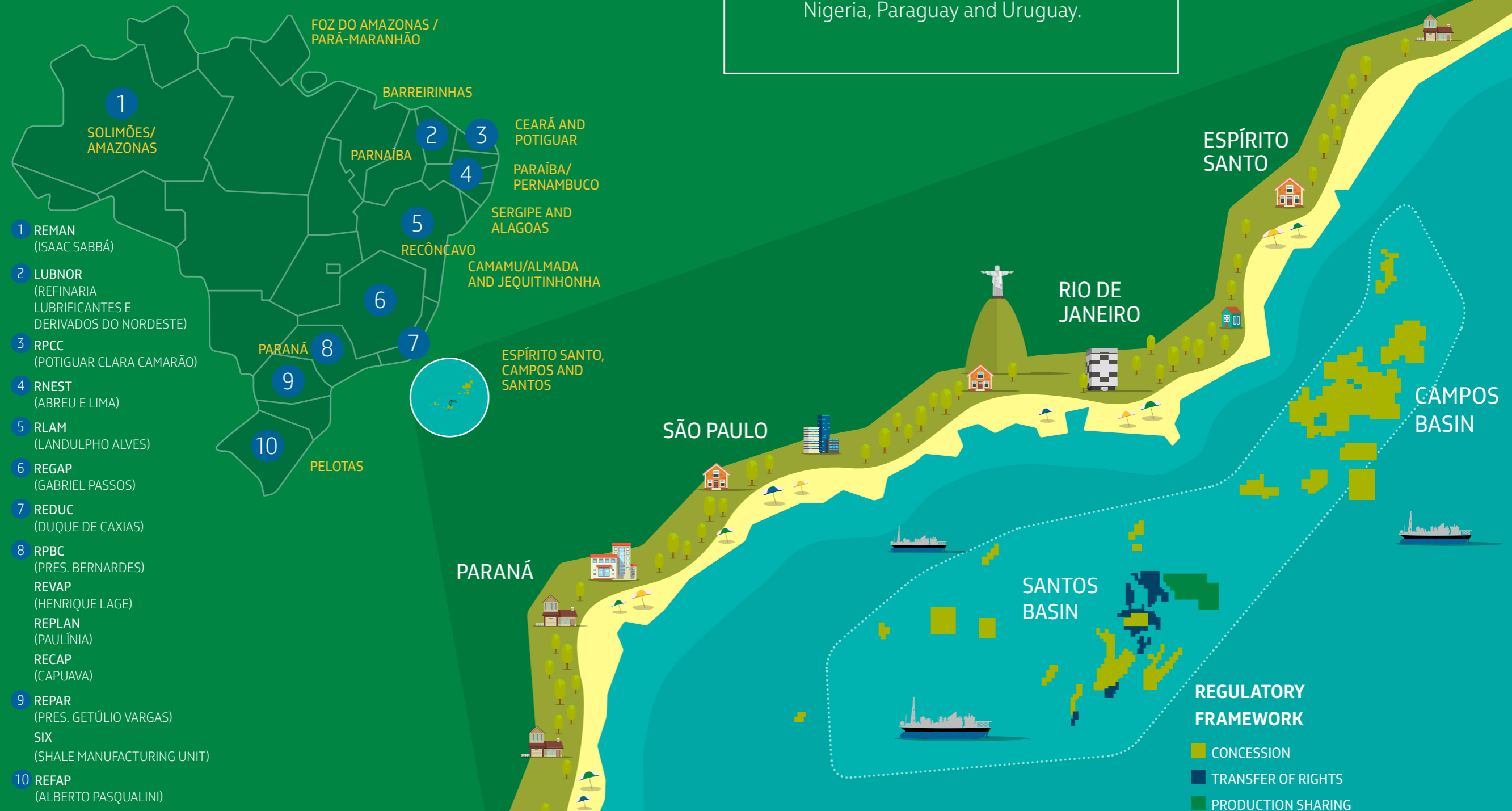


Where we are

MAIN EXPLORATION, PRODUCTION AND REFINING ASSETS



Oil industry leaders in Brazil, with activities in Argentina, Bolivia, Colombia, United States, Mexico, Nigeria, Paraguay and Uruguay.



How we generate value

In our business model, we demonstrate how we use resources and processes to create value for our stakeholders, how we analyze the external context and how we evolve in management, governance and business strategies.

The resources used in our production process, presented in our business model, were classified into six categories according to the International Integrated Reporting Council (IIRC) capital model. Therefore, our capitals represent the inputs and are affected by our activities in the value generating process.



Our human capital is comprised by our employees working with safety, technical capacity, competence and experience, ethics, accountability and compliance.



Our intellectual capital is comprised of our recognized technical capacity, development of new technologies and intellectual property.



Our social and relationship capital is formed by the interactions with our stakeholders. These interactions are strengthened through our dialog channels, our social investments and our brand and reputation management initiatives, seeking to strengthen the bonds of trust with society.



Our natural capital is composed of renewable and non-renewable environmental resources used in or affected by our production process, especially our oil and gas reserves, in addition to water resources, ecosystems and biodiversity.



Our productive capital consists of our industrial units and the entire infrastructure we use in our productive activity, with emphasis to the platforms, refineries and logistical assets.



Our financial capital is composed of the available financial resources, whether our own or from third parties, allocated to our productive activity.

Business Model

OUR RESOURCES

HUMAN

N° of Employees
(thousand)

62.7

INTELLECTUAL

RD&I Investments
(R\$ billion)

1.8

NATURAL

Reserves*
(billion barrels of oil
equivalent)

9.8

RELATIONSHIP

Petrobras holding
suppliers with transactions
(thousand)

11

PRODUCTIVE

Propety, Plant and
Equipment
(R\$ billion)

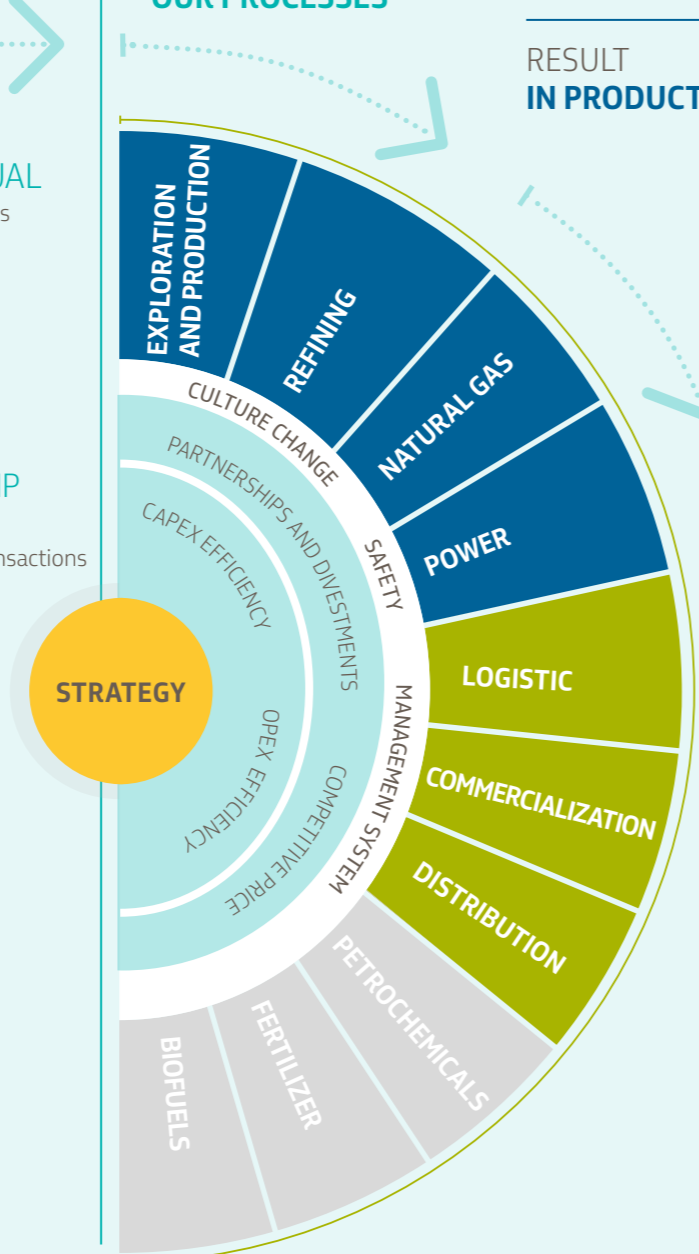
584.4

FINANCIAL

Net Debt
(R\$ billion)

280.8

APPLIED TO OUR PROCESSES



RESULT IN PRODUCTS

OIL AND GAS

Production
(million barrels of oil equivalent
per day)

2.77

OIL PRODUCTS

Domestic market
sales
(million barrels per day)

1.94

NATURAL GAS

Domestic market
sales
(million m³ per day)

57.0

POWER

Domestic market
sales
(thousand MW average)

3.84

AND POTENTIAL IMPACTS

SAFETY

Total Recordable
Injury Frequency Rate
(TRI)

1.08

ENVIRONMENT

Spill
(m³)

35.8

Greenhouse Gas
Emissions
(million ton CO₂ eq)

67.0

AND ADD

216.0

R\$ billion in
VALUE to:

STATE AND SOCIETY

Federal Taxes
(R\$ billion)

72.4

State and Municipal
Taxes
(R\$ billion)

46.2

Taxes Abroad
(R\$ billion)

-1.3

EMPLOYEES

Salaries
(R\$ billion)

17.2

Fringe and
Unemployment
Benefits
(R\$ billion)

11.7

INVESTORS AND OTHERS

Return on Third-party
Capital** (R\$ billion)

69.4

Return on Shareholders'
Equity*** (R\$ billion)

0.4

Total Shareholder Return

3%

* SEC criterion.
** Includes financial institutions and suppliers (rental and affreightment expenses).
*** Includes return to others shareholders of companies consolidated in Petrobras Financial Statements.



OUR CAPITALS

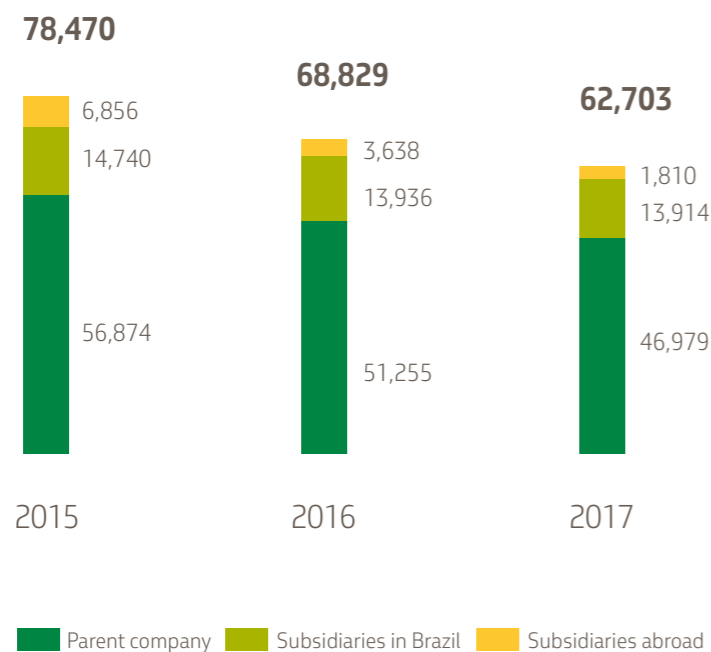
Human	21
Intellectual	27
Social and Relationship	34
Natural	43
Productive	50
Financial	54

Human Capital

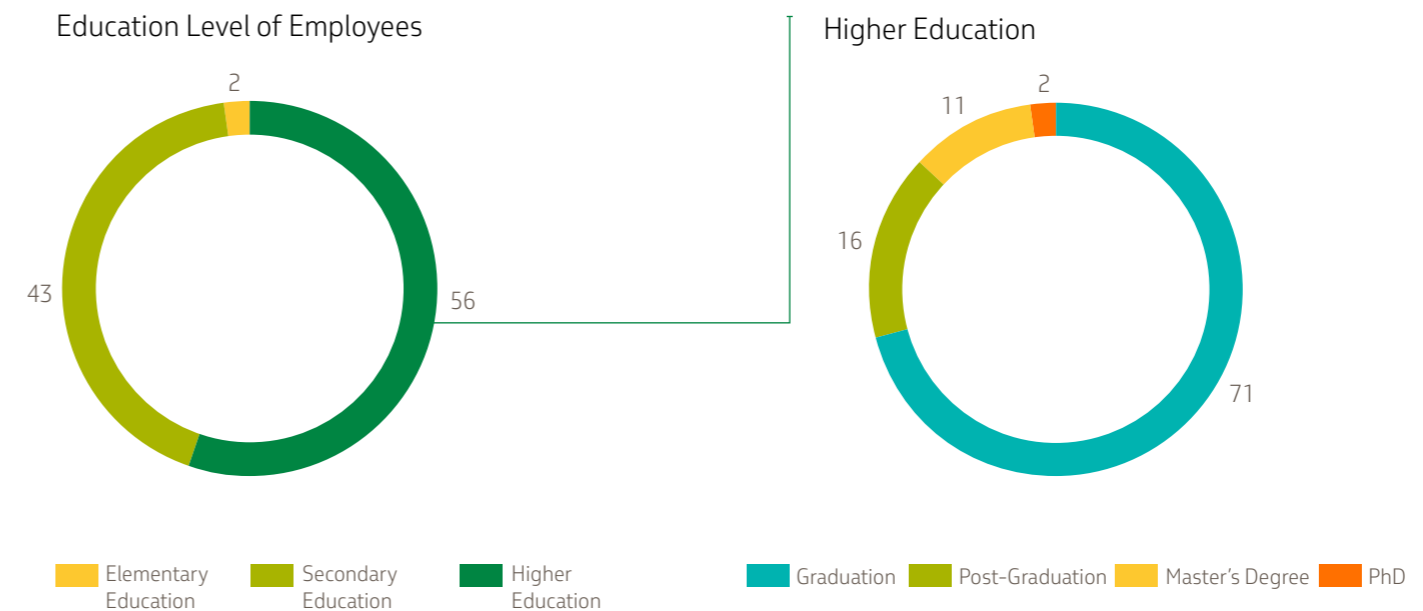
Our human capital is comprised by our employees working with safety, technical capacity, competence and experience, ethics, accountability and compliance.

In recent years our management went through major changes that had impact on the management of our human capital. As a result of such changes, the staff was restructured and a transformation process started in the way we manage such capital, taking into account that people is what makes the existence, innovation and sustainability of our business possible.

TOTAL EMPLOYEES AT THE PETROBRAS SYSTEM



EDUCATION LEVEL OF EMPLOYEES AT PETROBRAS HOLDING (%)

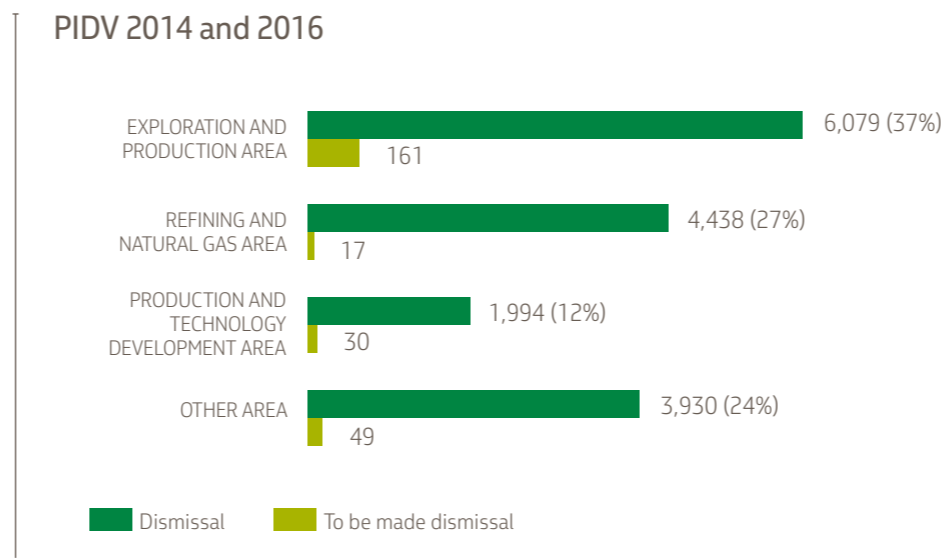
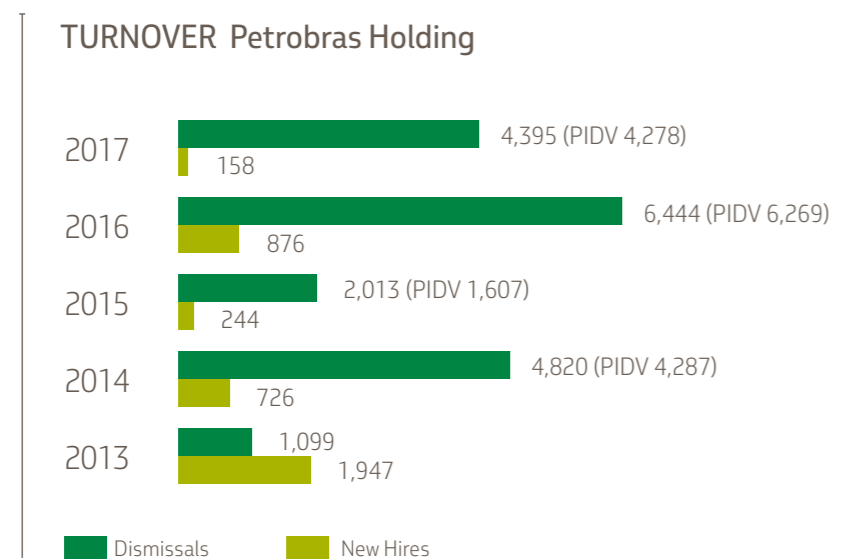


In 2017, the review of our Human Resources Policy was approved, which has the key principle of valuing people. A new HR operating model was also implemented, with the purpose of providing services and solutions in people management in an integrated and proactive manner, adding value to our results. Therefore, there are several initiatives in progress, such as the staff suitability, employee development, and other management initiatives, such as career development, succession, working regimes and cultural transformation, in addition to those aimed at the safety and health of our workforce.

STAFF SUITABILITY

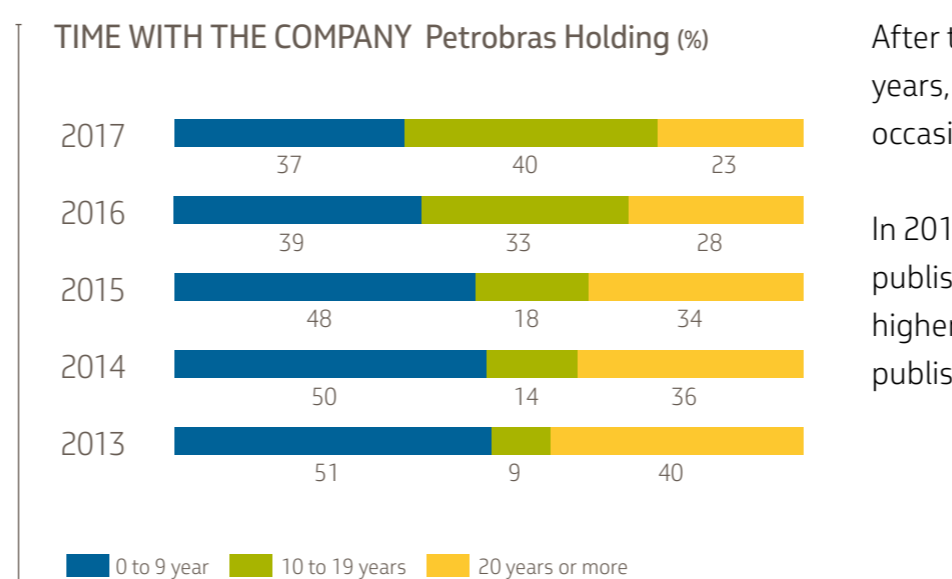
From our Business and Management Plan, we planned our personnel requirements and adjusted our staff through actions such as the 2014 and 2016 Voluntary Separation Incentive Programs (PIDV), new hires and internal movement programs.

New hires and dismissals



The total amount of employees at Petrobras Holding that have already left the company due to the 2014 and 2016 PIDVs was 16,441 until December 31, 2017. The total severance pay paid in 2017 due to the PIDVs was of BRL 5.5 billion, with financial return of BRL 10.9 billion in avoided costs until December 2017.

The dismissals through the PIDVs changed the distribution of time with the company ranges, as well as the age pyramid, thus creating a more balanced professional profile. This new profile is important for our growth in terms of personal resources and knowledge management.

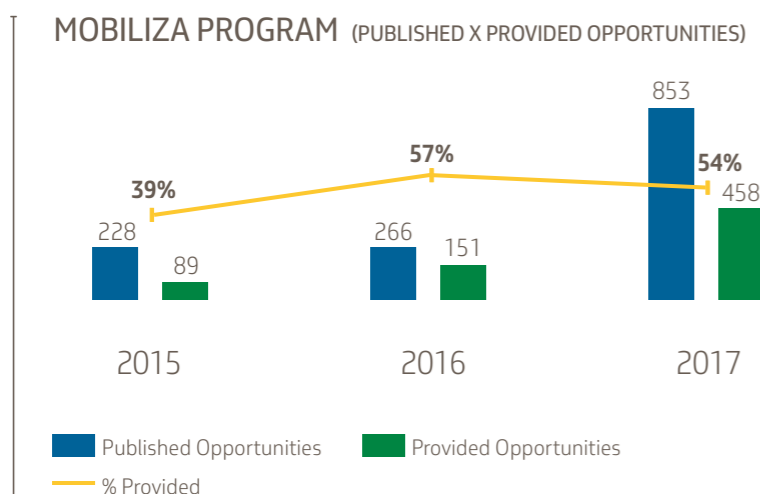


After the adjustments to our staff made in recent years, this process is starting a new cycle, with occasional adjustments.


In 2017, two Public Selection Processes were published for eight secondary-education and nine higher-education professions, totaling 271 vacancies published so as to adapt our staff to fulfill our goals.

Mobiliza

In view of the challenges in our Business and Management Plan, in 2016, we transformed the Employee Internal Movement Program (Mobiliza) into an ongoing process. Mobiliza, which is exclusive to employees without managerial roles, allows the adjustment of the staff at the units, making the necessary skills available and generating career development opportunities to the employee through mobility.



Simultaneously to the staff suitability process, we implemented knowledge management and people development initiatives with the purpose of minimizing any impact on the productivity of our human capital and add value to such capital.

 For further information on these initiatives, please refer to *Intellectual Capital*.

OTHER HUMAN CAPITAL MANAGEMENT INITIATIVES

The structuring of our human resources initiatives were based on internal inputs such as ambience survey and strategic drivers from the Business and Management Plan, as well as external inputs (benchmarks, studies and market research).

The following HR initiatives were implemented in 2017:

Career progression: progression takes place through the level advancement modes (evolution within the category range) or promotion (category change – Junior, Full-Fledged and Senior).

We also use the concept of “career in Y” where, in addition to the existing positions, there are managerial roles, with the focus on managing people, processes and businesses, and specialist roles, where the professional is expected to be able to apply, improve and disseminate knowledge.

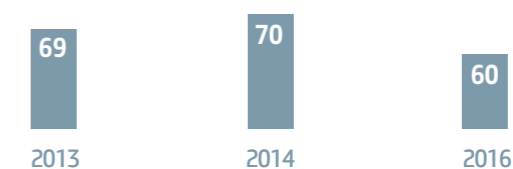
In 2017 we started reviewing the managerial and specialist roles, seeking to adjust those roles to the company’s new challenges in qualitative terms, enabling the allocation of professionals according to the required profiles for the managerial and specialist roles. Since the PIDV the review was essential for the specialist roles, since these professionals play a strategic role in the promotion and dissemination of knowledge.

AMBIENCE SURVEY RESULT

The Ambience Survey measures our organizational climate. In its last issue, in 2016, it had the participation of 64% of the workforce at Petrobras Holding.

The Employee Satisfaction Index (ISE) results show a decrease in the favorability factor. Training and development, communication and benefits were the factors presenting the greatest negative impact on ISE.

EMPLOYEE SATISFACTION INDEX RESULTS* (% FAVORABILITY)



* Ambience survey was not applied in 2015 and 2017. 2016 survey carried out at the beginning of 2017.

On the other hand, the Organizational Commitment Level (NCO), an indicator launched in the 2016 Ambience Survey, reached 88% favorability, indicating the workforce is highly committed to our challenges.



Management succession: in 2017, we held internal selection processes for executive positions in line with our Executive Appointment Policy and in accordance with Law No. 13.303/2016 (Law of State-Owned Companies). In addition, in December, our Board of Directors approved the “Executive Talent Bank”, as well as the methodology and systematics for its use, enabling effective governance on the strategy for selecting our executives. A project is currently being developed to extend the new methodology to all managerial functions. The purpose of this project is to identify and select professionals to managerial positions, by means of selection processes promoting meritocracy and the continuous provision of leadership, encouraging the self-management of their careers and valuing the professional trajectory.

Working regimens: the optional reduction of the workday, with proportional remuneration adjustment, allies the interests of the company and its employees and came into effect in 2017. This option was made available to employees in the administrative regime, working flexible hours and with no gratified role. This is not a final option, it is valid for one year and can be automatically renewed for the same period, if there is no opposition of the employee or immediate manager.

With the opening of the registrations at the beginning of April 2017, 556 employees started working a six-hour daily shift.

Cultural transformation: in order to promote the required cultural changes to obtain the organizational results, the Cultural Management project was launched at the end of 2016. The project aims to adapt our organizational culture starting from the leadership in order to align the behaviors of the workforce to the new strategic challenges, reinforcing values such as safety, results, efficiency, meritocracy, simplicity and compliance. Therefore, we seek a strong and relevant culture to support the inherent challenges to our strategies, ensuring our sustainability and good reputation.

The project considers three steps in its strategy: Turning Point Culture, Prosperity Culture and Sustainability Culture. In its first phase, the Turning Point Culture that started in 2017 focused on the leadership.



For further information on human capital initiatives, please refer to Sustainability 2017.

KEY BENEFITS GRANTED TO EMPLOYEE

We offer benefits compatible with the size of the company, seeking to value our employees. Everyone is entitled to the same benefits, regardless of positions or roles. Private pension plans, health care and pharmacy discounts feature among the main benefits.

Private pension plans

We sponsor two private pension plans: Petrobras System Petros Plan (PPSP), a defined benefit pension plan closed to new admissions, and Petros-2, a variable contribution plan, in force since 2007. Together, those plans cover 96.5% of our employees.

Health Care and Pharmacy Discount

We provide a supplementary health care plan, the Multidisciplinary Health Assistance (AMS), which provides medical, hospital and dental care to all active and retired employees and their family members through co-insurance from the employees.

The AMS benefit also covers complementary programs such as the Pharmacy Discount Program, which allows the free acquisition of medication upon a monthly contribution from the participants.

In 2017, the beneficiaries totaled 270,998 between active and retired employees and their family members, with the disbursement of BRL 2.38 billion, being BRL 2.25 billion the cost with AMS and BRL 139,24 million the cost with Pharmacy Discounts. The total collection amounted to BRL 557.57 million, with BRL 516.34 million collected from co-insurance and AMS fees, and BRL 41.23 million collected from the beneficiaries of the Pharmacy Plan.

RENEGOTIATION OF THE PETROS PLAN

The Petrobras System Petros Plan is undergoing a restructuring process due to the BRL 27.3 billion deficit (as of December, 2017). The restructuring will be made along 18 years and must be made by all participants – active, retired and pensioners – and also by the sponsors – Petrobras, Petrobras Distribuidora and Petros –, in the same proportion as the usual contributions made from 2013 to 2015, as set forth in the legislation.

Petrobras' contribution for the first year is estimated at BRL 1.4 billion, and it decreases over the years. Such amount is already provisioned in our financial statements.

At the moment, there are legal discussions on the matter being held by Fundação Petros de Seguridade Social and accompanied by Petrobras.



For further information on the benefits granted to employees, please refer to Sustainability 2017 and Financial Statements (note 22).

OCCUPATIONAL HEALTH AND SAFETY


Safety

Our Strategic Plan emphasizes the “respect for life” as a core value and due to its importance, this topic is being addressed in the Safety chapter.

Health

Our health management is also developed through the Commitment to Life Program, together with programs for the Prevention of Occupational Risks, Occupational Health Medical Control and Health Promotion, in an integrated approach on health, safety, environment and occupational hygiene.

The planning of actions aimed preventing and promoting health is guided by the results from data collected annually from occupational tests, associated to the characteristics and risks of the employees’ activities. In 2017, approximately 3.8% of health leaves are related to the actual work.

 For further information on safety, the Commitment to Life Program and the health programs, please refer to *Sustainability 2017*.

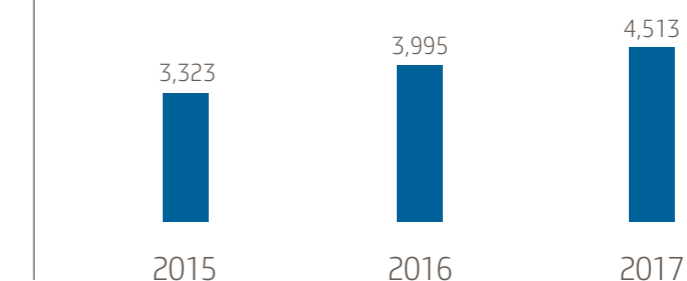


LABOR LITIGATION

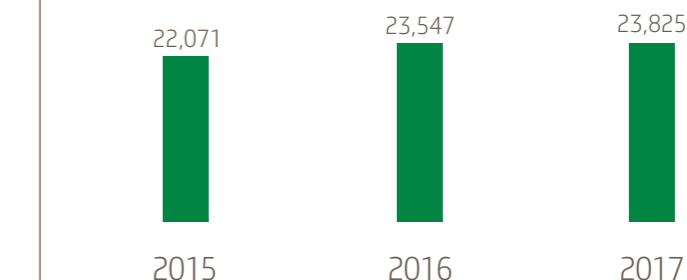
Despite our efforts in the management of our human capital, we have labor litigations provided in our financial statements, mainly related to:


- (i) review of the calculation methodology on the complement to the minimum compensation by level and regime;
- (ii) difference in calculating the reflexes of overtime and weekly rest period; and
- (iii) individual proceedings from outsourced parties.

PROVISIONED LABOR CONTINGENCIES (BRL MILLIONS)



LABOR CONTINGENCIES NOT PROVISIONED (BRL MILLIONS)



 For further information on labor contingencies, please refer to *Financial Statements (note 30)*.

Intellectual Capital

Our intellectual capital is comprised of our recognized technical capacity, development of new technologies, and intellectual property.

The expansion of our borders, with the production achieved in the pre-salt layer, is a huge milestone for us, accomplished through the expansion of the technical capacity throughout the years, allowing the overcoming of challenges and the development of technologies, thus reflecting the value of this capital.

Knowledge not only can be found in documents, books, databases and information systems, but also in business processes, group practices and experiences accumulated by the people. And that is precisely where the knowledge management practices come into play, mobilizing knowledge by sharing experiences and lessons learned.

Within our knowledge management framework, we have improved our intellectual capital through people and technology development.

PEOPLE DEVELOPMENT

Training and development

Our human resources development model aims at improving our capacity for critical analysis and innovation, focusing on the improvement of the skills required for our activities, prioritizing knowledge that is critical to the business and allowing employees to seek self-development.

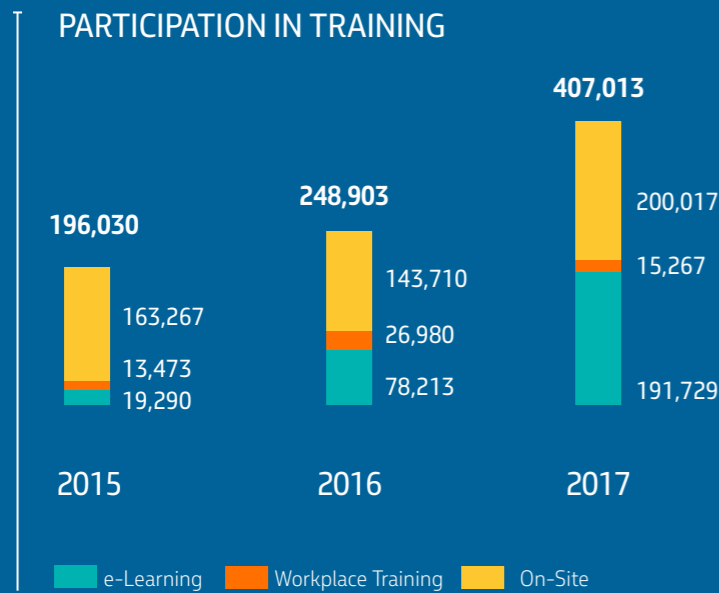
We have reviewed how on-site and external training sessions are applied, applying even more resources to new knowledge development and sharing modalities, such as e-learning training courses, video-conference broadcasts, training at the work place, mentoring, tutoring, technical rotation, practice communities, among others. Those new modalities, broadly applied in the market, have shown positive results in terms of employee coverage, quality in

the sharing of knowledge, and especially, in the retention of generated knowledge through the registration and publication of technical papers, lessons learned and good practices.

In 2017, we invested BRL 33.15 million in the training of our employees, a 56% decrease in relation to 2016. In addition to the focus on these new modalities, the decrease in the number of employees, in particular due to PIDV, has also reflected in the decrease of the amounts invested in staff training.



For further information on our employees, please refer to *Human Capital and Sustainability 2017*.



In 2017, a total of 407 thousand participations were registered, with 259 thousand being exclusively from Petrobras employees, an average of 6 training sessions per employee, half of them in the e-learning mode. There has been a considerable increase in the participation in the e-learning courses, with emphasis to the courses on Golden Rules, and Ethics and Conduct Guide, the latter with over 59 thousand participants at Petrobras Holding.



Petrobras University

Contributing to the maintenance and development of our technical capacity, aligned with the best practices in the market and the strategic planning drivers, in 2017, the new philosophy and operation model of Petrobras University was approved, focusing on new solutions that add value to the company.

Adjust the service portfolio.

Systematize and intensify the practice of technical-educational services.

Deploy the corporate process of knowledge certification.



Expand the leadership's and specialists' capacity at all organizational levels.

Strengthen training at secondary education level.

Resume investment in the development of human resources, both in Brazil and abroad, in critical areas that support the achievement of our strategic planning goals.

One of the unique selling point of Petrobras University is the execution of technical-educational services, an initiative that bridges the gap between Petrobras University and the operational areas, providing direct return to the business and reinforcing its role in the generation of value to the company units. In this process, technicians at Petrobras University work with the units in the resolution of technical and management issues, with the purpose of applying the knowledge generated in designing or upgrading training actions. The new philosophy also proposes a greater integration of Petrobras University with our research and development center in order to ensure synergy between the technological development and the training actions.

In 2017, more than 200 technical-educational services were developed in the several areas of the company, generating more than 300 publications, such as articles for journals and congresses, Master dissertations, Ph.D. theses and technical softwares.

Sharing of knowledge and information

CONECTE

This is our collaboration network, which has the purpose of encouraging the sharing of information and knowledge through the creation of communities that enable the organization of team work or the structuring of projects.



More than **2 million**
accesses by approximately
47,000 people

PRACTICE COMMUNITIES

Organizational approach that consists in the formation of groups from the same knowledge area that meet on-site or online to share experiences, ideas, practices, and lessons learned for troubleshooting.



23 Active practice
communities, with the participation
of **11,350 employees**

PETROBRAS MENTORING PROGRAM

Mentoring is a structured development relationship between a more experienced employee and a less experienced one, focusing on the sharing of "Petrobras knowledge", in other words, the technical, cultural, value and relationship network skills.



26 employees
involved

KNOWLEDGE INVENTORY

Tool that allows the employee to identify and record the relevant activities and knowledge in order to promote the sharing of knowledge.



3,692 inventories
90% developed within the scope of the
Voluntary Separation Incentive Plan –PIDV,
a mandatory requirement of the program

INTEGRATED PROCESSES AND STANDARDIZATION SYSTEM (SINPEP)

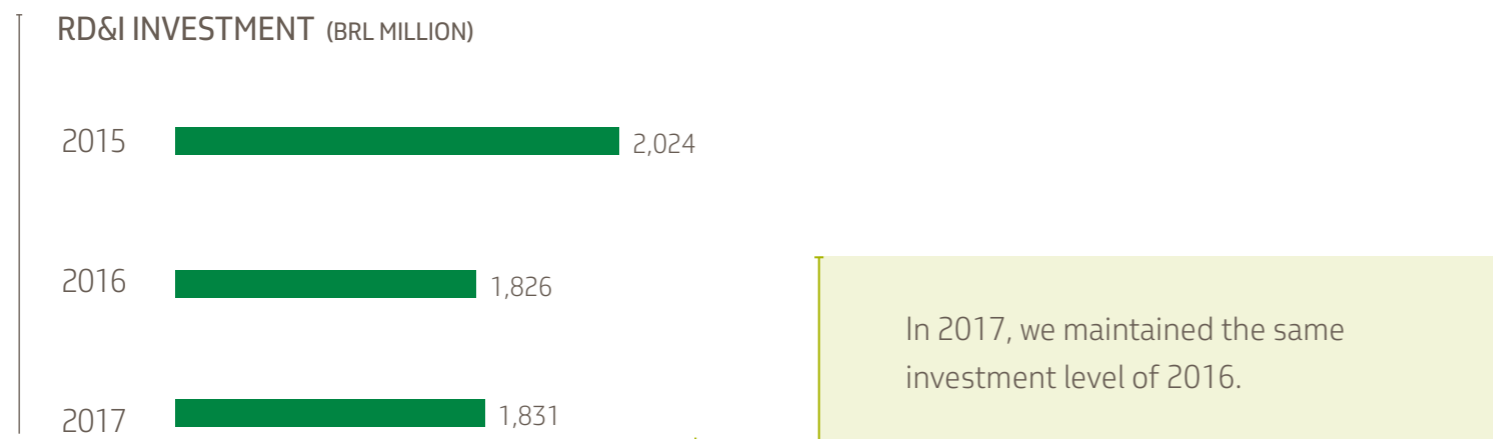
SINPEP has the purpose of disclosing our policies, guidelines and procedures, as well as providing employees with a tool to query and manage approximately 38,000 standards in a single system, which features all the standards associated with our processes, including our policies.



40 macro processes
and approximately
1,750 processes mapped

RESEARCH, DEVELOPMENT & INNOVATION

The Research, Development and Innovation (RD&I) projects add value to our intellectual capital, contributing to the profitability of our business and to the technological advancement of the oil and gas sector.



Our RD&I activities are coordinated by our Research and Development Center Leopoldo Américo Miguez de Mello (Cenpes), which has the purpose of developing technologies to enable the achievement of our Business and Management Plan, as well as anticipating trends and investing in technology routes aligned with our Strategic Planning. In order to do this, Cenpes has 1,301 employees, 92% with exclusive dedication to the RD&I area.

We have several partnerships focusing on the development of technologies to meet the challenges of our operations.

TECHNOLOGIES AND GAINS

The RD&I project portfolio is designed from the technological focuses, which represent our strategic choices in technology.

2017 Technological Focuses

- Process safety, integrity and reliability of plants and equipment
- Protection of our value in environmental and social matters
- Opening of new exploratory frontiers
- Reducing the risk of investment decisions associated with the uncertainty of reservoirs
- Increase in the reservoir recovery factor
- Reduction of the oil price breakeven point and of the operating cost
- Assets decommissioning
- Flexibility of the downstream productive chain
- Value aggregation to downstream products
- Productive processes optimization and efficient use of energy
- Integration and optimization of the logistic chain
- Transition to low-carbon matrix



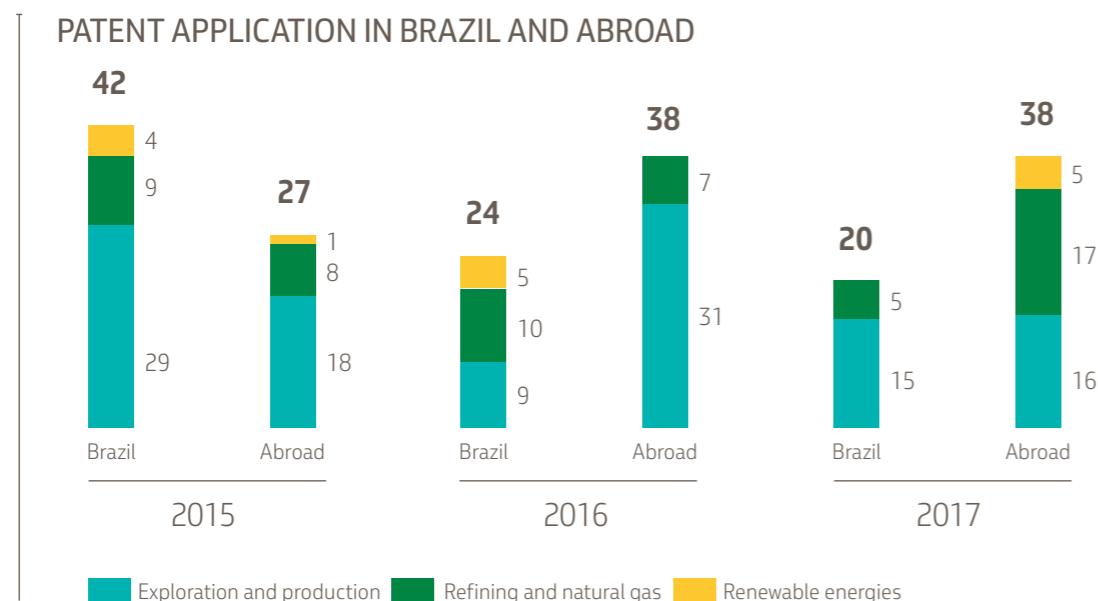
For further information on our partnerships with academic institutions, please refer to Sustainability 2017.

Some of the major technological solutions and results in 2017, originated from our investments in people, processes and technology, were:

TECHNOLOGICAL SOLUTIONS AND RESULTS

PROJECT	IMPACT	ADDED VALUE
Application of Icaro Software	Water injection optimization at the Albacora Leste field	Incorporation of 6.56 million additional barrels of oil equivalent to the reserves in that field
Equipment for assessing chemical products	Identification of products causing obstruction in umbilicals	Estimated gains of USD 30 million
Multiphase pumping (simultaneous pumping of liquids and gases)	30% increase in oil production in a mature onshore field	Gains of BRL 10 million per year
New incrustation inhibitor	Incrustation control in heat exchangers at FPSO Cidade de Angra dos Reis, in pre-salt	Gains of BRL 95 million per year
Water injection without removing sulfate on P-58	30% increase in operational efficiency in P-58 platform by injecting untreated water	5,5 million additional barrels of oil
Diverless Bell Mouth Technology	Reduction in the use of divers in the interconnection of wells	Gains of USD 3.2 million per FPSO
Cooling water collector made from relief oversleeves	Alternative to imported rigid pipes	Savings of BRL 4.5 million at P-25
Application of Core software (Oil and resources schedule)	Rigs management optimization for Libra and Libra 2 fields	Potential savings of BRL 3 million
Perola System, system for internal inspection of pipelines	Laser system for the identification of internal corrossions and changes in the thickness or geometry of the pipelines	Cost reduction of BRL 260,000 by the application in a reformer furnace
Improvement on the analysis of structural integrity of metallic pipes, allowing the revalidation of repairs	Extension of usage time of metallic pipes at the PCE-1 platform for three more years, with the possibility of new revalidation in 2020	Savings of BRL 2 million
Review of the models for the refining planning tools	Better oil allocation decisions	Revenue increase of USD 23 million per year
Reduction of instabilities at the hydro treatment units flows	Reduction of economic losses due to flow and load quality limitations	Estimated gains of BRL 160 million per year

INTELLECTUAL PROPERTY



Until the end of 2017, we had a total of 966 active patents in Brazil and 1,712 active patents abroad.



AWARDS AND RECOGNITIONS

In 2017, the constant search for overcoming challenges has led to our recognition in several areas. The following awards were received last year as a recognition of our intellectual capital:

- **2017 Transparency Award**, granted by the National Association of Finance, Management and Accounting Executives (Anefac) on the quality of our 2016 financial statements.
- **Estadão Empresas Mais 2017 Award**, granted by newspaper Estadão in the “Board of Directors” category on the performance of our Board of Directors in corporate governance.
- **Top of Mind Award**, from Folha de São Paulo, in the category Brand that represents Brazil, Top Fuel and Top Lubricating Oil. This recognition reinforces the importance of our presence in the everyday life of the society.
- **Corporate Liability Management of the Year Award**, from LatinFinance magazine on the best debt management operation in the international capital market in 2016, where we were awarded for the two operations of issuance and repurchase of securities carried out in May and July that year. In addition, at the beginning of 2018, we were once again awarded for the offering of sale, exchange and repurchase of securities held in September 2017.
- **Institutional Investor Award**, an American research institution that recognized our work in investor relations in all seven award categories for oil, gas and petrochemical industries in Latin America. Our CEO was chosen the best Chief Executive Officer, and our Executive Director of Finances and Investor Relations, the best Chief Financial Officer (CFO) of the industry. The publication also recognized our Investor Relations (IR) area in five categories: team, program, website, IR professional and analyst days.
- **SPE Brasil 2017 Excellence Award**, from the Society of Petroleum Engineers, in the Corporate Support Distinction category, for encouraging the development of our technical staff.

- **Company award with the best Legal Department in Latin America**, granted by International Legal Alliance Summit & Awards (Ilasa).
- **Valor Inovação Brasil 2017 award**, organized by Valor Econômico newspaper. We were awarded, for the second consecutive year, as one of the most innovative companies in the country. In addition, we won in the Primary Industry and Metallurgy category, which includes oil & gas, ore and cement companies.
- **2017 Technological Innovation award**, sponsored by ANP. We were also awarded in the three categories, together with companies in the industry and universities, for the projects: *“Doris – Sistema Robótico Móvel para Inspeção Remota de Instalações Offshore (Plataformas)”* [Mobile Robotic System for Remote Inspection of Offshore Facilities (Platforms)], *“Pilotos de Sistemas de Manutenção Preditiva do Sul-Sudeste”* [Predictive Maintenance Systems Pilots in South-Southeast], and *“Otimização do processo de perfuração no pré-sal”* [Optimization of pre-salt drilling processes].

- **Best practices in Corporate Education Award**, granted by the Brazilian Federation of Consulting and Training Companies (Febraec). The award reinforces our role in the development and training of our employees in operational and technological areas.
- We feature in the second position in the **2017 Dream Career** survey developed by Cia de Talentos as the dream company for students and newly graduated professionals, being the best Brazilian company in the eyes of the youngsters. We also feature as the fourth dream company for middle management professionals (coordinators and managers).
- Our subsidiary Transpetro, was awarded for the 12th time the **Maiores e Melhores do Transporte Award**, granted by OTM Editora, being considered the best company in the Maritime and River Transportation segment.
- **“Os Melhores” Award**, granted by Estadão newspaper to the best products and companies linked to the automotive sector. Our subsidiary Petrobras Distribuidora was awarded in the “Best Fuel” category. In addition, Revista Exame awarded it with the “Melhores e Maiores” award.

Individual recognition of our Human and Intellectual capital

- **2017 Regional Management and Information Award – South America and Caribbean Region**, Society of Petroleum Engineers (SPE), one of the most important entities in the global oil and gas industry. The prize was awarded in the Management and Information category, with a program that generated savings of approximately USD 2 billion to the total cost of well constructions.
- **Distinguished Service Award for 2017**, from the American Association of Petroleum Geologists (AAPG), one of the world's most important awards in the oil geosciences area. This was the first time a Brazilian professional received the award.

Social and Relationship Capital

Our social and relationship capital is formed by the interactions with our stakeholders. These interactions are strengthened through our dialog channels, our social investments and our brand and reputation management initiatives, seeking to strengthen the bonds of trust with society.

Our relationship network is organized in 13 stakeholders:



MAIN COMMUNICATION CHANNELS

We connect to our stakeholders in a digital or face-to-face format, seeking constant improvement of our communication to enable a constructive and transparent dialogue.



INVESTORS

Our shares are traded at the São Paulo, New York, Madrid and Buenos Aires stock exchanges where we have a relationship with more than 600 thousand investors. From those, approximately 300 thousand are shareholders in Brazil and 120 thousand abroad. The remaining investors participate through investment funds.

In 2017, we interact with investors and market analysts mainly through our website, with a monthly average of 75 thousand hits; annual reports (Management Report, Form 20-F, Reference Form and Sustainability Report); 44 roadshows and participations in conferences, more than 500 one-on-one or group meetings, in addition to the presentations from the Executive Board to investors (Petrobras Day) in São Paulo, London and New York; and over 200 releases, material facts and news clarifications. We also held five webcasts and five Shareholders' Meetings during the year. Also, we relate to rating agencies through periodic meetings.

We also maintain relationships with national and international commercial banks, multilateral agencies, export credit agencies and national development banks, such as the BNDES, which, on December 31, 2017, accounted for 49% of our gross debt.

In addition, we also have relations with fixed-income investors both in Brazil and abroad, our debt holders, who, on December 31, 2017, represented 51% of our gross debt.

Despite our efforts to relate in an ethical and transparent manner, there are lawsuits filed by our investors, based on facts related to previous periods.



For further information on lawsuits filed by our investors, please refer to Governance and Compliance.



For further information on our shareholder profile, please refer to Financial Capital.

**CLIENTS****RESELLERS****CONSUMERS**

In Brazil, we have relationship with approximately 500 clients for oil products and fertilizers, with three groups (Ultra Group, Raizen Combustíveis S.A. and Petrobras Distribuidora) responsible for 43% of the total net revenue of the Holding. The sale of oil products and biofuels to the distribution companies takes place through contracts signed in accordance with the ANP regulations.

We provide a virtual trading platform referred to as "Client

Channel" to the companies in the domestic market, with 24/7 operation. In that online environment, clients can order products, schedule withdrawals and monitor the entire trading process until payment.

Abroad, we have a portfolio of approximately 65 clients. These are refiners that regularly process or have processed Brazilian oil, distributed in the Americas, Europe and Asia.

In the oil products market, through our subsidiary Petrobras Distribuidora, we have relationship with 14,443 consumer clients, from whom 6,507 are large consumers and 37 airline companies, in addition to retail resellers, through 8,277 service stations and 331 TRR (Transporter-Resellers-Retailer, a company authorized to acquire bulk diesel, lubricating oils and greases; store and transport the product; retail resell it with delivery to the consumer), which provide coverage to the distribution of fuels, and, in turn, cater to the end consumers.

SUPPLIERS

In 2017, we celebrated agreements with approximately 11 thousand suppliers through Petrobras Holding.

Our suppliers must comply with our Social Responsibility Policy, health, safety and environment standards, and guidelines on corruption prevention policies and procedures through our Code of Ethics and Conduct Guide.

In line with the best compliance practices and national and international anticorruption legislation, we have improved our supplier management process in order to mitigate any potential risks of corruption in contracting goods and services. Companies interested in trading with us must be part of our registration and, since 2015, they were subjected to the Integrity Due Diligence (DDI) process. In 2017, a total of 5,306 companies were evaluated in the scope of the DDI (approximately 15 thousand since the beginning of the process) and received their Integrity Ranking, ranging among high, medium and low.

For further information on Integrity Due Diligence and Integrity Ratings, please refer to Compliance and Internal Controls.

For further information on our suppliers, please refer to Sustainability 2017.

PUBLIC AUTHORITIES

The relationship with public authority entities must be conducted in an ethical, transparent and impersonal manner, involving more than one member of the workforce during face-to-face interactions.

The Federal Government is our controlling shareholder, which means that we have a specific relationship with the government, including monitoring by control bodies, such as the Federal Court of Accounts (TCU) and the Office of the Comptroller-General (CGU), and interaction with government agencies such as the Secretariat of Coordination and Governance of State-Owned Companies (Sest), Ministry of Mines and Energy, National Treasury, among others.

As a state-controlled company, we can have our activities guided by the Federal Government, with the purpose of contributing to the public interest that justified our creation, aiming to ensure the supply of oil products throughout the country. However, the contribution to this public interest must be compatible with our corporate purpose and market conditions, and may not jeopardize our profitability and financial sustainability. Therefore, if the provision of public interests takes place in conditions differing from those applied to any other company in the private sector operating in the same market, as explained in our Bylaws, the obligations or liabilities undertaken must be defined in rules or regulations and be provided in a specific document, such as an agreement or partnership, observing the broad and public disclosure of

such instruments, as well as the disclosure of its detailed costs and revenues, including at the accounting level. In this case, the Federal Government shall reimburse us, each fiscal year, on the difference between the market conditions and the operating result or economic return of the undertaken obligation.

For further information on changes to our Bylaws for governance enhancements, please refer to Governance and Compliance.

For further information on public interest, please refer to the Reference Form available at our website: www.investidorpetrobras.com.br/en

The initiatives for meeting the public interest are listed below:

- **National Program for the Rationalization of the Use of Oil Products and Natural Gas (Conpet):** in 2017, the costs associated to Conpet were imaterials.
- **Thermal Electricity Priority Program:** in 2017, the gas supplied to the program generated revenue of approximately BRL 1.1 billion and costs of BRL 2.3 billion.

In addition, we also work with regulatory agencies and entities related to our activities, such as the National Oil, Natural Gas and Biofuel Agency (ANP), the National Electric Energy Agency (Aneel), the Brazilian Institute for the Environment and Natural Resources (Ibama), the National Environmental Council (Conama), and the Brazilian Securities and Exchange Commission (CVM), with the commitment to provide information in a transparent and reliable manner, allowing the correct evaluation of matters inherent to our business.

TAX OBLIGATIONS

We settle our tax obligations in accordance to the national and international tax laws and standards, evaluating the tax risk management and contributing to increase the business profitability, within the context of a company modifying the social-economic environment in which we operate.

We also seek to have an ethical and transparent relationship with the society, promoting the development of the regions in which we operate, considering we are one of the largest taxpayers in the country, and our operation has a significant impact on tax collection managed by federal, state and municipal tax authorities, as well as in the collection of government participation regarding the oil industry, managed by ANP.

PAYMENT OF TAXES¹ (BRL BILLION)

	2015	2016	2017
OWN TAXES AND WITHHELD BY THIRD PARTIES			
ICMS	40.0	37.3	35.0
PIS/Cofins	23.6	20.9	27.4
Royalties	11.3	9.7	12.4
Special participation	9.0	4.5	11.0
Cide	3.3	5.1	4.6
Social security contributions	4.3	4.6	4.2
Other taxes and contributions	7.0	3.8	6.8
TOTAL	98.5	85.9	101.4
TAXES WITHHELD FROM THIRD PARTIES			
ICMS tax substitution	23.3	28.2	28.4
Withholdings Law No.10.833	6.5	5.9	5.4
Other taxes and contributions	6.1	5.6	4.9
TOTAL	35.9	39.7	38.7
TOTAL TAXES PAID IN THE COUNTRY	134.4	125.6	140.0

¹ Taxes paid by Petrobras Holding, in cash accounting regime. The added value of BRL 117.3 billion distributed to the State and society, as presented in our Business Model, considers the annual tax obligations of the Petrobras System in the accrual basis.

Federal Government (including Governmental Participations): BRL 75.7 billion

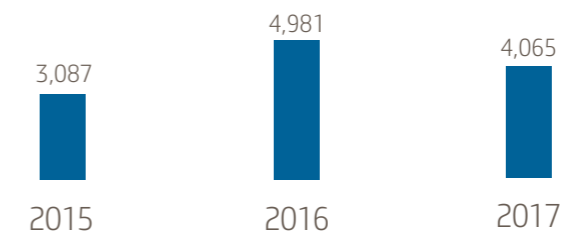
States: BRL 63.4 billion

Cities: BRL 0.9 billion

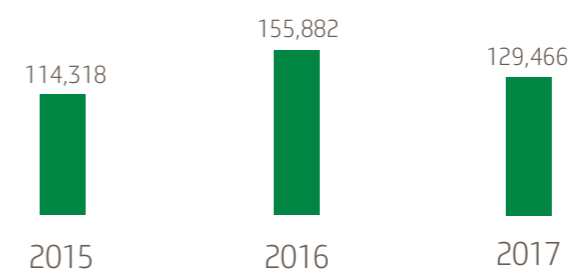
TAX LITIGATION

Despite our best efforts and diligence in calculating and paying taxes, there are legal disputes regarding our tax obligations, partially provisioned, when it is possible to estimate the likely losses, or not provisioned, but disclosed in the explanatory notes, when the loss expectation is considered possible.


PROVISIONED TAX CONTINGENCIES (BRL MILLION)



TAX CONTINGENCIES NOT PROVISIONED (BRL MILLION)



In 2017, we joined federal debt settlement programs aimed at the liquidation of administrative and legal proceedings in the amount of BRL 38,136 million. The programs allowed the use of benefits of reducing interests, fines and legal costs, as well as using tax credits, reducing both tax and non-tax debts to the amount of BRL 8.075 billion. In addition, there were adhesions to state amnesty programs (Amazonas, Ceará, Minas Gerais and Pernambuco) for the upfront payment of ICMS debts, with 100% reduction of fines and interests. Consequently, we recognized the amount of BRL 376 million as tax expenses.

 For further information on debt regulation programs and tax contingencies, please refer to Financial Statements (notes 21.2, 21.3 and 30).


PARTNERS

Our notorious knowledge in deep and ultra-deep water exploration and production, as well as our pioneering in the introduction of new technologies, have allowed us to enter in several partnerships.

We believe that working in a partnership brings benefits by sharing the risks, increasing the investment capacity, exchanging technical and technological expertise and strengthening corporate governance.

We are expanding this operation model with our Partnership and Divestment Program, part of our Business and Management Plan.

In 2017, our program featured the following partnerships¹:

- **Total**: we signed the final strategic partnership agreements for the Lapa and Lara fields, and for the Termobahia thermo-electric plant, totaling USD 2.2 billion, as well as the collaboration agreement for partnerships in the upstream and downstream segments, and technology cooperation agreement encompassing the operation, research and technology areas;

- **Statoil**: we signed a strategic technical cooperation agreement aiming at increasing the recoverable oil volume from the Roncador Field, including the extension of its life, and sharing the gas export infrastructure, forming a strategic partnership that included the assignment of 25% of our participation at Roncador Field, for the total amount of USD 2.9 billion;
- **China's National Petroleum Corporation (CNPC) and CNODC (CNPC subsidiary)**: through participation in ANP's 3rd Bidding Round, we formed the consortium for the exploration of the Peroba area together with CNODC, and in the scope of a potential strategic partnership, we signed a Memorandum of Understanding with CNPC for cooperation in opportunities in Brazil in the downstream and upstream segments, including potential funding;
- **Exxon Mobil**: through participation in ANP's 14th Bidding Round, we formed a consortium to operate six offshore blocks at the Campos Basin. We have also signed a Memorandum of Understanding for cooperation in the exploration, production, gas and chemicals, in Brazil and abroad;
- **British Petroleum (BP)**: through participation in ANP's 3rd Bidding Round, we formed a consortium for the exploration of the Peroba and Alto de Cabo Frio Central areas, and signed a letter of intent for strategic cooperation in the areas of exploration and production,

refining, gas transport and trading, liquefied natural gas (LNG), oil trading, lubricants, jet fuel, power and distribution, renewable energy and low carbon emission technologies and initiatives.

We currently control 100% of our refineries in Brazil and a model allowing the entrance of partners in this segment is being studied.

In natural gas, petrochemicals and power, we operate with stakes in companies and assets, such as natural gas carriers and distributors, Braskem and some of our thermal power plants. Also we hold interests in companies in the biofuel sector through our wholly-owned subsidiary Petrobras Biocombustível.

We also have partnerships with academic institutions in Brazil and abroad, as well as with the key suppliers in the oil and gas chain, who help us in the development and provision of technology solutions, and in technical scientific support.



For further information on partnerships with academic institutions, please refer to Sustainability 2017.

¹ The completion of these operations is subject to approval by the competent regulatory entities.

COMPETITORS

We have a relationship with our competitors in several business entities in which we participate, such as the National Oil Industry Organization (Onip), the Brazilian Oil, Gas and Biofuel Institute (IBP) and Sindicom (National Fuel and Lubricant Distributor Company Union).

The trading of oil products in the internal market face competition from importing companies, other national producers and petrochemical centrals.

In 2017, this competition was intensified in the diesel and gasoline markets, the latter also suffering competition from an alternative product – ethanol.

All our activities are developed in accordance with our Competition Code of Conduct, which guides our commitment towards the strict compliance with the legislation regarding competition and antitrust in Brazil and in the foreign jurisdictions in which we operate.



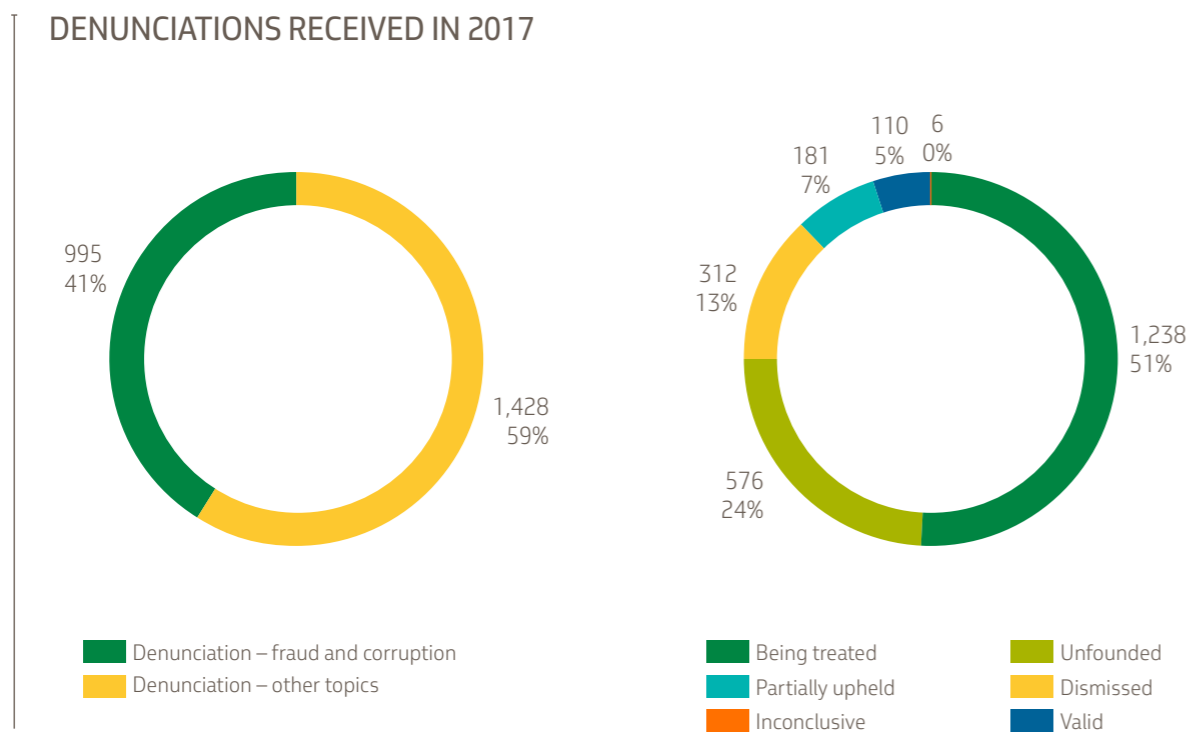
For further information on relationship with other stakeholders, please refer to Sustainability 2017.



OMBUDSMAN

Our General Ombudsman Office receives and handles opinions, suggestions, requests, denunciations and information. Our Denunciation Channel is available to both internal and external public. It is operated by an independent external company, ensuring confidentiality and our commitment of no retaliation to complainants.

In 2017, we received a total of 22,636 demands, 2,423 of which were denunciations. Forty-one percent (41%) of those denunciations were for fraud and corruption.



We also provide a Citizen Information Service in compliance with the Information Access Law, which ensures that any citizen has access to our non-sensitive information.

For further information on the Ombudsman and Citizen Information Service, please refer to Sustainability 2017.

CULTURAL, SPORTS AND SOCIO-ENVIRONMENTAL INVESTMENT

We redesigned our sponsorships management, reducing and aligning the project portfolio to our strategic objectives. Through Petrobras Cultural Program, Petrobras Sports Program and the new Business, Science and Technology line, we generate positive association to our brand and get closer to our audiences. Sponsorship focus on areas where we identify the best opportunities for brand return and strengthening of our image and reputation.

We strengthen our work with communities, third sector organisations, public authorities and universities through the Petrobras Socio-Environmental Program. This initiative contributes to environmental preservation and to improve the living conditions in the locations where we operate, and in a broader extent, to the society. The program is aligned to our Social Responsibility Policy, which advocates our commitment in providing energy respecting human rights and the environment, having responsible relationships with the community, and overcoming sustainability challenges.

Throughout 2017, we have reinforced the governance and process compliance in hiring sponsorships and in establishing partnerships, and we have worked in the renewal of socio-environmental projects, with the expectation of accomplishing BRL 250 million until 2020, covering 20 Brazilian states, with direct benefit to more than 100 thousand people.

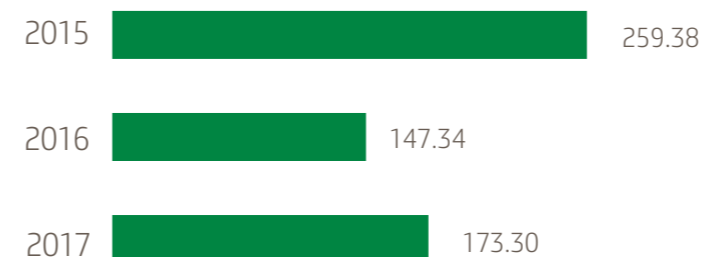


For further information on the projects, please refer to Sustainability 2017.

ADVERTISING

Two major advertising campaigns were aired in 2017. The first one, focusing on the opinion-maker audience, addressed management, governance and compliance topics. The second, directed to the public opinion, was aiming at repositioning Petrobras brand from our new corporate positioning.

ADVERTISING EXPENDITURE¹ (BRL MILLION)



¹ Data related to expenses from advertising broadcasted in each of the years, contemplating the purchase of media space and the production of advertising materials.



BRAND REPOSITIONING

In 2017, we repositioned our brand and reformulate the relationship bases with the stakeholders, considering our Strategic Planning and the image and reputation crisis we face since 2014.

The new brand positioning is based on our differentiating attribute, known to be resilient in image and reputation surveys: our unique technical capacity. It is represented by the competence and the expertise of our staff and the technologies developed by the company.

The brand repositioning has been accomplished through advertising campaigns, presence in digital media and disclosures to our workforce.

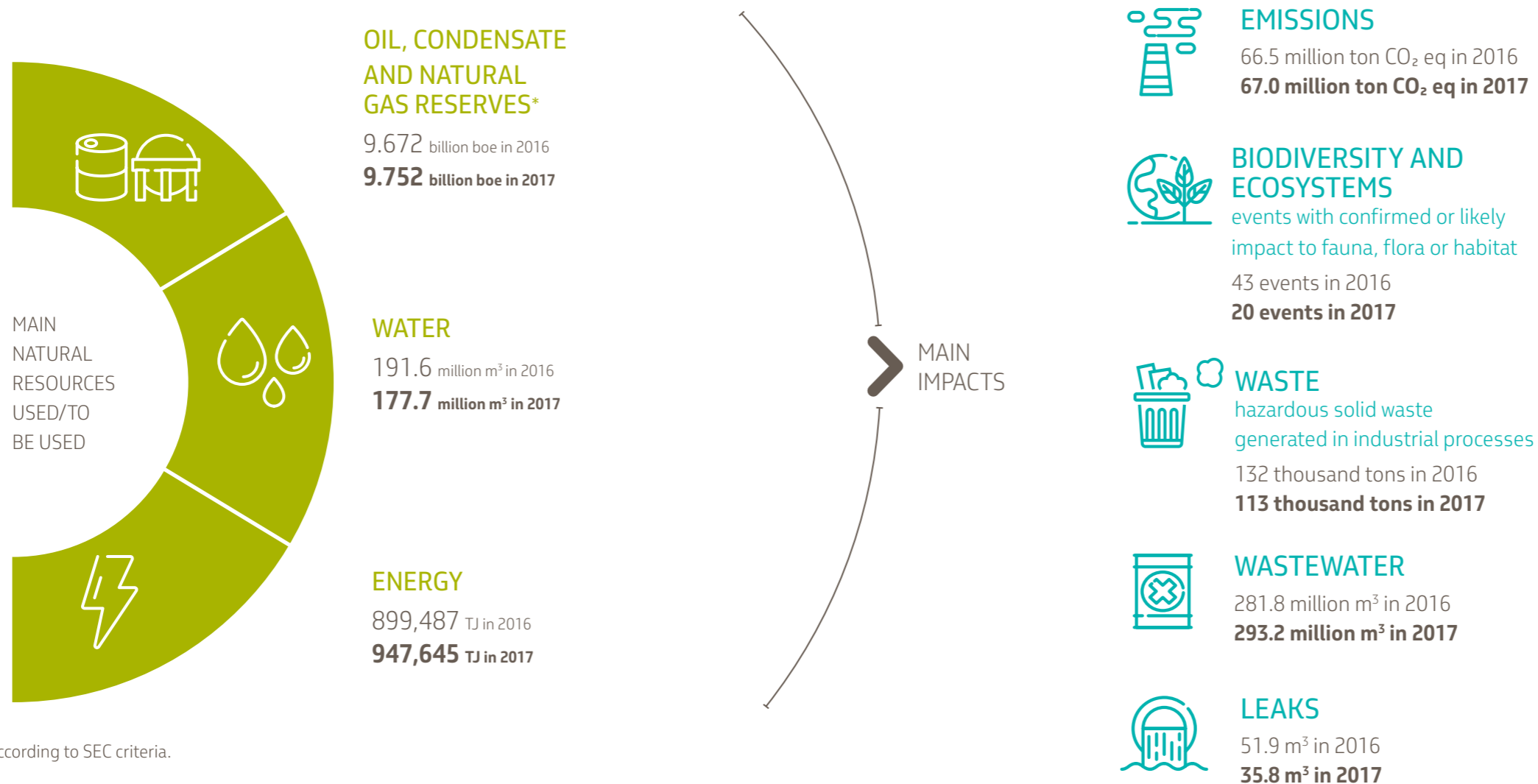
In addition, in order to improve transparency and assist in the recovery of our image and reputation with the stakeholders, two specific digital environments were created:

- <https://seguindoemfrente.hotsitespetrobras.com.br>, to inform the society on the management and governance measures adopted by the company.
- <http://transparencia.petrobras.com.br>, to disclose relevant institutional data.

Natural Capital

The natural capital is comprised by the renewable and non-renewable environmental resources used in or affected by our production process, especially our oil and gas reserves, in addition to water resources, ecosystems and biodiversity.

Since we are an integrated energy company focusing on oil and gas, we use natural resources and we impact the ecosystem during our activities.



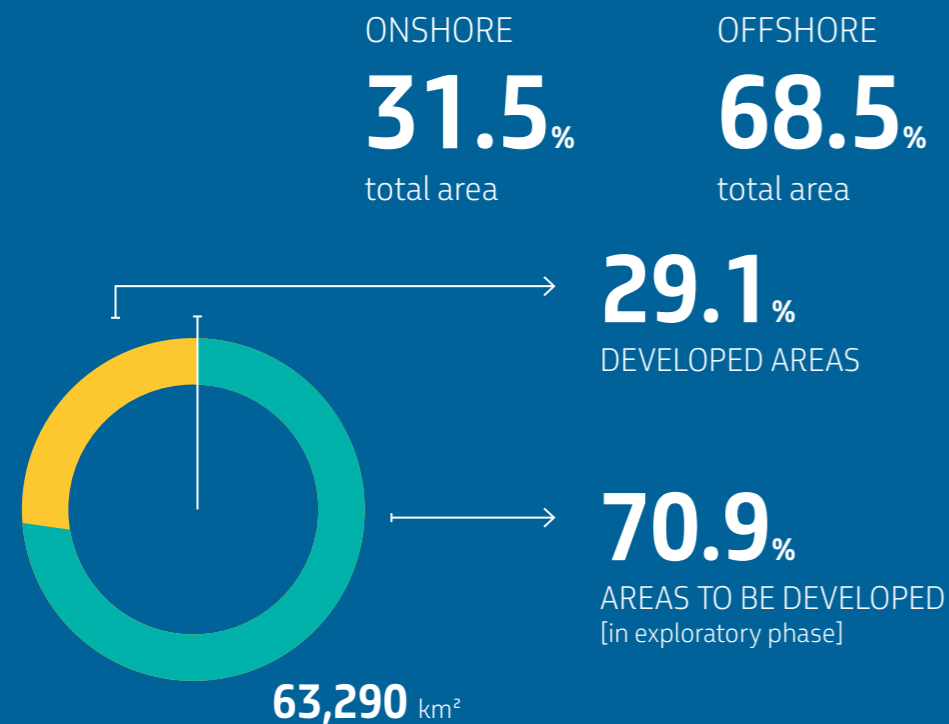
* According to SEC criteria.

RESOURCES USED/TO BE USED

Oil and Natural Gas

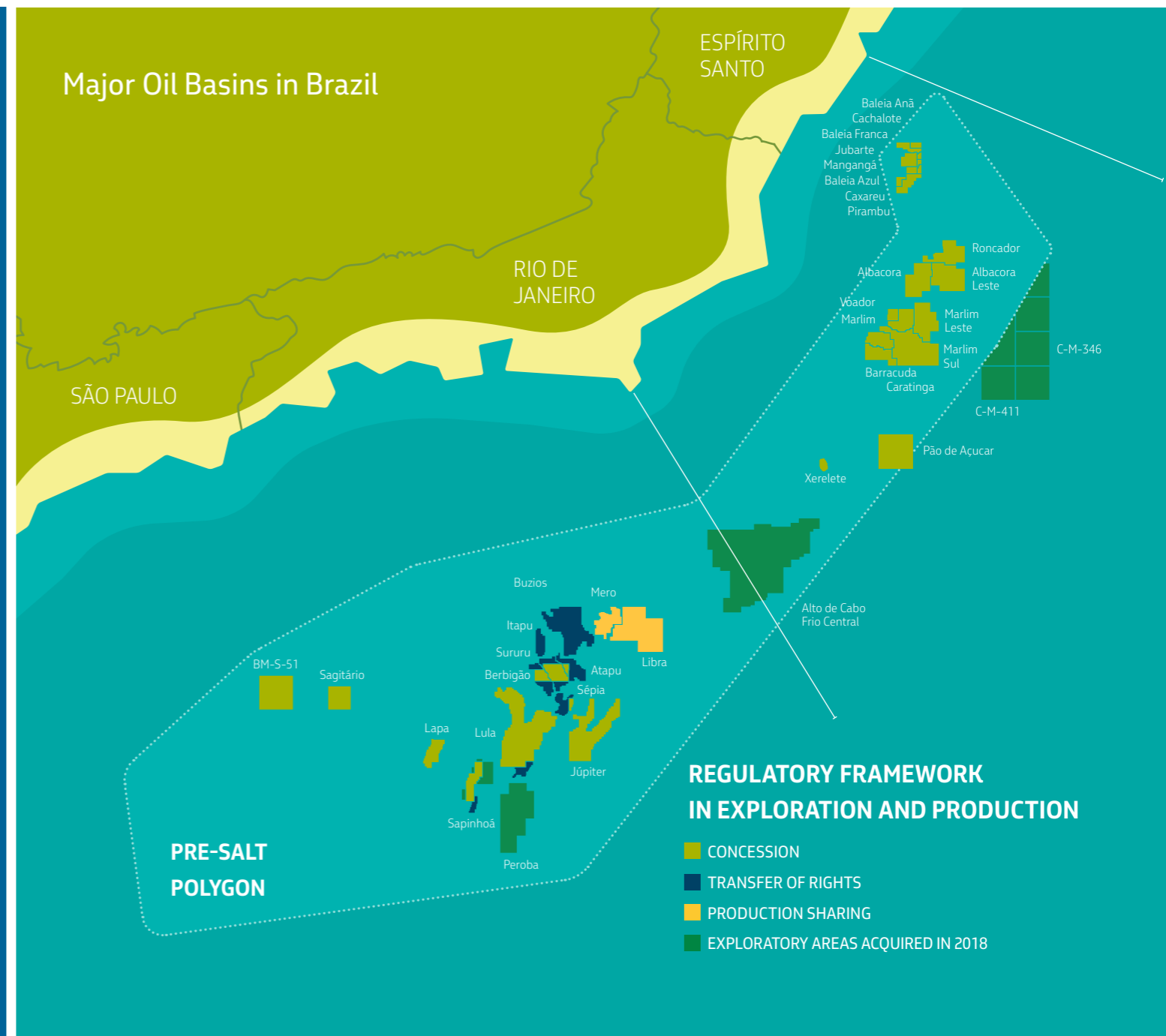
Brazil is the focus of our oil exploration and production operation. Our portfolio is concentrated in the Southeast region, with most of the oil reserves located in deep and ultra-deep water fields, in the Basins of Campos, Santos and Espírito Santo. We also operate in onshore and shallow water fields.

Considering Petrobras' exclusively rights, we can explore and produce oil and gas in Brazil in an **area of 63,290 km²**.



Pre-salt Polygon

The pre-salt polygon, region in which new exploratory areas can only be granted in the production sharing regime, occupies an area of approximately 149 thousand km² (36.8 million acres), of which we have production rights on approximately 14% of the total area (approximately 21 thousand km² or 5.3 million acres).



In Brazil, the Government is the owner of the oil, but it can be extracted by companies or consortiums upon several payment forms, such as royalties, that vary due to the applied regulatory model. Biddings held by ANP are the main process for the acquisition of rights to the exploratory blocks.

The concession model fully governed the oil and natural gas exploration and production until 2010, when laws instituting the transfer of rights and production sharing in the pre-salt polygon were enacted.

Currently, our main production fields follow the concession regime. On the other hand, those under the transfer of rights and production sharing will represent a large part of our production in the medium and long term.

NEGOTIATING THE TRANSFER OF RIGHTS AGREEMENT

The Transfer of Rights Agreement signed between Petrobras and the Federal Government is governed by Law No. 12.276, of June 30, 2010. It regulates the transfer of the oil and natural gas exploration and production rights in specific pre-salt areas to Petrobras and establishes provisions such as:

- volume that can be extracted in these areas, up to five billion barrels of oil equivalent;
- price paid for the Transfer of Rights Agreement;
- term of the agreement and percentage of local content;
- provisions that define a later revision on the following items: value, maximum volume, term and percentage of local content.

Petrobras has already declared the commerciality in the fields of all six blocks provided in the 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 Guarã (Sul de Sapinhoá) and Sul de Tupi (Sul de Lula).

In November 2017 we established an internal commission, which is responsible for negotiating the review of the Transfer of Rights Agreement with Federal Government representatives. In January 2018, through the Interministerial Ordinance No. 15/2018, the government instituted an Interministerial Committee with representatives from the Ministries of Mines and Energy, Treasury and Planning and Development and Management, with the purpose of concluding the terms of the agreement revision, within 60 days, renewable for an equal period. The review process is accompanied by our Minority Committee.

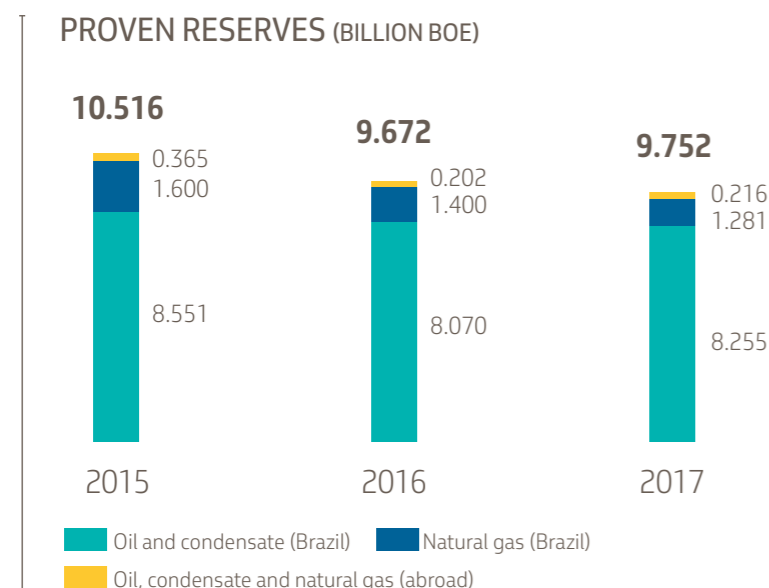
If the revision concludes that the acquired rights have a lower value than the value originally paid by Petrobras, the Federal Government shall reimburse the difference, in national currency, securities or other forms of payment. If the revision concludes that the acquired rights have in a larger value than what was originally paid, the company may pay the difference to the Federal Government or proportionally reduce the total volume of barrels purchased.



Reserves

Oil reserves are booked according to criteria defined by the Securities and Exchange Commission (SEC), taking into consideration technical and economic aspects for measuring the existing volumes and the possibility of producing them in the future.

Through the exploratory activity, we discovered new reservoirs that, after being declared commercially viable, can be incorporated to our proven reserves.



When we start to produce, the volume of oil, condensate and natural gas produced is no longer a reserve. In addition, other factors, such as the purchase and sale of assets, oil prices and reservoir characteristics, also influence the variation of the volume of our reserves.

VARIATION IN PROVEN RESERVES

(BILLION BOE)

COMPOSITION OF PROVEN RESERVES	
a) Proven Reserves in December 2016	9.672
b) Appropriations in 2017	1.000
c) Production in 2017 ¹	-0.920
d) Annual variation (b+c)	0.080
e) Proven Reserves in December 2017 (a+d)	9.752

¹ Includes the volume produced by shale and does not consider the production of Extended Well Test (EWT) in exploratory blocks in Brazil, since they are related to exploratory areas with no commerciality declaration, and therefore, with no associated reserves. Does not include the production in Bolivia, since, pursuant to Article 357 in the Bolivian Constitution (enacted on February 7, 2009), the reserves cannot be registered by the concessionaire.

Even with the record production in 2017, we were able to replace 109% of the volume produced, mainly due to the drilling of new wells and better behavior of the reservoirs in the pre-salt region at the Santos and Campos basins. In onshore fields, the highlight was the reduction of operating costs in the Solimões basin, in the State of Amazonas.

The relationship between the volume of reserves and the produced volume is 10.6 years overall and 10.7 years in Brazil. The Development Ratio, which is the relationship between developed proven reserves and the proven reserves, was 53% in 2017.

RESERVE RATIOS

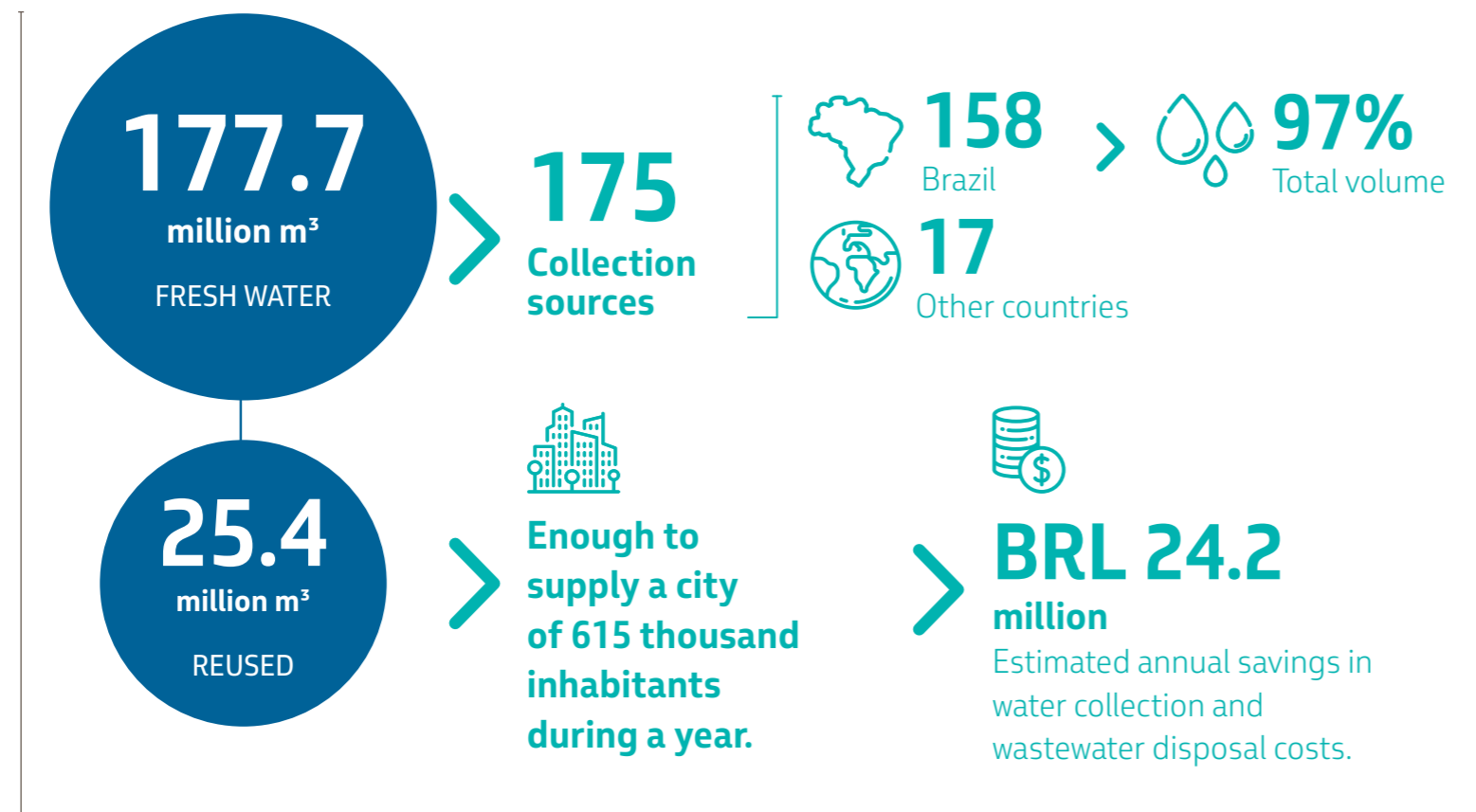


Water

We collected a volume of 177.7 million m³ of fresh water for our administrative and operational activities in 2017. We used 175 collection sources, of which 158 are located in Brazil (accounting for approximately 97% of the total volume of fresh water we collected) and 17 in other countries where we operate. We continuously invest in the assessment of the impacts of our activities, respecting the protected areas and identifying sensitive areas located in the influence regions of our units. We have not identified any significant impact on the watersheds where we collect water directly.

We reused 25.4 million m³ of water in 2017, 2.4% more than the volume of 2016 and enough to supply water to a city of 615 thousand inhabitants during a year. The savings resulting from the rationalization and reuse contributed to ensure the reliability of the supply to our operations.

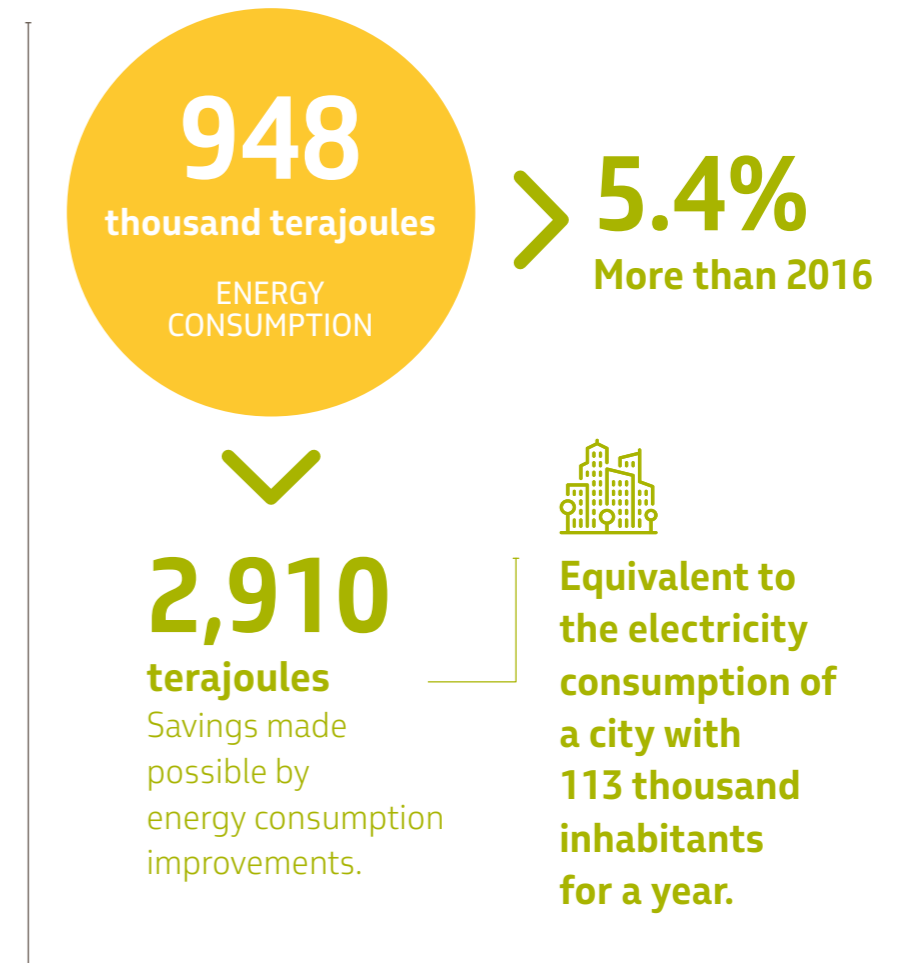
These reuse actions result in an estimated annual saving of BRL 24.2 million in the water collection and wastewater disposal costs.



Energy

In 2017 we recorded the total consumption of 948 thousand terajoules (TJ), or 441 thousand boed, an amount 5.4% higher than the previous year. One of the reasons for this is the increase in the thermoelectric dispatch by the request of the National System Operator (ONS).


Energy consumption improvements provided us savings of 2,910 terajoules in the year (TJ/y), or 1,355 boed, the equivalent of electricity consumption of a city with 113 thousand people for a year.



MAIN IMPACTS

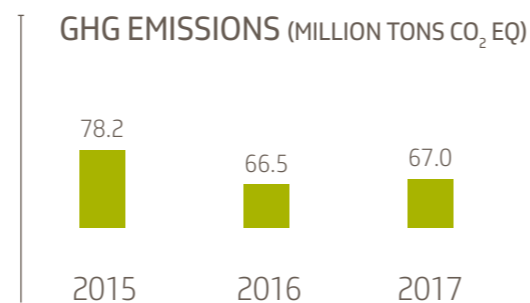
We are always seeking ways to reduce the impacts of our activities on the environment. In 2017, Petrobras Holding invested BRL 5.2 billion in initiatives to improve our health, safety and environment performance, comply with the specific legislation and contribute for our units to have safe, profitable and eco-friendly operational practices. These investments continued being directed mainly to reducing emissions and residues from industrial processes, managing the use of water and wastewater, recovering impacted areas, implementing new environmental technologies, modernizing our pipelines and improving our capacity of responding to emergencies. In addition, we support several environmental projects.

The relationship with our suppliers also includes matters related to the environmental area. Environmental criteria were used in 74% of new commitments formalized by Petrobras Holding in 2017. The contractors must also present evidence and certifications related to their compliance with health, safety and the environment, as well as declare that they comply with all requirements, laws and decrees on that matter.

 For further information on socio-environmental projects, please refer to Sustainability 2017 and for information on our relationship with suppliers, please refer to Social and Relationship Capital, and Sustainability 2017.

Emissions

We monitor the international negotiations of agreements in which Brazil is a signatory and which require the transition to a low-carbon energy model. In this sense, we monitor the alternatives developed globally to supply the energy required to the social and economic development with lower intensity of greenhouse gas emissions (GHG).



Biodiversity and Ecosystems

In 2017, we recorded 20 events with confirmed or probable impact on fauna, flora or habitat, such as the removal of vegetation, erosion and accidental death of animals in units. Measures for mitigating, treating or recovering the environmental impact were adopted for all those events, such as the replacement of protected species and vegetation recovery, treatment and recovery of degraded areas, facility adaptation, among other measures.

Waste

From the 114 thousand tons of hazardous solid waste from the industrial processes sent to treatment, we

recycled 78% of it through energy or material reuse, an amount 19% higher than 2016².

We expanded the reuse and recycling of oily currents aiming at the recovery of hydrocarbons in the production processes of green petroleum coke and other fuels, at SIX and Refap. In 2017, those two units processed over 86 thousand tons of oily currents, an increase of approximately 17% when compared to 2016, when it reprocessed a load of approximately 74 thousand tons.

We also seek to reduce the disposal of waste generated from our activities to landfills, recycling: 94% of paper, 85% of wood, 100% of scrap, 83% of glass, and 87% of plastics.

Wastewater

As a result of our operations, we discarded 293.2 million m³ of wastewater in 2017, including industrial wastewater and water produced from the oil extraction process. Our wastewater disposal processes comply with the legislation regarding such disposal. We use 52 surface water bodies, 13 underground disposal points, and 21 supply/treatment concessionaires or outsourced companies for the assimilation of our wastewater.

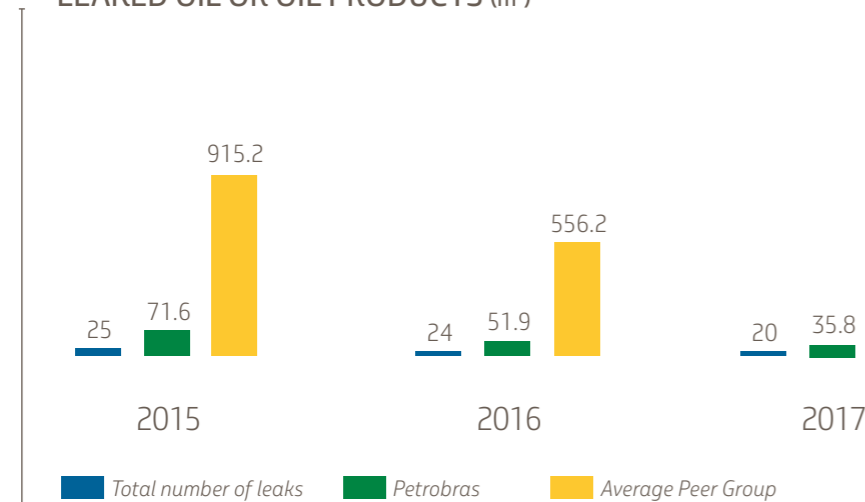
No significant quantitative or qualitative impacts were identified in springs due to the disposal of our wastewater.

² The amount of hazardous solid waste from industrial processes sent to treatment in 2017 (114 thousand tons) was higher than the amount generated in the same year (113 thousand tons).

Leaks

Oil and oil products leaks totaled 35.8 m³ in 2017, 30.94% less than the volume recorded in 2016, and 83.4% below the alert threshold established by the company. We are constantly improving our spill response standards, procedures and plans, which are structured at local, regional, and corporate levels.

LEAKED OIL OR OIL PRODUCTS (m³)




Notes:

- a) This calculation includes leaked volumes greater than one barrel (0.159 m³) that reached the environment.
- b) The total 35.8 m³ equals approximately 225.4 barrels.
- c) Peer group average: leaked volume data extracted from reports published by the sustainability or similar reports by the companies that comprise Petrobras peer group. Not all companies in the peer group had disclosed leaked volumes until the closing of this report.

As part of our environmental procedures and efforts, we maintain detailed response and contingency remediation plans to be implemented in the event of an oil spill or leak in our offshore operations.

In order to act effectively in such emergencies, we have resources such as vessels specialized in the containing and collection of oil and firefighting and containment barriers distributed along our Environmental Defense Centers, in advanced bases and in the Emergency Response Centers at our subsidiary, Transpetro, located in several points throughout the country.

We are associated to the Oil Spill Response Limited, a global organization specialized in providing and complementing resources for effective response to oil spills. In 2017 we held 15 exercises in a regional level, including leak response training.

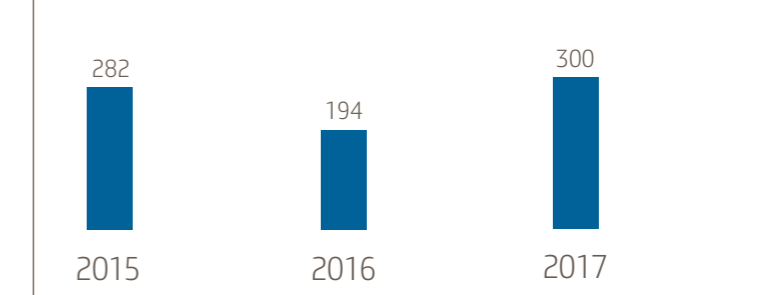
 For further information, please refer to Sustainability 2017.

ENVIRONMENTAL LITIGATION

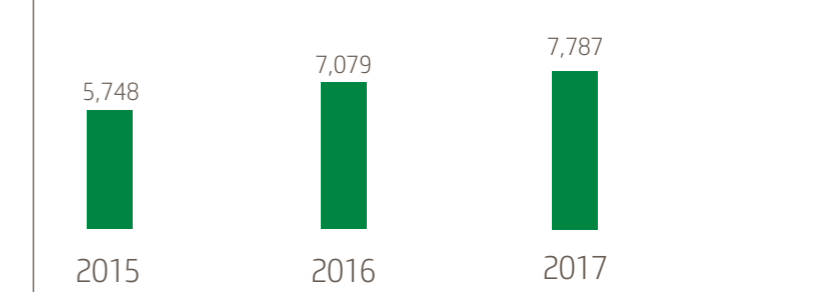
The processes of our value chain are governed by a wide range of laws, regulations and licensing requirements related to the protection of human health and the environment. In this sense, we are subject to several administrative and legal proceedings related to environmental issues that may expose us to civil, criminal and administrative sanctions, including activity suspension orders.

No new relevant environmental disputes were recorded in 2017.

PROVISIONED ENVIRONMENTAL CONTINGENCIES (BRL MILLION)



ENVIRONMENTAL CONTINGENCIES NOT PROVISIONED (BRL MILLION)












 For further information on environmental contingencies, please refer to Financial Statements (note 30).

Productive Capital

Our productive capital is comprised of the industrial units and the entire infrastructure we use in our productive activity, with emphasis to the platforms, refineries and logistical assets.

The main tangible assets, most in Brazil, are presented in the following table:

	2015	2016	2017
 EXPLORATION AND PRODUCTION			
Producing wells (oil and natural gas) ¹	10,160	10,045	7,888
Floating rigs	45	34	30
Operated platforms in production	123	124	120
 TRANSPORT AND STORAGE			
Oil and oil products pipelines (km)	7,517	7,719	7,719
Transport gas pipelines (km)	9,190	9,190	9,190
Vessel fleet (owned and chartered) ²	55	56	55
Terminals ²	49	47	47
 REFINING			
Refineries	13	13	13
Nominal installed capacity (thousand barrels per day – bpd)	2,176	2,176	2,176
 DISTRIBUTION IN BRAZIL			
Number of service stations	8,176	8,176	8,277
Number of distribution bases	86	85	83
 NATURAL GAS			
Processing units	23	22	23
Brazil	20	20	20
Bolivia	3	2	3
Processing capacity (million m ³ /day)	144.80	147.97	150.80
Brazil	100.75	106.75	106.75
Bolivia	44.05	41.22	44.05
Regasification terminals	3	3	3
Regasification capacity (million m ³ /day) ³	41	41	41

	2015	2016	2017
 POWER			
Number of thermal power plants	20	20	20
Installed capacity (thousand MW)	6.1	6.1	6.1
 PETROCHEMICALS			
Interest in companies	5	5	5
Wholly-owned subsidiaries	2	2	2
 FERTILIZERS			
Fertilizer plants	3	3	3
Urea production capacity (thousand ton/year)	1,852	1,852	1,852
Ammonia production capacity (thousand ton/year)	1,406	1,406	1,406
 BIOFUELS			
Biodiesel production units	6	5	5
Biodiesel production capacity (thousand m ³ /year)	886.4 ⁴	902.8 ⁵	1.054 ⁵

¹ Includes information from abroad, corresponding to Petrobras interest in affiliated companies.

² Includes only Transpetro vessels and terminals.

³ From July 2017, due to the return of the Golar Spirit vessel, the regasification started to be made using two vessels.

⁴ Includes the Guamaré unit.

⁵ Includes the capacity of Quixadá, which is currently in hibernation.

We have 90 owned platforms, 30 chartered platforms and eight operated by third parties, which provided us an offshore production of 2.06 million barrels of oil per day and 65.2 million m³ of natural gas per day, excluding the liquefied volume.

Part of the oil is exported and the remaining is transferred through terminals and pipelines to our 13 refineries, which have the capacity to process 2,176 thousand bpd.

These oil products are sold to fuel distributors, including our subsidiary Petrobras Distribuidora, which has a network of 630 owned service stations and 7,647 third-party service stations, in addition to bases and terminals. The distributors are responsible for selling to final consumers.

Those operations have Transpetro's logistical support, with 55 vessels, owned and chartered.

The volume of natural gas produced is transferred to the natural gas processing units, which have nominal capacity of processing 150.8 million m³ per day.

In order to complement the total offer of natural gas, we have three liquefied natural gas (LNG) regasification terminals. Currently, the total delivery capacity amounts to 41 million m³ per day.

The transportation system of the processed natural gas to the distributors in Brazil, with shareholding participation of Petrobras, consists of a total of 9,190 km of pipelines.

We also own and operate a power generation park with 20 thermoelectric power plants, with installed capacity of 6,100 MW.

In addition, we operate in Petrochemicals through interest in five operating companies and two wholly-owned subsidiaries.

Our three fertilizer units have the annual production capacity of 1,852,000 tons of urea and 1,406,000 tons of ammonia; in addition, our biofuel plants have capacity to produce 945,000 m³ of biodiesel, without taking into consideration the Quixadá unit, which is in hibernation, and 211,000 m³ of ethanol.

Our total fixed assets had book value of BRL 584.4 billion as of the end of 2017.



For further information, please refer to Business Performance.



For further information, please refer to Financial Statements (note 12) and Reference Form (item 9.1), available at www.investidorpetrobras.com.br/en.

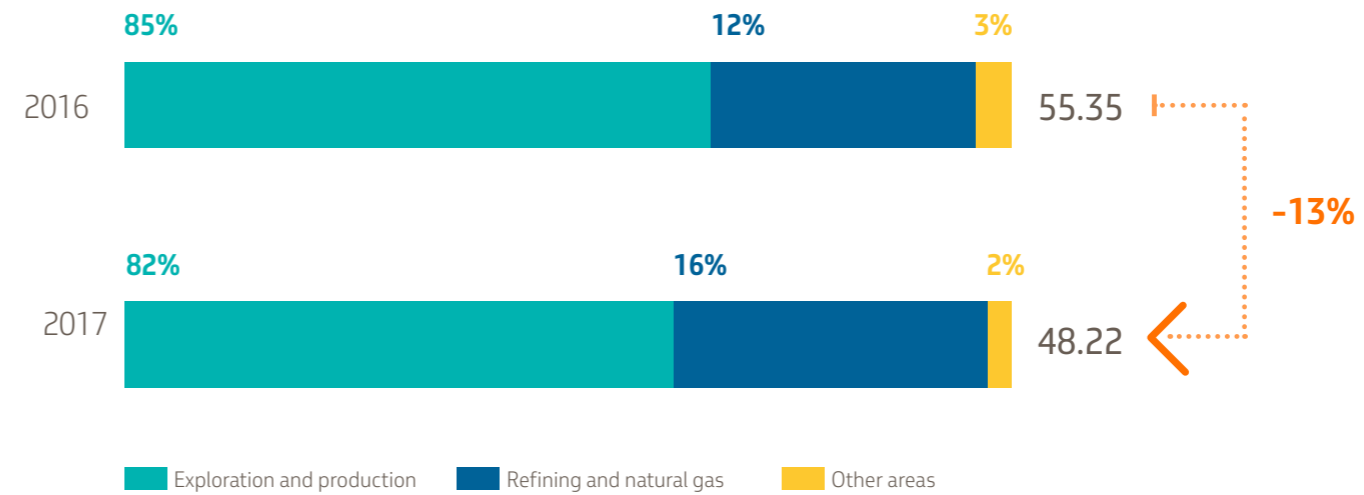


INVESTMENTS

Our investments totaled BRL 48.22 billion in 2017, 13% less than the previous year.



TOTAL INVESTMENT COMPARISON (BRL BILLION)



Exploration and production investments
BRL 39.65 billion

Production development of new oil fields, primarily in the pre-salt area of the Santos Basin

Production maintenance in legacy fields

Exploratory activities

Improvement of the operational efficiency



Refining and natural gas investments
BRL 7.81 billion

Construction and capacity expansion of gas pipeline and natural gas processing units to meet the demand of the pre-salt production area at the Santos Basin

Maintenance of the refining park



Transpetro, our subsidiary, invested BRL 1.4 billion in 2017. Most of the investment was directed to the construction of vessels in the Fleet Expansion and Modernization Program (Promef), with the delivery of three new vessels in the year (two Suezmax vessels and one gas tanker), and projects related to the maintenance of the company's logistic infrastructure.

Our subsidiary Petrobras Distribuidora invested BRL 301 million in 2017, intended for the maintenance and expansion of the logistic infrastructure, the development and modernization of the gas station network, the aviation segment, the distribution of natural gas and the trading of power.

Our investment budget, as well as of our subsidiaries, is approved annually by the Brazilian National Congress, according to the budget legislation in force in Brazil for companies directly or indirectly controlled by the Federal Government. The budget for 2017 was approved by Law No.13.414/2017 (2017 Annual Appropriation Act) and its supplementations.

In compliance with the constitutional standard that prohibits investments exceeding the approved budget and additional credits, we invest within the limits approved by the competent authorities.

In addition to investments in the expansion of our production capacity, we have a portfolio adequacy program that addresses the sale of several non-strategic assets.



For further information on partnerships and divestments, please refer to Financial Capital.

IMPAIRMENT

Our impairment assessment takes place once a year on December 31, or when there is an indication of devaluation throughout the year. In 2017, losses and loss reversals in the impairment of assets were recognized in the net amount of BRL 3,862 million, mostly in the fourth quarter, as a result of portfolio management and the update of our medium and long term economic assumptions within the context of the new Business and Management Plan 2018-2022.

We had losses in the recoverability of exploration and production assets, with emphasis on the area sold in the Roncador field (Campos Basin); equipment and facilities related to the oil and gas production, as well as well drilling activities, and oil and gas production fields in Brazil, with reversal of losses recognized in prior periods, primarily related to Cash Generating Unit (UGC) Polo Norte, located in the Campos Basin, offset by losses mainly related to the UGC fields of Piranema, Salgo, Polo Ceará Mar, Polo Civil, Polo Miranga, Polo Fazenda Belém, Frade, Dom João and Candeias.

In the Refining segment, impairment losses were basically related to the second RNEST train and Transpetro vessels. Losses were also recorded in the Gas and Power segment.



For further information on impairment in the business areas, please refer to Financial Statements (note 14).

Financial Capital

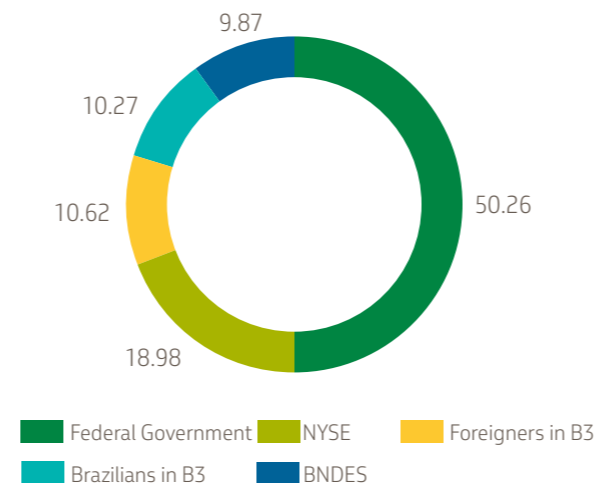
Our financial capital is composed of the available financial resources, whether our own or from third parties, allocated to our productive activity.

SHARES

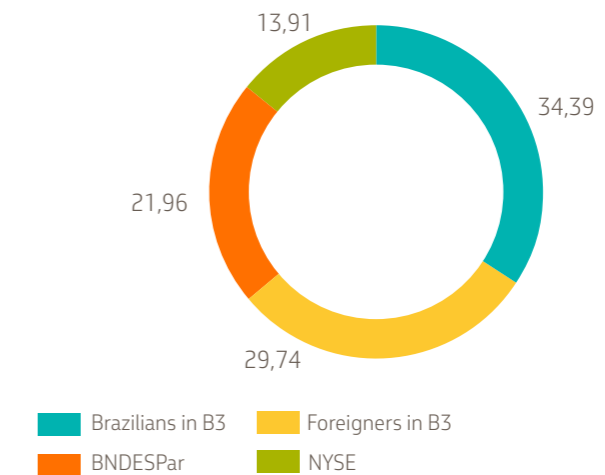
In Brazil, our shares are traded at the São Paulo Stock Exchange – B3, under the trading codes PETR3 (voting) and PETR4 (non voting). In the United States, the ADRs (American Depositary Receipts), certificates issued by American banks, which represent shares of a foreign company in the country, are listed at the New York Stock Exchange (Nyse), under the codes PBR (receipts representing voting shares) and PBRA (receipts representing non voting shares). In Spain, representative receipts of our shares are listed at Latibex under XPBR (representing voting shares) and XPBRA (representing non voting shares). Representative receipts of our shares are also traded in Argentina at the Buenos Aires Stock Exchange under codes APBR (representing voting shares) and APBRA (representing non voting).

Our shareholders

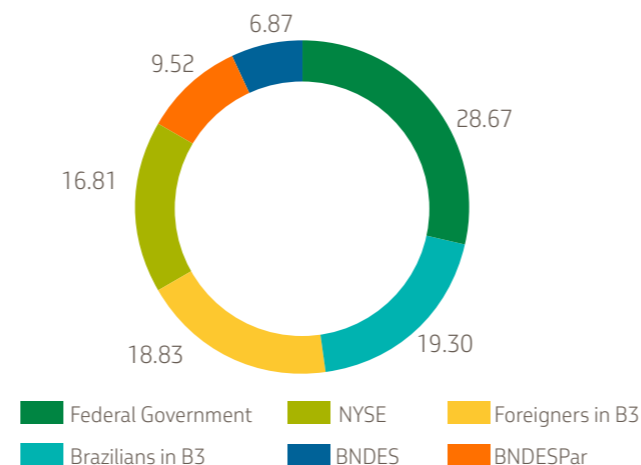
VOTING CAPITAL (%)



NON-VOTING CAPITAL (%)



SHARE CAPITAL (%)

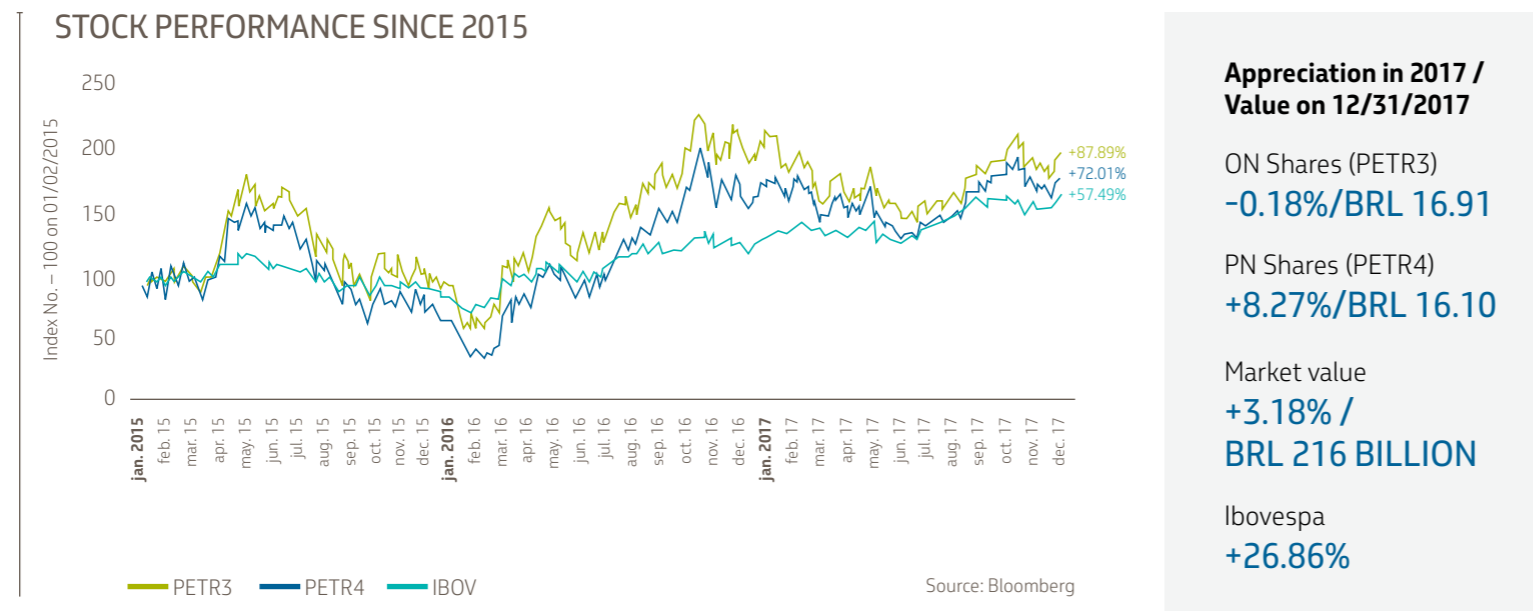


The controlling block, consisting of the Federal Government, BNDES, BNDESPar, Caixa Econômica Federal and Social Participation Fund hold 63.60% of our shares with voting rights.

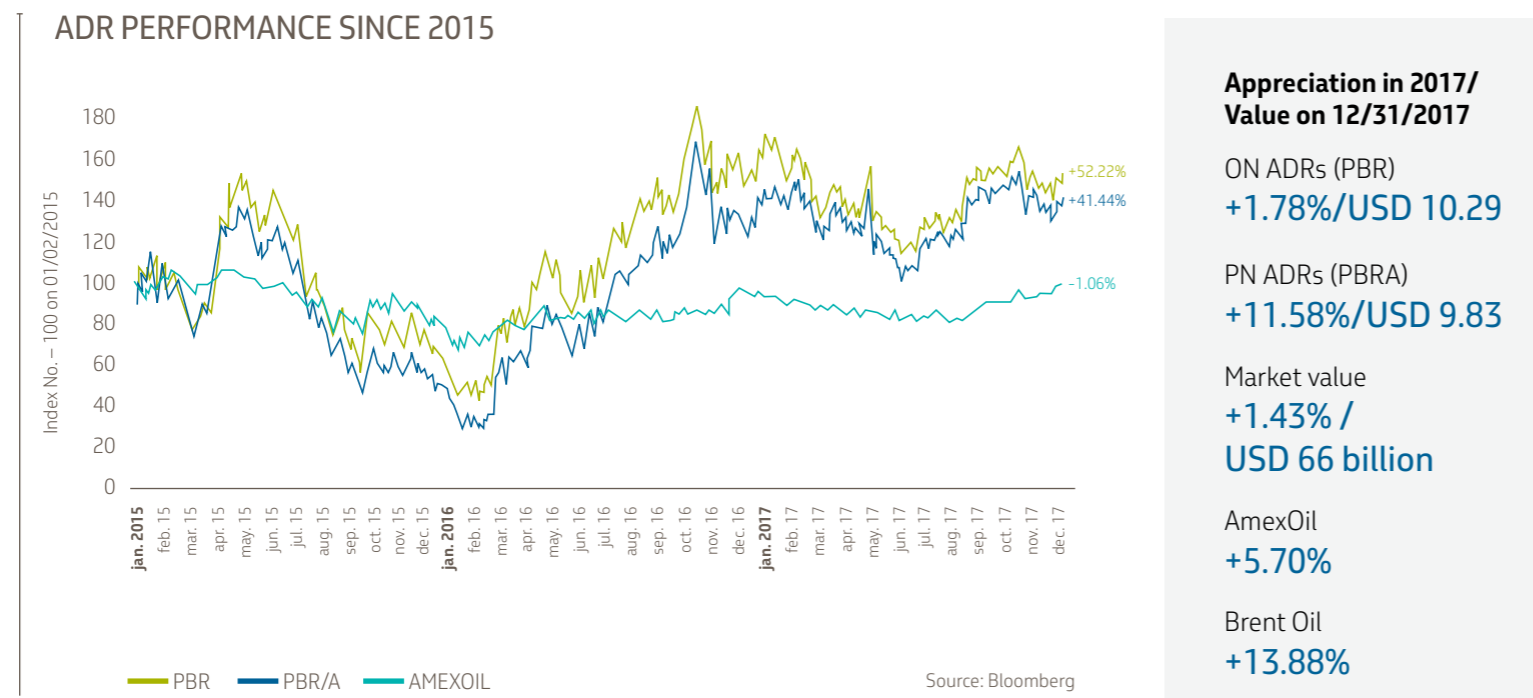
Information about our shareholders as of February 28, 2018

Stock performance

After a strong recovery in the value of our shares in 2016, 2017 presented a smaller increase, followed by a strong resumption in early 2018.



In January 2018, the value of our shares exceeded our book value, a milestone not reached since January 2012.



For further information on the relationship with our investors, please refer to Social and Relationship Capital.

For further information on lawsuits filed by our shareholders, please refer to Governance and Compliance, and Financial Statements (note 30.4).

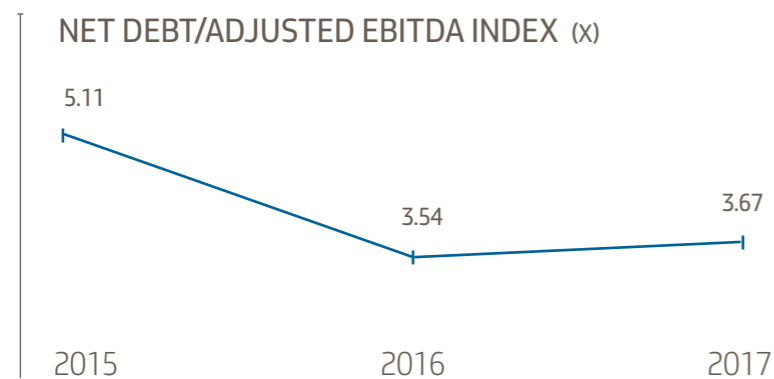
DEBT

The indebtedness level is part of our key financial metric. Since 2015, we have been working to reduce our debt and improve our profile, redistributing amortizations over time and reducing its costs. One of the main goals of our Strategic Plan is to reach the Net Debt/Adjusted EBITDA index of 2.5x by the end of 2018. The calculation methodology for the Adjusted Ebitda was changed at the beginning of 2017, excluding the capital gain with divestments, which has changed the Net Debt/Adjusted EBITDA index in 2015, from 5.3 to 5.1.

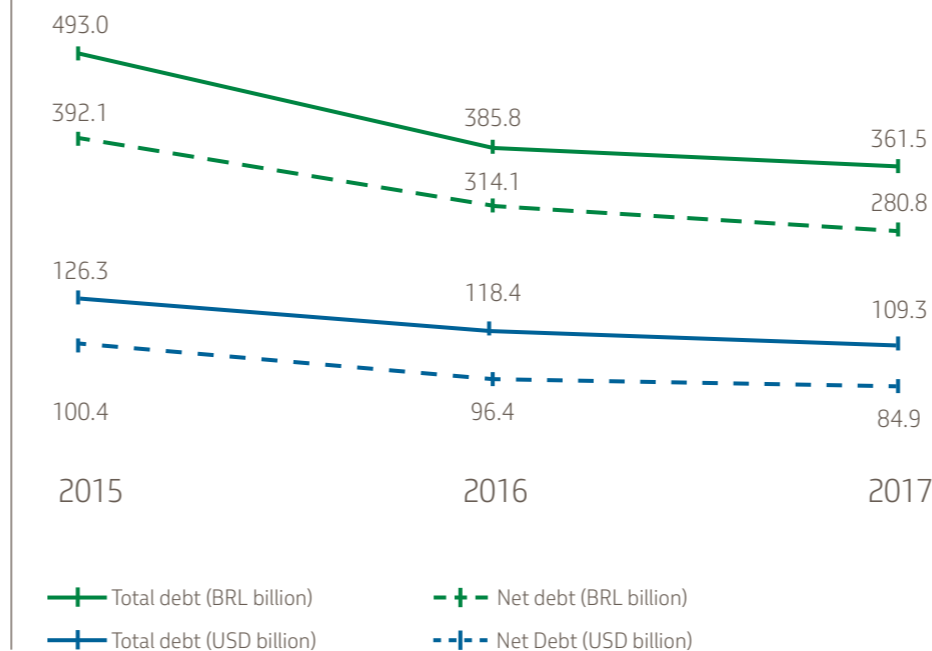
**REDUCTION OF
LEVERAGE**

NET DEBT/ADJUSTED EBITDA

FROM **5.1** IN 2015 TO **2.5** UNTIL 2018

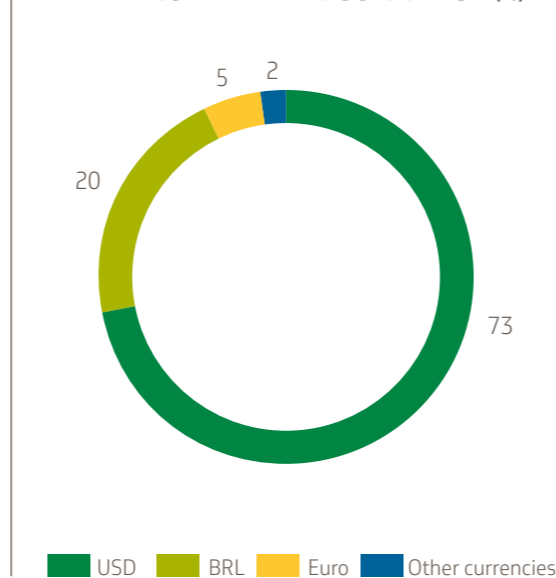


INDEBTEDNESS

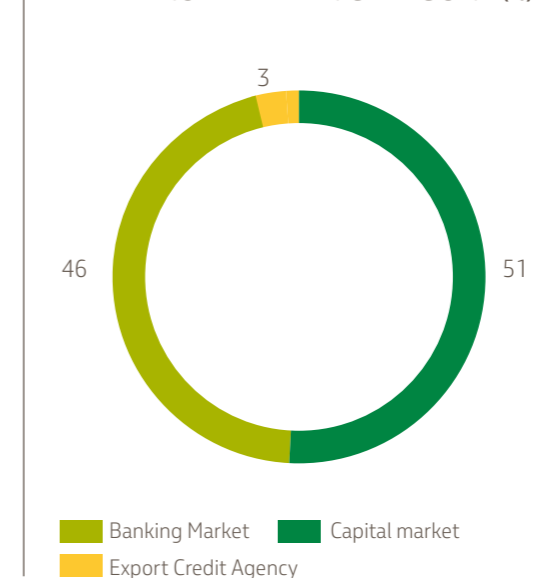


We reached USD 84.9 billion net debt at the end of 2017 and, according to our 2018-2022 BMP, we will have USD 77 billion net debt at the end of 2018.

DEBT PROFILE – PER CURRENCY (%)



DEBT PROFILE – PER CATEGORY (%)



For further information about our debt profile, please refer to Financial Statements (note 17).

Debt Management

According to the Business and Management Plan 2018-2022, there is no need for new net funding on the horizon of the plan. However, we will continue assessing funding opportunities, targeting at liability management operations, aiming at the improvement of the amortization profile and reducing the cost of the debt, maintaining an indebtedness profile that is compatible with the maturity deadlines of our investments.

In 2017, we raised BRL 86,467 million. The main highlights are:

- I) several offers of securities in the international capital markets (Global Notes) with maturity in 2022, 2025, 2027, 2028 and 2044, amounting to BRL 32,574 million (USD 10,218 million);
- ii) issuance of debentures in the domestic capital market with maturities at 2022 and 2024, amounting to BRL 4,989 million; and
- III) funds raised from national and international banking market, with approximately fiveyears average terms in the total amount of BRL 41,645 million.

We have paid several loans and financing amounting to BRL 137,386 million. The main ones are:

- (i) the repurchase and/or redemption of BRL 24,356 million (USD 7,569 million) securities on the international capital market, with maturities between 2018 and 2021, with premium paid to holders of securities who handed in their papers in the operation in the amount of BRL 1,067 million;

- (ii) prepayment of BRL 52,000 million of loans in the national and international banking market.
- (iii) the prepayment of BRL 2,963 million related to financing with export credit agencies; and
- (iv) the prepayment of BRL 9,531 million related to funding with BNDES.

We rolled-over debts through non-cash transactions. The main highlights are:

- (i) exchange of BRL 21,217 million (USD 6,768 million) in securities in the international capital market with maturities between 2019 and 2021 for new securities

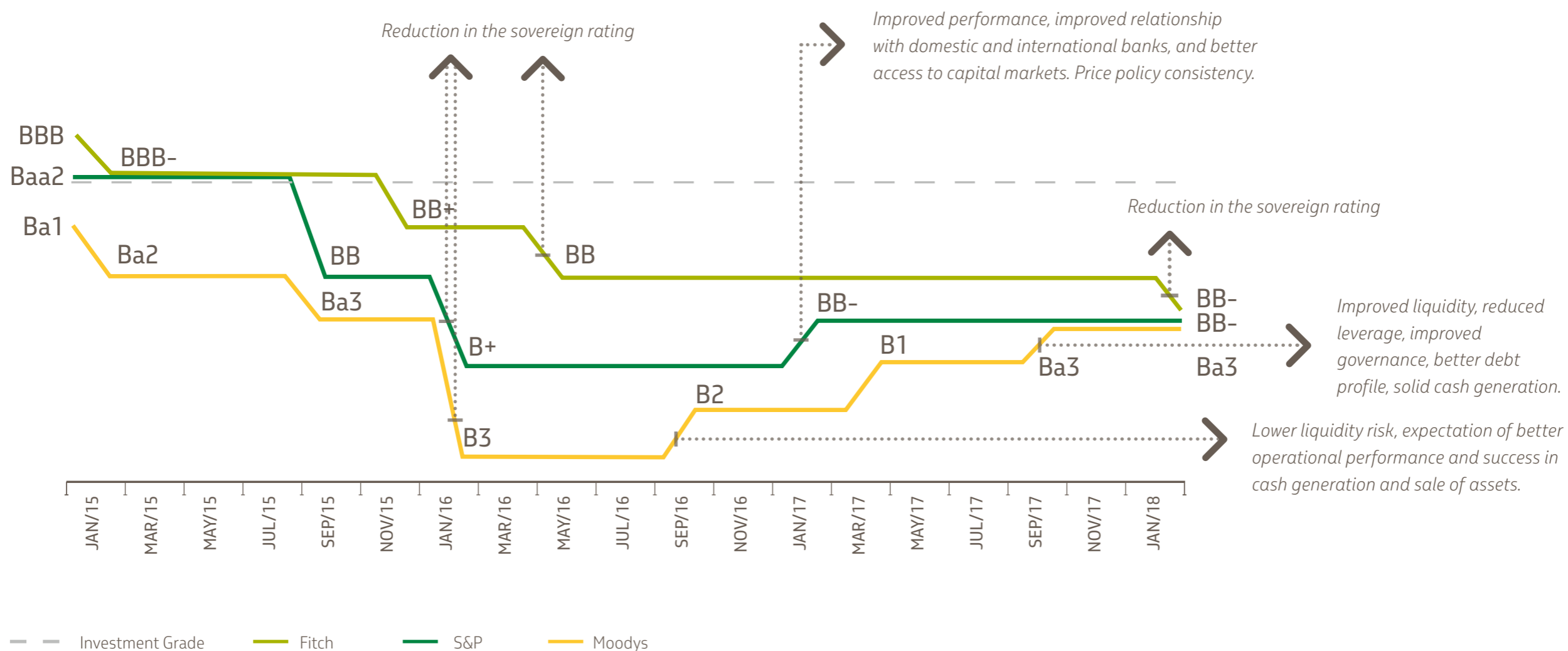
- in the amount of BRL 23,815 million (USD 7,597 million) with maturities in 2025 and 2028; and
- (ii) exchange of debts in the national and international banking sector maturing between 2018 and 2020, amounting to BRL 13,577 million (USD 4,257 million), for new debt, on the same amounts, with maturities between 2020 and 2024.

After those operations, our amortization profile was extended and the average interest rate reduced, rebalancing the volume of payments, especially in the short term, for 2018 and 2019.

	2015	2016	2017
Average interest rate (% p.a.)	6.3	6.2	6.1
Weighted average maturity (in years)	7.14	7.46	8.62
Leverage (%)	60	55	51

Credit Rating

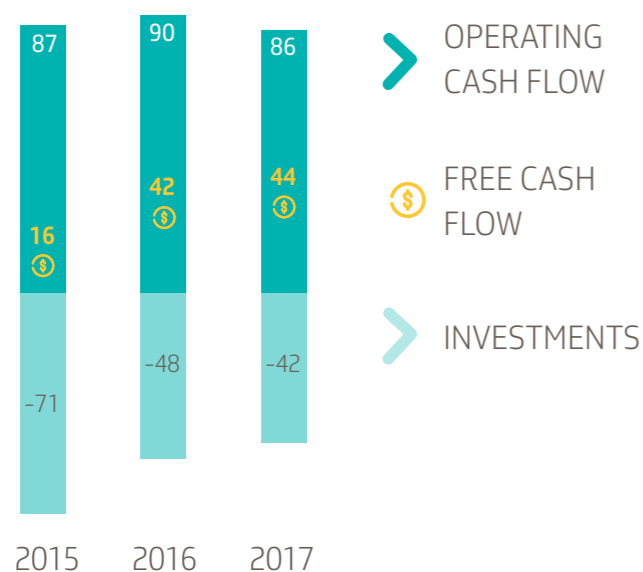
Our credit rating is defined by our operational and financial perspectives, and is influenced by Brazil's sovereign credit rating. In 2017, the credit rating agencies Moody's and Standard & Poor's (S&P) recognized the efforts to improve governance, debt management and divestments, raising our ratings. In 2018, due to downgrading of Brazil's credit rating, Fitch downgraded our rating.



OPERATING CASH FLOW

Currently, the capital generated in our operating activities is sufficient to finance our investments. Since 2015, we have recorded positive free cash flow, reflecting the adoption of a policy of competitive prices, combined to efforts for the optimization of investments and reduction of costs.

FREE CASH FLOW (BILLION OF BRL)



For further information on our financial results, please refer to *Financial Performance and Financial Statements*.

For further information on our price policy, Capex and Opex efficiency, please refer to *Strategies and Perspectives*.



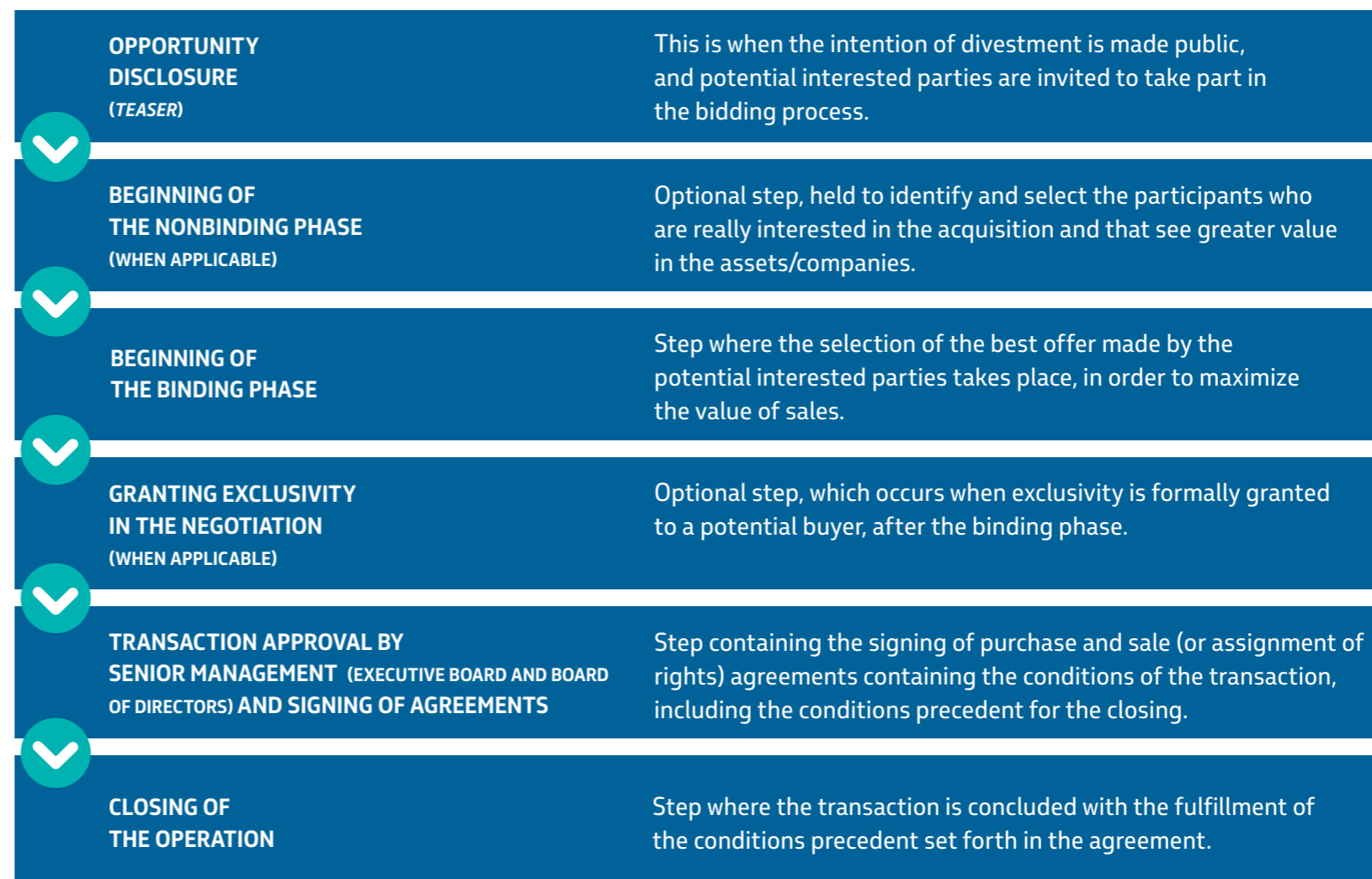
PARTNERSHIPS AND DIVESTMENTS

Our active portfolio management, aligned to the strategy of partnership operation, results in another important source of funds for the company through the Partnership and Divestment Program.

The program is aligned to the Business and Management Plan, and seeks to optimize the business portfolio, moving away entirely from the activities of biofuel production, liquefied petroleum gas (LPG) distribution, fertilizer production and interests in petrochemicals, preserving the technological skills in areas presenting development potential. In addition, the program is considered one of the key pillars for reducing our leverage.

In March 2017, the Federal Court of Accounts (TCU) endorsed our new divestment procedure and defined that such new procedure should be used in all the ongoing divestment projects that had not yet been signed. Thus, all projects with no signed agreements were reinitiated.

The new procedures resulted in delays in the ongoing divestment projects, but also brought more transparency to the Program governance. All steps presented below are now disclosed to the public:



Transactions signed within the 2015–2016 divestment plan, but completed in 2017 and early 2018, or not completed yet, pending the fulfillment of legal and contractual conditions:

DATE OF SIGNATURE	CLOSING DATE	TRANSACTION	NOMINAL AMOUNT ¹ (USD BILLION)
COMPLETED TRANSACTIONS			
07/22/2016	01/04/2017	Disposal of 100% of Petrobras Chile Distribución Ltda.	0.5
12/28/2016	02/03/2017	Disposal of the entire interest of 45.97% at Guarani S.A.	0.2
09/23/2016	04/04/2017	Disposal of 90% of Nova Transportadora do Sudeste (NTS), a carrier of natural gas in southeastern Brazil	5.2
12/28/2016	01/15/2018	Strategic alliance with the French company Total, including the transfer of 22.5% of the rights in the Iara concession area and the assignment of rights of 35%, as well as the operation in the concession area of the Lapa field in BM-S-9 block	2.2
PENDING TRANSACTIONS			
12/28/2016	-	Disposal of Companhia Petroquímica de Pernambuco (PetroquímicaSuape) and Companhia Integrada Têxtil de Pernambuco (Citepe)	0.4
TOTAL			8.5

Transactions signed within the scope of the 2017–2017–2018 divestment plan:

DATE OF SIGNATURE	CLOSING DATE	TRANSACTION	NOMINAL AMOUNT ¹ (USD BILLION)
COMPLETED TRANSACTIONS			
12/14/2017	12/22/2017	Petrobras Distribuidora IPO	1.5
02/16/2018	02/21/2018	Sale of all shares of São Martinho S.A. (6.593%)	0.1
PENDING TRANSACTIONS			
02/28/2017	-	Sale of 50% of Termobahia S.A. as part of the Strategic Partnership with Total	- ²
11/22/2017	-	Sale of Petrobras' interest in the Azulão field	0.05
12/18/2017	-	Strategic Partnership with Statoil: technical agreement aiming to increase the recoverable volume of oil in the Roncador field; agreement to share gas export infrastructure, and; sale of 25% interest in the Roncador field	2.9
TOTAL			4.5

¹ Amounts received or to be received upon the closing of the transactions and subsequent payments;

² Amount not disclosed yet.

PROGRAM RESULTS

2015–2016 biennium (target of USD 15.1 billion):

- total value of the signed transactions: USD 12,9 billion*
- total amount received in 2017 and early 2018: USD 6.9 billion**

2017–2018 biennium (target of USD 21 billion):

- total value of the signed transactions: USD 4.5 billion
- cash inflow in 2017 and early 2018: USD 1.7 billion

* Amount revised after the disposal of Liquigas was not approved by Cade.

** Includes the amount received by the disposal of NTS, comprised of: USD 2.59 billion regarding the sale of shares and USD 1.64 billion regarding debentures convertible into shares issued by NTS, with maturity in 10 years, for replacement of debt with Petrobras Global Trading BV, a wholly-owned subsidiary of Petrobras.

The following operations were awaiting decision by Cade Court and the results were disclosed in February 2018:

1. Liquigás Distribuidora S.A.: On February 28, 2018, Cade did not approve the sale of Liquigas, our wholly owned subsidiary operating in the distribution of LPG, to Ultragaz. This decision implies the cancelation of the purchase and sale agreement of Liquigas, signed on November 17, 2016, with fines to Ultragaz amounting to BRL 286.2 million. Alternatives are being considered for Liquigas divestment, which remains in the Partnership and Divestment Program.

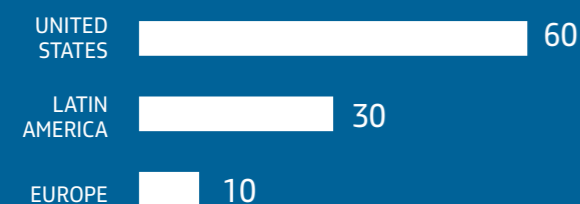
2. Suape and Citepe: On February 7, 2018, Cade approved the disposal of Companhia Petroquímica de Pernambuco (PetroquímicaSuape) and Companhia Integrada Têxtil de Pernambuco (Citepe), our wholly-owned subsidiaries, to Alpek. Despite this approval, the completion of the transaction is still subject to compliance with other conditions precedent.

PETROBRAS DISTRIBUIDORA IPO

On December 15, 2017, Petrobras Distribuidora, one of our subsidiaries, leader in the fuel distribution segment in Brazil and listed at Novo Mercado, the main governance segment among publicly traded companies in the Brazilian stock exchange, held its initial public offering of shares (IPO) at B3, with ticker BRDT3.

Petrobras Distribuidora shares were initially traded at a price of BRL 15.00 per share. The main batch (base offer) was of 291,250,000 voting shares and the supplementary batch had 43,687,500 shares. The initial offer of shares attracted investors from Latin America, Europe and United States.

GEOGRAPHICAL DISTRIBUTION (%)



DISTRIBUTION BY INVESTOR TYPE (%)



The offering amounted to BRL 5,024,062,500.00. Petrobras Distribuidora IPO represented the biggest IPO in the Brazilian stock exchange since 2013, and marked Petrobras Distribuidora's return to the capital market.

Continuing our Partnership and Divestment Program, in 2017 and early 2018, we made the following announcements to the market related to ongoing divestments:

ANNOUNCEMENTS TO THE MARKET IN 2017 AND EARLY 2018 ¹

TRANSACTION SCOPE SUMMARY	OPPORTUNITY DISCLOSURE (TEASER)	BEGINNING OF THE NONBINDING PHASE	BEGINNING OF THE BINDING PHASE
Disposal of Petrobras companies in Paraguay (distribution, gas, operation and logistic)	07/07/2017	08/14/2017	10/26/2017
Sale of the Maromba field, in the Campos Basin	07/06/2017	-	10/03/2017
Sale of five sets of offshore fields in shallow water, in Ceará, Rio Grande do Norte, Sergipe, Rio de Janeiro and São Paulo	07/28/2017	10/04/2017	-
Sale of the Pampo and Enchova poles, in shallow water, in Rio de Janeiro	07/28/2017	10/04/2017	02/27/2018
Sale of three sets of onshore fields (50 concessions) in Rio Grande do Norte and Bahia	08/28/2017	11/17/2017	-
Disposal of 90% of Transportadora Associada de Gás S.A. (TAG), a wholly-owned subsidiary of Petrobras	09/05/2017	10/23/2017	12/28/2017
Total disposal of Araucária Nitrogenados S.A.(ANSA) and Unidade de Fertilizantes Nitrogenados III (UFN-III)	09/11/2017	10/27/2017	12/19/2017
Sale of five sets of onshore fields (totaling 19 concessions) in Ceará, Rio Grande do Norte and Sergipe	09/22/2017	-	-
Disposal of 100% interest in Petrobras Oil & Gas B.V. (POGBV), holder of exploration and production assets in Africa	11/07/2017	11/17/2017	-
Disposal of 100% of the shares held by Petrobras Biocombustíveis at BS BIOS	12/14/2017	02/05/2018	-
Total disposal of the Pasadena Refinery, located in Texas, USA	02/06/2018	-	-

¹ Information updated until February 28, 2018.

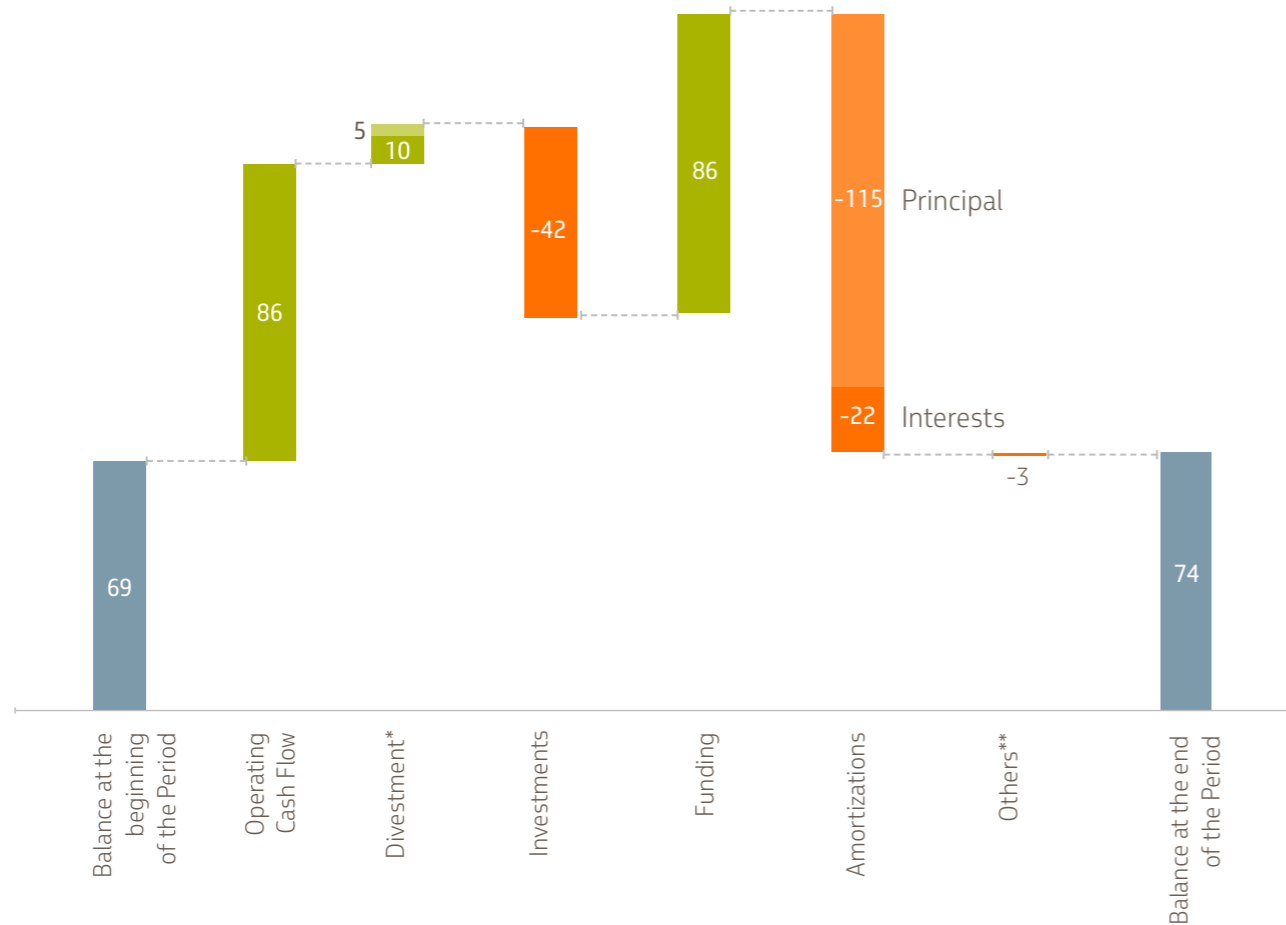


Liquidity and Capital Resources

The resources generated by our operations, added to the asset disposals, were more than sufficient to afford our investments, amortization of principal and interests.

CASH FLOW

BRL BILLION



* BRL 4.9 billion related to Petrobras Distribuidora IPO.

** Includes variation of federal public securities and time deposits above 90 days, investments in marketable securities, dividends paid to non-controlling shareholders, participation of non-controlling shareholders and exchange rate variation on cash and cash equivalents.





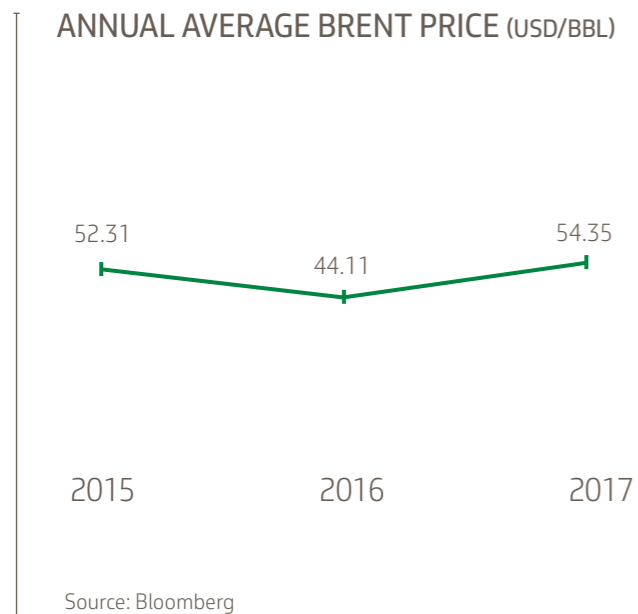
EXTERNAL CONTEXT

INTERNATIONAL OIL MARKET (BRENT)

The high prices of oil until mid-2014 can be mainly explained by the supply constraints as a result of geopolitical matters, such as the sanctions imposed on Iran and the consequences of the Arab Spring. The sharp drop in oil prices in the second half of 2014 reflect the combination of the reduction of the demand growth and the steep rise in non-conventional production in North America, which culminated with the formation of high levels of oil stocks.

In 2015 and 2016, despite the increase in demand, stocks levels remained high, largely due to growth in production from the Organization of Petroleum Exporting Countries (OPEC), which did not adopt a coordinated action to limit their production. Only at the end of 2016, OPEC announced an agreement to limit its production, being joined, in an unprecedented manner, by non-OPEC countries.

Throughout 2017, the high degree of compliance with the production quotas set forth in the agreement contributed to reducing the stocks and, consequently, a rise in the price of Brent oil was observed, reaching an annual average of USD 54.35/bbl, 23% increase over the average price of 2016, of USD 44.11/bbl.

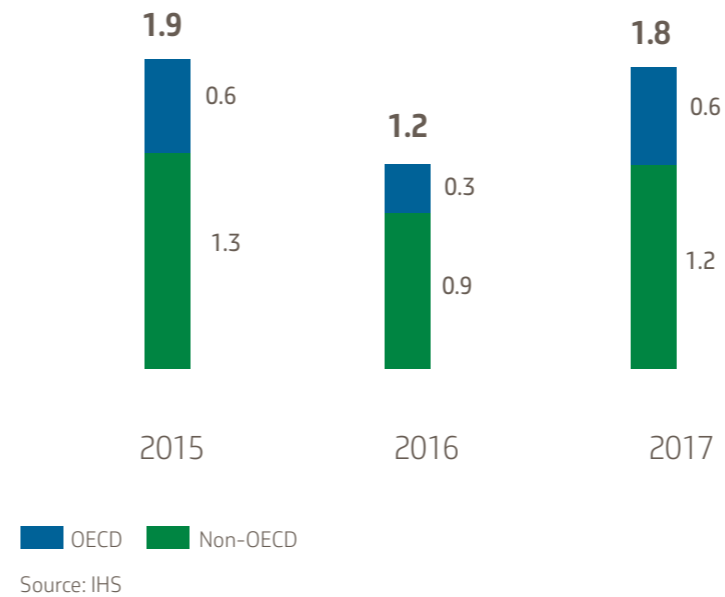


Regarding demand, in line with the global economic growth and emphasizing the performance of the economies such as U.S. and China, the year of 2017 was marked by a robust increase in the global consumption of oil, of approximately 1.8 million bpd, representing an expansion rate above the historical average and higher than the market expectation.

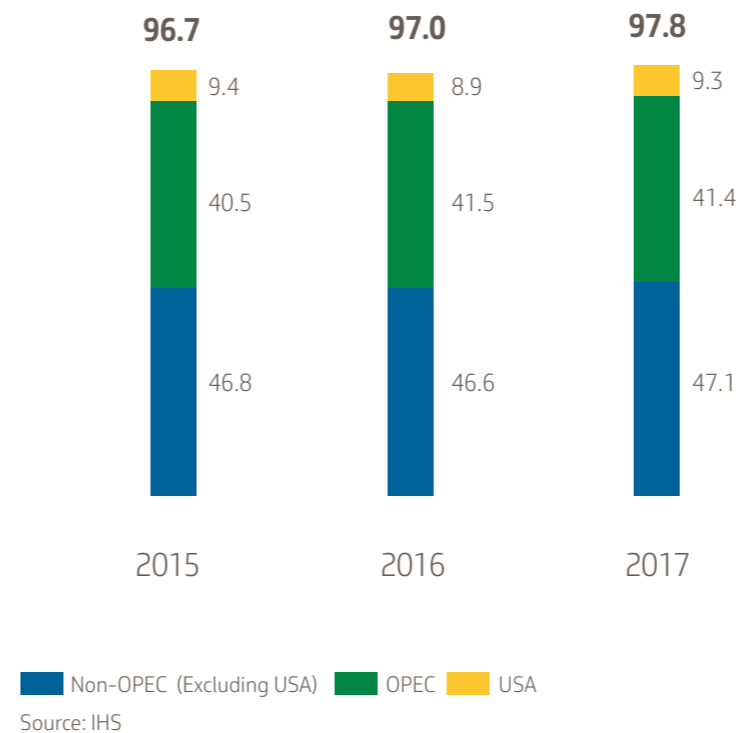
Regarding supply, the agreement defined that OPEC producers reduced their production in 1.2 million bpd in relation to October 2016, establishing a ceiling for the group's production at 32.5 million bpd. In addition, a group of 11 non-OPEC producing countries (including Russia), further contributed with a production reduction of 558,000 bpd. At the November 2017 meeting, the agreement was extended until December 2018, under the same conditions. The group will meet again in June 2018 to assess the need for adjustments in the agreement.

Despite the resumption of growth in the U.S. oil production in 2017, uncertainties arising from geopolitical events, such as those associated with the Iraqi Kurdistan plebiscite, the political turmoil in Saudi Arabia and the unexpected interruption of pipeline operations in the North Sea and in Libya prevailed over the expectation supply increases, contributing to rise the average price of crude oil throughout 2017.

INCREASE IN GLOBAL DEMAND FOR OIL (MILLION BPD)



EVOLUTION OF GLOBAL SUPPLY OF OIL (MILLION BPD)



BRAZILIAN ECONOMY

In 2017, the Brazilian economy grew about 1% and started a recovery process after two years of strong recession. The accumulated inflation for the year, as measured by the National Consumer Price Index (The *Índice Nacional de Preços ao Consumidor Amplo - IPCA*). On the other hand, the domestic economy seems to have been able to respond positively to external stimulus, especially regarding the maintenance of China's growth rate and the improvement of the United States' economy.

In relation to the BRL/USD exchange rate, 2017 presented a lower instability of the Brazilian Real when compared to the high volatility recorded for 2015 and 2016. In the two years of the crisis, the difference between the highest and lowest monthly rate was of 127 and 89 points, respectively. In 2017, this oscillated in only 19 points.

REGULATION

In 2017, the oil and natural gas sector in Brazil experienced major changes, with the following highlights:

Local Content: in March 2017, a new local content policy was approved by the National Energy Policy Council (CNPE), putting an end to the demand of local content percentage as a scoring criteria for the bidding rounds for exploration blocks, thus decreasing the risks associated to the time elapsed between the bidding and the investment; reduction of the minimum threshold of the fine for non-compliance with the local content requirements from 60% to 40% of what is not reached, rendering the new system less punitive than the former one; and simplifying the percentage of local content in macro-segments, replacing the former and more complex item and sub item percentage tables.

Taxes: in August 2017, Provisional Measure No. 795 was published, instituting a special tax regime for the exploration


and production activities; and Decree No. 9.128, which extended the Special Customs Regime for the Export and Import of Goods designated to Exploration and Production of Oil and Natural Gas Reserves (Repetro) until 2040. That brought greater predictability to the standards applicable to the oil and gas industry in the country, although its regulation is still subject to the Brazilian Federal Internal Revenue Service.

Right of first refusal to Petrobras: the change in the pre-salt regulatory framework, which took place in November 2016 with Law No. 13.365, when Petrobras ceased to be the mandatorily sole operator and participant in at least 30% of any block hired under the production sharing regime, to become the preferred operator, was regulated by Decree No. 9.041, dated of May 2017. It established the rules for Petrobras exercising the right of first refusal in the pre-salt blocks, contributing to a greater transparency in the regulatory framework.

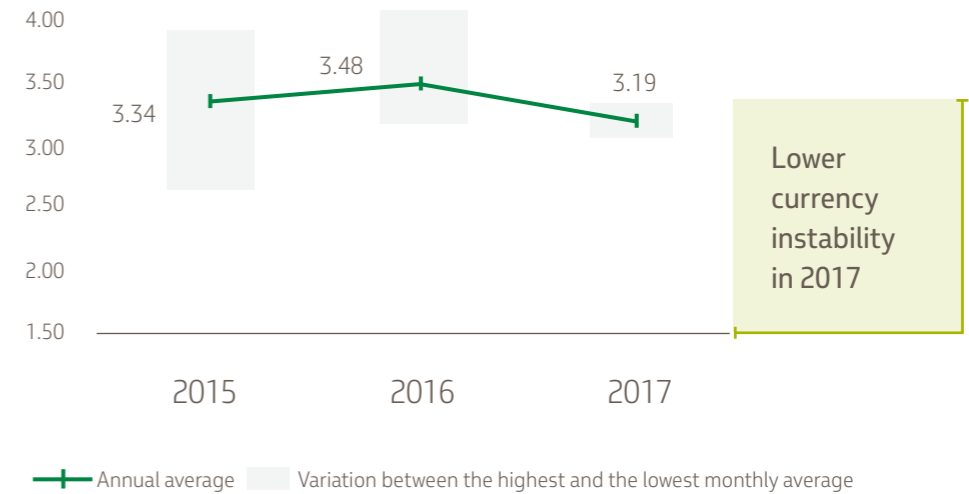
Auctions: in 2017, the National Energy Policy Council (CNPE) also approved a new policy on the exploration

and production of oil, which instituted the multiannual planning of auctions. The auction calendar for the 2018-2019 biennium reduces the uncertainties of the companies and increases the predictability of planning financial resources for the acquisition of exploratory areas.

These measures have given greater security to auctions taking place in 2017, which implied in a more leading role of Petrobras, since it did not take part in any bidding since 2013. In the 14th Bidding Round of the Concession regime, held in September, we acquired seven blocks. In the 2nd and 3rd Bidding Rounds in the Production Sharing regime held in October, we purchased the blocks of Entorno de Sapinhoá, Alto de Cabo Frio Central and Peroba, to which we had already exercised our right of first refusal.

 For further information on our participation in the 2017 auctions, please refer to Business Performance.

EXCHANGE RATE (BRL/USD)



Source: Central Bank of Brazil

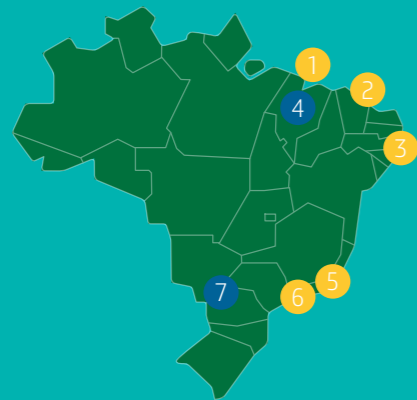
CALENDAR OF BIDDING ROUNDS APPROVED BY CNPE

2018

2019

15TH ROUND Concession

March 29



ONSHORE BASINS

- 4 PARNAÍBA
- 7 PARANÁ

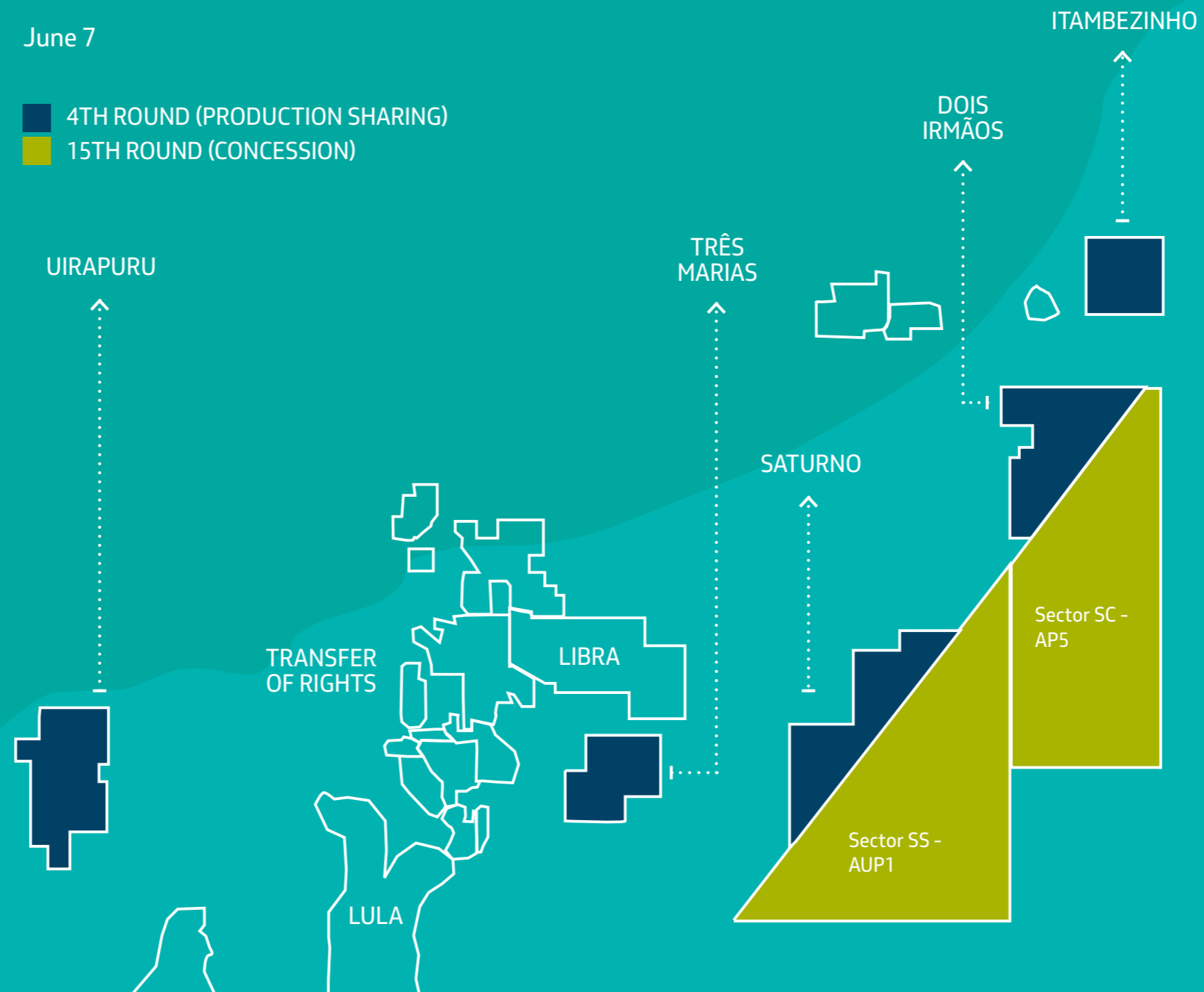
OFFSHORE BASINS

- 1 CEARÁ
- 2 POTIGUAR
- 3 SERGIPE & ALAGOAS
- 5 CAMPOS
- 6 SANTOS

4TH ROUND

June 7

- 4TH ROUND (PRODUCTION SHARING)
- 15TH ROUND (CONCESSION)



16TH ROUND Concession

5TH ROUND Production Sharing

6TH ROUND Concession Mature Areas

Natural Gas: in 2017, extensive debate was held on the improvement of the sector's regulatory framework. Discussions were started under the eight subcommittees of the "Gas para Crecer" initiative, comprised of representatives from several federal government agencies, natural gas industry associations and agents, and the civil society, whose topics were: (i) distribution, processing and regasification of liquefied natural gas (LNG); (ii) transport and storage; (iii) distribution; (iv) trading; (v) tax structure improvement for the natural gas sector; (vi) natural gas as raw material;

(vii) use of the natural gas from the government; and (viii) integration between the natural gas and electricity industries. In the second half of the year, the guidelines for opening the gas market were forwarded to the Ministry of Government Affairs and the parties started contributing to the text of the new regulatory framework for the industry, which will replace the Gas Law adopted in 2009. The processing is taking place at the Mines and Energy Committee, through alternate bill to Bill No 6.407/2013, and is expected to be forwarded to the Chamber of Deputies and Senate for approval in 2018.

Biofuels: Law No.13.576/2017 established a new regulatory framework for biofuels. Referred to as RenovaBio, this new program has the purpose of recognizing the strategic role of biofuels for the reduction of greenhouse gas emissions. In order to do so, within 180 days (from the presidential sanction), decarbonization targets shall be defined for a period of 10 years, which should be fulfilled by fuel distributors through the proof of purchase of decarbonization credits (CBIOs). Those CBIOs will be generated by the biofuels producers and imported and negotiated in organized markets.



BUSINESS PERFORMANCE

Exploration and Production of Oil and Gas	71
Refining and Natural Gas	78
Consolidated Financial Performance	97

Exploration and Production of Oil and Gas

SEGMENT'S KEY STRATEGIES – 2017 HIGHLIGHTS

Integrated management of the

Exploration and Production project portfolio

Prioritize the **development of deep-water production**, working primarily in strategic partnerships, joining technical and technological skills

Manage the **exploratory portfolio** aiming to maximize the **economics** and ensure the **sustainability** of the oil and gas production

Continuously maximize the productivity and reduction of costs in accordance with the best international practices

Strengthen the **management of reservoirs** to maximize the value of exploration and production agreements under all regulatory regimes, seeking opportunities for continuous incorporation of reserves



Total production of 2,767 thousand boed

Investments of BRL 39.6 billion

Acquisition of seven new exploration blocks in Brazil and three new blocks in the pre-salt areas of the Campos and Santos Basins under the production sharing regime

Reduction of 14% in manageable operating expenses in the segment, when compared to 2016

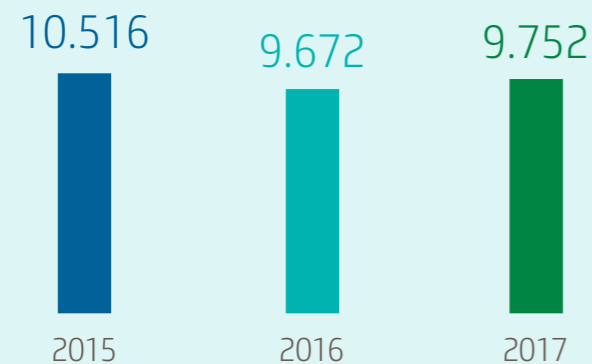
Strategic partnerships were signed with Total and Statoil, in line with the active management process of the exploration and production portfolio established since 2016

In 2017 we maintained the same lifting cost level of 2016, excluding the foreign exchange effect

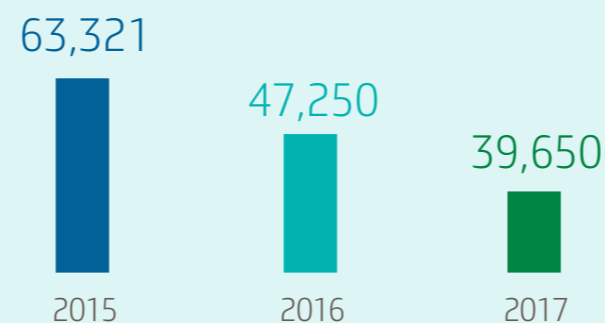
Creation of a Reservoir Executive Management

PERFORMANCE INDICATORS

RESERVES (BILLION BOE)



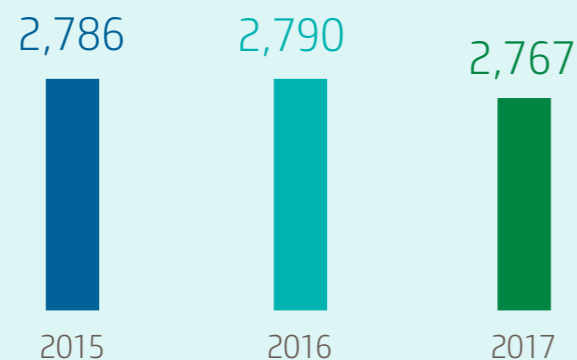
INVESTMENT – E&P (BRL MILLION)



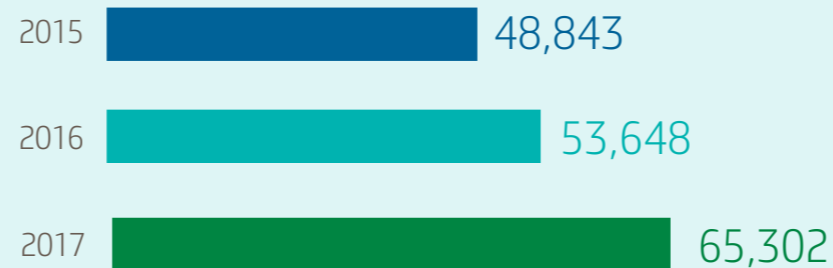
LIFTING COST (USD/BOE)



PRODUCTION (THOUSAND BOED)



ADJUSTED EBITDA – E&P (BRL MILLION)



GHG EMISSIONS – E&P
(MILLION TON CO₂EQ)



Note:
Information per operating segment consider the scope of
each segment, as defined in our financial statements.

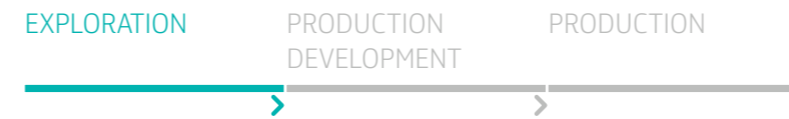
BUSINESS PERFORMANCE



Our oil and gas exploration and production activities are the largest components of our investment portfolio and are focused on research, discovery, identification, production and acquisition of oil and gas reserves, both offshore and onshore, producing hydrocarbons in a safe and profitable manner.

We are world leaders in production in deepwater and ultra-deepwater. In 2017, we produced 28.7% of the global production in that class of assets³. Our activities focus on oil reservoirs in deep and ultra-deep waters in Brazil, which, in 2017, accounted for 87% of our entire production and were responsible for 91% of our proven reserves on December 31, 2017. We also operate in mature fields in shallow waters and onshore fields. Outside of Brazil, we operate in South America, Gulf of Mexico and West Africa.

Exploration



The oil and gas industry chain starts at the exploratory phase, with the hiring of exploration blocks, either through auctions held by governments, or by purchasing from other companies. From the acquisition, processing, interpretation of geological and geophysical data, and drilling of wells, an oil or gas deposit, or both, is discovered. After the discovery, the deposit goes through an assessment process, where the volume of technically recoverable hydrocarbon is estimated for that area.

On December 31, 2017, we had 135 exploratory blocks, in which 28 oil and/or gas discoveries were under assessment process. In addition to these, three other discoveries were under assessment in the production areas. Our exploratory assets are presented in the following table:

	EXPLORATORY AREA (km ²)	EXPLORATION BLOCKS	ASSESSMENT PLANS	DRILLED WELLS	SUCCESS RATE (%)
BRAZIL	63,753	123	28	8	88
ABROAD	13,684	12	3	1	0
South America	13,451	2	1	1	0
North America	233	10	0	0	-
Africa	-	-	2	0	-
TOTAL	77,437	135	31	9	78

³ According to data from IHS Markit (E&P Portfolio Tool)

NATIONAL AGENCY OF PETROLEUM, NATURAL GAS AND BIOFUELS (ANP) AUCTIONS


In 2017, ANP held four bidding rounds for new exploratory blocks in Brazil. We were very selective in these auctions, reflecting our strategic vision and marking the beginning of the recovery of our exploratory portfolio, while we also seek to recover the relationship between reserves and production, and ensure the sustainability of our future oil and gas production. In line with the purpose of strengthening partnerships, sharing risks, joining technical and technological skills and capturing synergies, we continue with our strategy of operating in competitive joint ventures.



The following map and table synthesize the areas acquired by Petrobras.

	EXPLORATORY BLOCKS	PARTNERSHIPS	BONUS (BRL MILLION)	PROFIT OIL (%)	ACQUIRED AREA (THOUSAND KM ²)
14th ROUND (CONCESSION)					
	6 offshore	50% Petrobras 50% ExxonMobil	1800	-	3.6
	1 onshore	100% Petrobras	2	-	2.9
2nd ROUND (PRODUCTION SHARING)					
	Entorno de Sapinhoá	45% Petrobras 30% Shell 25% Repsol	90	80	0.2
3rd ROUND (PRODUCTION SHARING)					
	Peroba	40% Petrobras 40% BP 20% CNODC	800	76.96	1.1
	Alto de Cabo Frio Central	50% Petrobras 50% BP	250	75.86	3.7
TOTAL	10 blocks (9 offshore and 1 onshore)	-	2.942	-	11.4

Regarding the 4th Bidding Round of Exploratory Blocks under the production sharing regime, scheduled to be held in June 2018, we expressed interest in exercising our preferential rights at Dois Irmãos, Três Marias and Uirapuru areas, with the minimum percentage of 30% participation in each of them.

 For further information on our oil and natural gas reserves, please refer to Natural Capital.

Our exploration investments amounted to BRL 4.67 billion in 2017, 97% of it in Brazil. Those investments mainly cover the cost of drilling, seismic surveys and the acquisition of blocks, which contributed to the following discoveries and declarations of commerciality:

MAJOR DISCOVERY IN 2017

COUNTRY	AREA	WATER	AREA (km ²)	WATER DEPTH (m)	PARTICIPATION PETROBRAS (%)
Brazil	Campos	Marlim Sul	24.3	1,107	100

Marlim Sul Field (Campos Basin pre-salt): first and main commercial discovery of oil at pre-salt in the area in 2017. The discovery took place during the drilling of well 6-BRSA-1349, informally referred to as Poraquê Alto.

DECLARATIONS OF COMMERCIALITY IN 2017

COUNTRY	FIELD	BASIN	VOLUME RECOVERABLE (MILLION BOE)	OIL QUALITY (° API)	PETROBRAS PARTICIPATION (%)
Brazil	Canário da Terra, Canário da Terra Sul e Guriatã Sul	Recôncavo	0.892	38	100
Brazil	Mero	Santos	3,300	29	40

LIBRA AREA AND MERO FIELD

Libra, the first block in the production sharing regime in Brazil, is one of the largest offshore exploration and production projects in the world, operated by a consortium (Libra Consortium), led by Petrobras (40%), in partnership with Shell (20%), Total (20%), CNPC (10%) and CNOOC Limited (10%). The Consortium also has the participation of the state-owned company Pré-Sal Petróleo SA (PPSA) as the manager of the agreement.

Since the signing of the production sharing agreement in 2013, a total of 12 wells have already been drilled in the Libra area, with one of them (3-BRSA-1339A-RJS) reaching, during testing, a historical national productivity record.

In November 2017, on behalf of the Consortium, we announced the declaration of commerciality in the Northwest region of the Libra block, which was renamed to Mero Field. This was the first declaration of commerciality in the Libra area, marking the beginning of the production development phase.

The first definitive production systems are expected to start operating in 2021 (Mero 1) and 2022 (Mero 2). A total of four production systems are currently envisaged for that field.

Production development

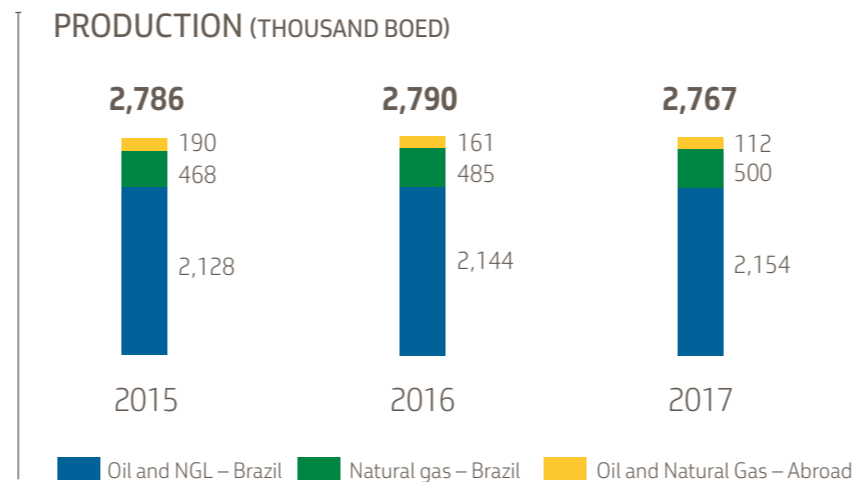


After a field receives its declaration of commerciality, the development phase starts. Investments made in that phase are primarily focused on the design of projects and the contracting of production systems, including platforms, subsea systems, and the drilling and completion of wells.

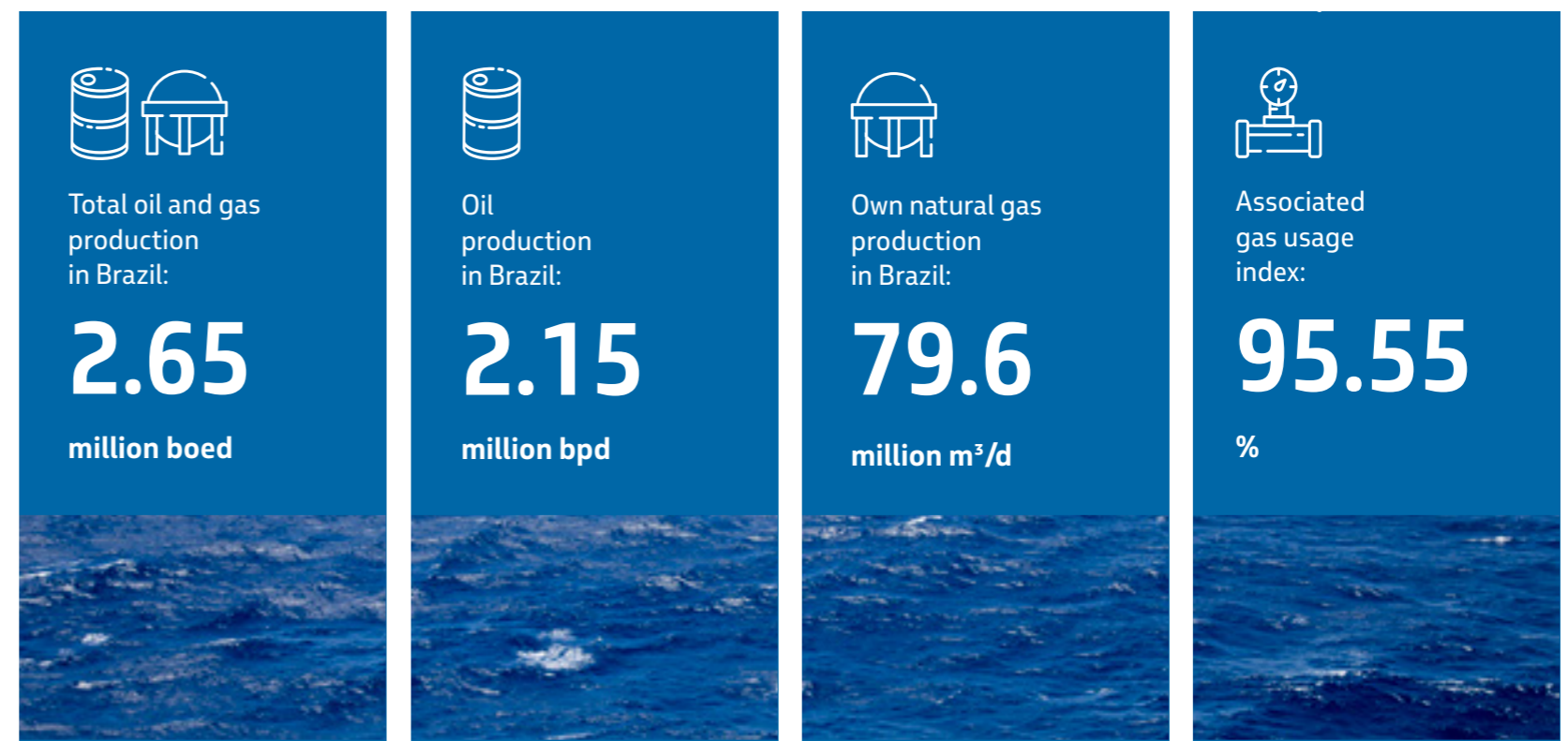
In 2017, the greatest production development highlights are in the Santos Basin pre-salt, with the initial operation of FPSOs Pioneiro de Libra, in the Mero Field, and P-66, at the Lula Sul Field, the first one in the replicating model (several platforms built following the same basic design).

We invested BRL 29.8 billion in production development in 2017, a 20% decrease when compared to the previous year, mainly due to the postponement of some activities in the construction of FPSOs for 2018, the reduction of rates and the greater efficiency of rigs and support vessels.

Production



PRODUCTION RECORDS IN 2017



In Brazil, our average production of oil reached, for the fourth consecutive year, a historical record: 2.15 million barrels per day (bpd), 0.4% above the results from the previous year. For the third consecutive year we reached our production target, confirming the predictability of our forecast.

Regarding our own production of natural gas, in 2017 we reached the unprecedented amount of 79.6 million cubic meters per day (m³/d), excluding the liquefied volume. With that, the country's total production reached 2.65 million barrels of oil equivalent per day (boed), volume 0.9% higher than 2016. This mark was also a new record for Petrobras.

The annual average for operated production (covering Petrobras' and partners' portion) in the pre-salt layer, in 2017, was also the highest in our history, reaching 1,29 million bpd. This volume exceeded the 2016 production in 26%. In addition, together with our partners, we reached a monthly (1.36 million bpd in December) and daily record (1.48 million bpd, on December 04) in the pre-salt layer. This result was also due to the increase in the production in the Lula and Lapa fields, both in the Santos Basin pre-salt region. The first one was due to the interconnection

of new wells to FPSO Cidade de Saquarema, Cidade de Maricá and Cidade de Itaguaí, as well as the beginning of the operation of platform P-66. The second one was due to the interconnection of new wells to FPSO Cidade de Caraguatatuba. Another important factor was the beginning of the production of the FPSO Pioneiro de Libra.

Abroad, the average oil production was of 64,000 bpd, 20% below the volume produced in the previous year. The average natural gas production accounted for 8.3 million m³/(d), 39% below the 2016 production. The decrease is mainly due to the divestments made, such as the sale of Petrobras Argentina.

When considering Brazil and abroad together, the average production of oil was of 2.22 million bpd and the annual average production of oil and gas was 2.77 million boed.

In 2017, our lifting cost (Brazil and abroad), excluding government taxes, was USD 11.0 per boe, representing a 7% increase when compared to the average cost of USD 10.3 per boe recorded for 2016. Disregarding the exchange rate effect (+9.4% compared to 2016), the lifting cost for 2017 is in line with the previous year, even when taking into consideration the beginning of operation in the new units (P-66 and Pioneiro de Libra).

URUCU OIL PROVINCE

Discovered in 1986, the Urucu Oil Province holds the largest proven onshore reserves of oil and natural gas of Brazil. Despite the logistics and operation challenges in the Amazon region, the cost for extracting oil and natural gas from Urucu is among the lowest in Brazil. In 2017, Urucu presented average daily production of 36.18 thousand barrels of oil of excellent quality, including 1,083 tons of cooking gas (LPG). With that, our activities in the operating unit in the Exploration and Production area in Amazonas reached a production efficiency index of 94.3%, the best in the country. It also obtained the best associated gas usage index of the company, at 97.40%. And it had zero oil and oil products leaks for the fifth consecutive year.

Refining and Natural Gas

SEGMENT'S KEY STRATEGIES – 2017 HIGHLIGHTS

Reducing our risk in exploration and production, refining, transportation, logistics, distribution and marketing activities **through partnerships and divestment**

Promoting **market price policy** and margin maximization in the value chain

Optimizing the business portfolio, **completely exiting from biofuel production, liquefied petroleum gas (LPG) distribution, and fertilizer production activities, and the interest in petrochemicals**, preserving our technological skills in areas with development potential

Maximizing the **creation of value in the gas chain**, aligned with regulatory developments, ensuring the monetization of our own production and **adapting our interest in the natural gas chain as the long-term transitional fuel**

Restructuring the energy business, consolidating the thermoelectric assets and other businesses in the sector, seeking the **alternative that maximizes the value for the company**

Review the lubricant business positioning, aiming at maximizing the creation of value to Petrobras



Reviewing the price policy for diesel and gasoline, aiming at increasing the frequency of price adjustments

New price policy for the marketing of liquefied petroleum gas (LPG-P13)

Petrobras Distribuidora IPO

Active participation in debates that have impact in the country's regulatory framework for the oil and gas industry; RenovaBio, Gás para Crescer and Combustível Brasil programs

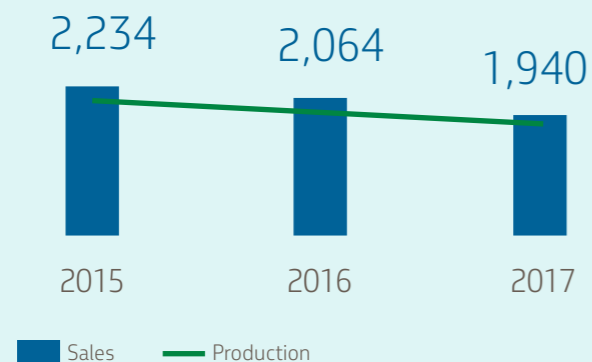
Investments of BRL 7.81 billion



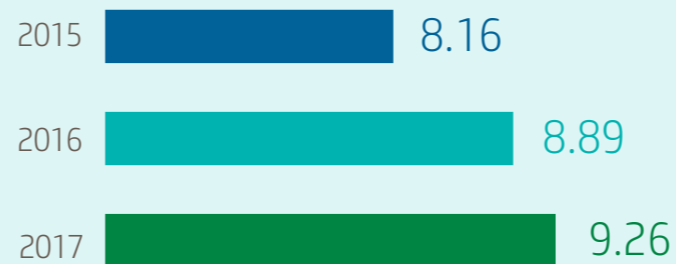
For further information on partnerships and divestments, and on the regulatory framework for the oil and gas industry, please refer to Financial Capital and External Context, respectively.

PERFORMANCE INDICATORS

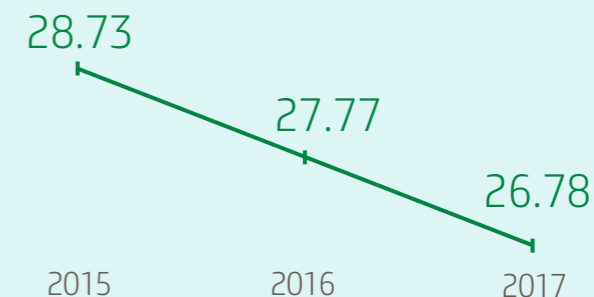
DOMESTIC SALES AND OIL PRODUCTS
PRODUCTION (THOUSAND BBL/DAY)



REFINING COSTS (BRL/BBL)



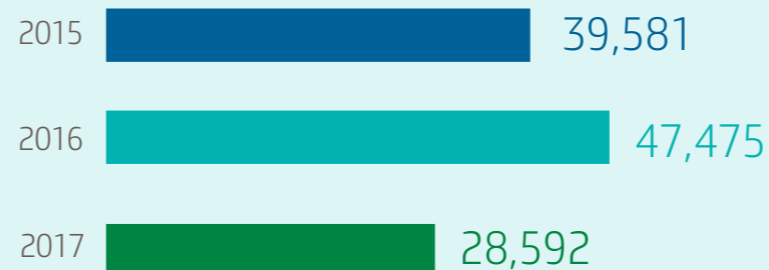
GHG EMISSIONS – SUPPLY
(MILLION TON CO₂ EQ)



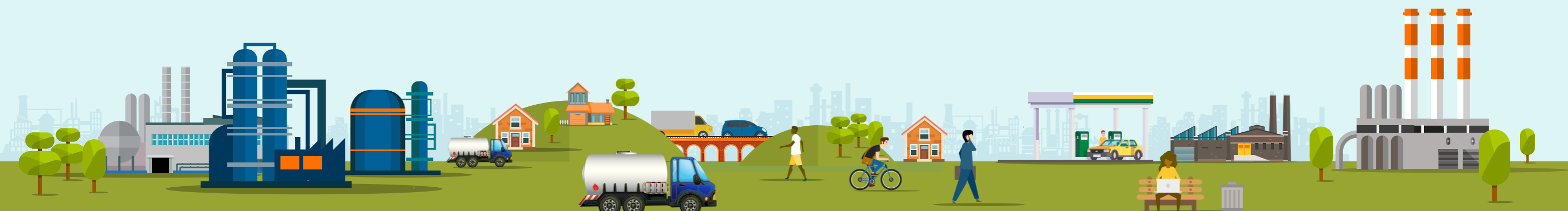
INVESTMENT – SUPPLY (BRL MILLION)



ADJUSTED EBITDA – SUPPLY (BRL MILLION)



Note:
Information per operating segment consider the scope of each
segment, as defined in our financial statements.



NATURAL GAS DEMAND (MILLION M³/DAY)



POWER GENERATION (AVERAGE MW)



GHG EMISSIONS – GAS AND POWER (MILLION TON CO₂ EQ)



INVESTMENT – GAS AND POWER (BRL MILLION)



ADJUSTED EBITDA – GAS AND POWER (BRL MILLION)



Note:
Information per operating segment consider the scope of each
segment, as defined in our financial statements.



Business Performance

A total of 24% of our oil production was exported, with the remaining being processed at our refineries.

The national production of oil products equivalent to 1.8 million barrels per day was obtained from the processing of 93% of the domestic oil, supplemented by imported oil. Those oil products were traded both in Brazil and abroad.

Regarding natural gas, in Brazil, our processing units (UPGN) have the capacity to treat 106.75 million m³/day. That natural gas, along with the natural gas imported from Bolivia and the liquefied natural gas (LNG) purchased in the international market, is marketed to several consumers, in addition to the thermoelectric power plants where we have interest and our fertilizer production units.

In addition, we operate in the petrochemical sector with interest in companies and subsidiaries and in the production of biofuels through Petrobras Biocombustível, our wholly-owned subsidiary.

OIL PRODUCTS

LIQUID OIL PRODUCTS CHAIN

REFINING

LOGISTICS

MARKETING

DISTRIBUTION

We serve our oil products clients in Brazil through a planned combination of oil processing, import and export that seeks to optimize our margins, taking into consideration the different opportunity costs of domestic and imported oil, the oil products costs in the several markets, as well as the transportation, storage and processing costs involved.



Refining

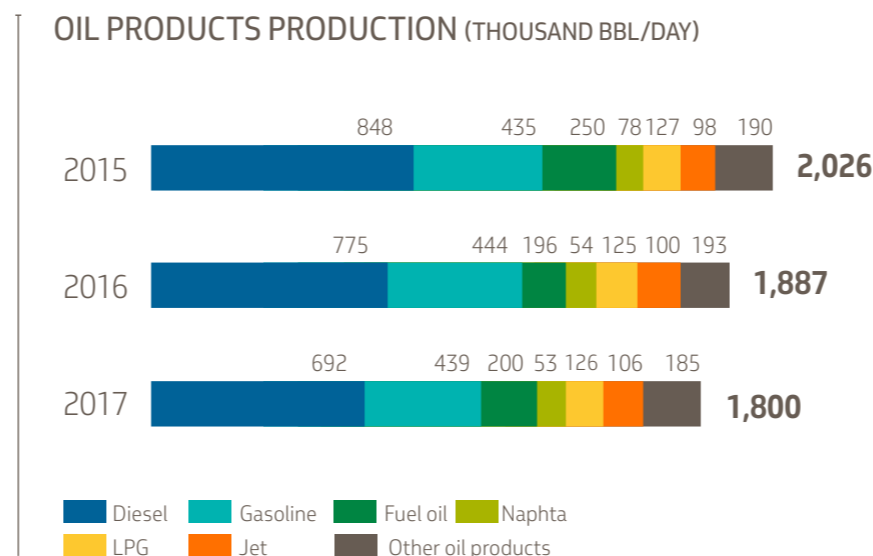
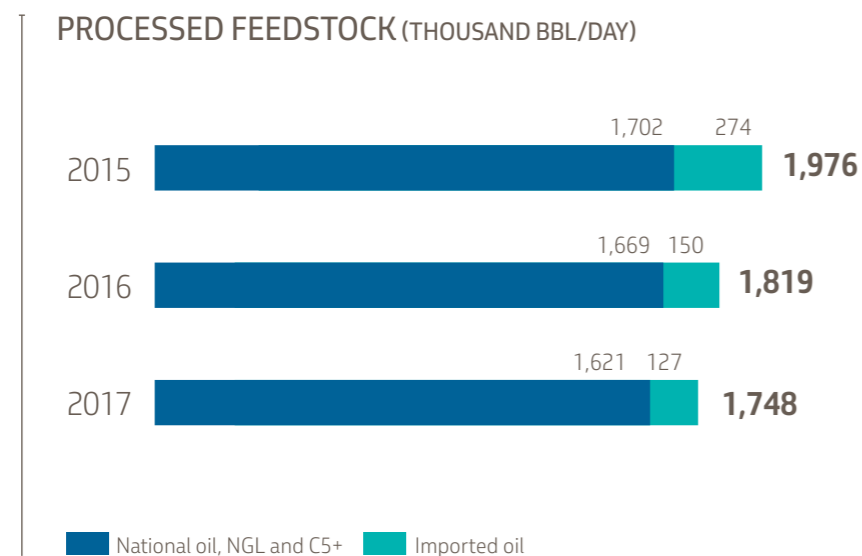
REFINING

LOGISTICS


MARKETING

DISTRIBUTION

We hold 98.2% of all refining capacity in Brazil⁴. Six of our thirteen refineries are located in the southeast of the country, close to the most populous and industrialized markets, and to the source of most of our crude oil in the Campos and Santos basins.



In the United States, our Pasadena Refining System (PRSI), with processing capacity of 100 thousand bbl/day of oil is currently under divestment process. In 2017, it processed 94 thousand bbl/day of oil and natural gas liquid (NGL), and produced 94 thousand bbl/day of oil products.

 For further information on divestments, please refer to Financial Capital.

PROJECTS IN PROGRESS

Abreu e Lima Refinery

The Abreu e Lima refinery located in Ipojuca, in the state of Pernambuco, is expected to operate two sets of processing units, commonly referred to as refining trains. Since 2016, the first refining train can process up to 100,000 bbl/day of oil. In 2017, we resumed work on the sulphur emissions reduction unit (SNOX), with forecast to start in 2018, when we will operate at full load. For the completion of the second train, we will prioritize the establishment of partnerships, as set forth in our Business and Management Plan.

Rio de Janeiro Petrochemical Complex (Comperj)

In 2016, we approved the reassessment of the Comperj project, located in the city of Itaboraí, in Rio de Janeiro, to continue implementing the utilities and infrastructure units associated with the Natural Gas Processing Unit, which will process the natural gas from the pre-salt pole of the Santos Basin. The completion of the refining train depends on the establishment of partnership, as set forth in our Business and Management Plan.

⁴ According to the 2017 Statistical Yearbook from ANP



Logistics

REFINING

LOGISTICS

MARKETING

DISTRIBUTION

The oil and oil products logistics connects the oil production systems to the refineries and the markets, seeking to minimize the costs of transportation and storage, and optimizing the result of the refining and marketing operations of oil and oil products in Brazil and abroad.

A few assets in that system are directly managed by Petrobras Holding, while others are hired at our wholly-owned subsidiary Petrobras Transporte (Transpetro).

2017 Operational Highlights

The increase in the efficiency of the programming and usage of vessels allowed a 5% reduction in the fleet size, as well as a 16% reduction in cost per ton-mile.

The deployment of ship-to-ship oil transfer operations in Angra dos Reis and São Sebastião provided greater efficiency in the oil export operations.

The 5% decrease in the movement of products in terminals and pipelines operated by Transpetro in 2017 reflected the increase of oil product imports by third parties, reducing our participation in the supply of the domestic market, which resulted in lower loads processed in our refineries.

VOLUME MOVED AT
TERMINALS AND PIPELINES
(MILLION M³)



Marketing

PROCESSING

LOGISTICS

MARKETING

DISTRIBUTION

MAIN SOURCES

From the total supply of oil products,

1.8
million bbl/day
come from the production of our refineries

181
thousand bbl/day
were imported

CONSUMPTION

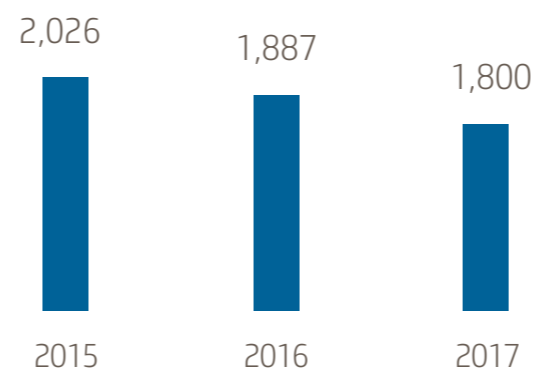
We sold

an average of
1.94
million bbl/day
of oil products for the domestic market

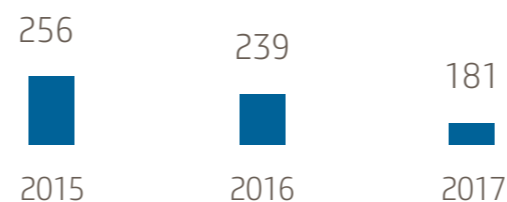
157
thousand bbl/day
to the foreign market

through agreements with approximately
400 clients

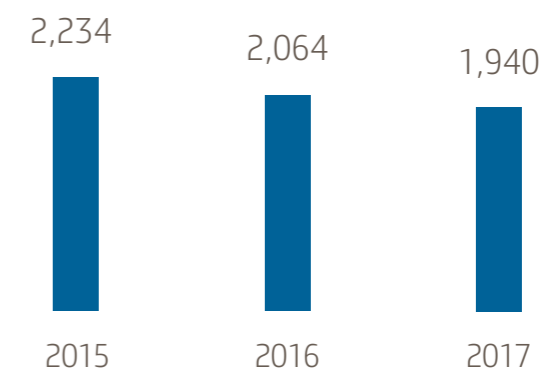
OIL PRODUCTS PRODUCTION
(THOUSAND BBL/DAY)



IMPORT OF OIL PRODUCTS
(THOUSAND BBL/DAY)



DOMESTIC MARKET SALES
(THOUSAND BBL/DAY)



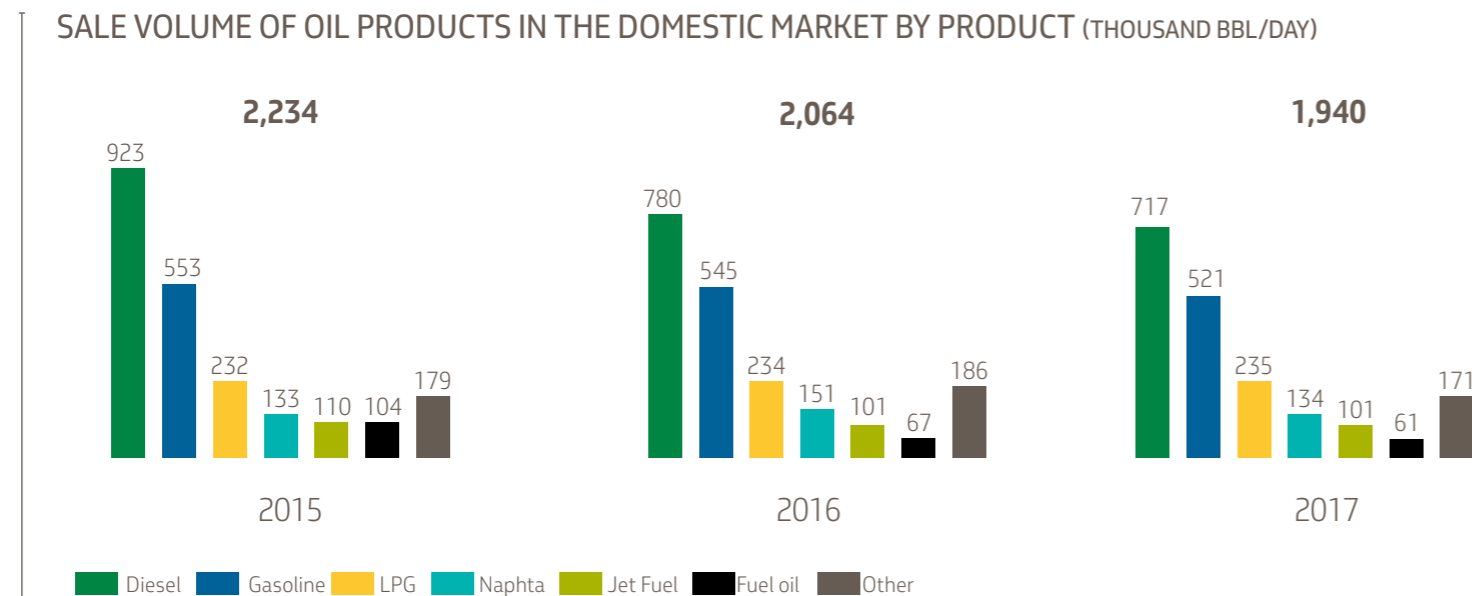
EXPORT OF OIL PRODUCTS
(THOUSAND BBL/DAY)



Marketing

REFINING LOGISTIC **MARKETING** DISTRIBUTION

The oil products we market come from our refineries and from imports, with approximately 90% are sold in Brazil.



DIESEL

Sales of fuel diesel decreased in 8%, mainly due to the decline in our market share as a result of the significant increase in third-party imports. Another factor that explains the decrease is the increase of biodiesel content from 7% to 8% that took place in March 2017.



LPG

Sales of liquefied petroleum gas (LPG) presented a 0.4% increase, influenced by the population growth and by the increase in salaries, as well as the production of the processing industry, which drove the consumption of this derivate for residential and industrial use, respectively.



JET FUEL

The marketing of jet fuel remained at the same level as in 2016, continuing with the network optimization measures adopted that year by the airlines, as a way to offset the strong decrease in the demand for trips due to the economic crisis.



GASOLINE

The marketing of gasoline presented a 4% decrease. The key factor was the increase in the volume sold by importers and petrochemical plants, which displaced part of our sales.



NAPHTA

In 2017, Braskem reduced their order for naphta from Petrobras and increased the imports, reducing the naphtha sales in 11% in 2017.



FUEL OIL

We observed a 9% decrease in the sales of fuel oil, mainly due to the lower volume sold to the thermo power plants.

PRICE POLICY

Diesel and Gasoline

In June 2017 we revised the price policy originally announced in October 2016, to increase the frequency of price adjustments of diesel and gasoline sold at our refineries.

We started to make adjustments to the prices, at any moment, including on a daily basis, as long as the accumulated adjustments per product are, in the Brazilian average, within a given range (-7% to +7%), respecting the margin established by the Market and Price Executive Group (GEMP), a committee composed by the CEO of the company, the Refining and Natural Gas director and by the Chief Financial and Investor Relations Officer. In addition, any change outside this range must be authorized by the GEMP.

The review of the approved policy provides a higher adherence of the prices in the domestic market to those in the short-term international market, allowing us to compete in a faster and more efficient way.

The principles of the price policy approved in October 2016 remain unchanged, considering the international price parity, margin for compensation of the risks inherent to the operation and the market share level.

In 2017, we announced the adjustment of sale prices at the refineries, amounting to 7.7% increases for gasoline and 11.2% for diesel in comparison to the prices for December 31, 2016.

Liquefied Petroleum Gas (LPG)

In June 2017, we approved a price policy for liquefied petroleum gas sold at the refineries and intended for domestic use in cylinders of up to 13 kg (LPG P13). This policy provided monthly adjustments calculated by the average price quotes for butane and propane in the European market in the previous month, plus 5% margin.

In January 2018, our Executive Board approved a review to the LPG P13 price policy with the purpose of smoothing the transfer of the price volatility taking place in the international market to the domestic price. Therefore, the adjustments now take place in a quarterly basis, using the average prices of butane and propane in the European market calculated in increasing periods, that will reach 12 months from the fourth quarter of 2018. The addition of the 5% margin remained in force. Additionally, a compensation mechanism has been established, which will allow the comparison of prices according to this new policy and the prices that would be charged according to the previous policy. The differences accumulated in a year, adjusted by the Selic rate, will be offset through a fixed installment to be added to or deducted from the prices of the following year.



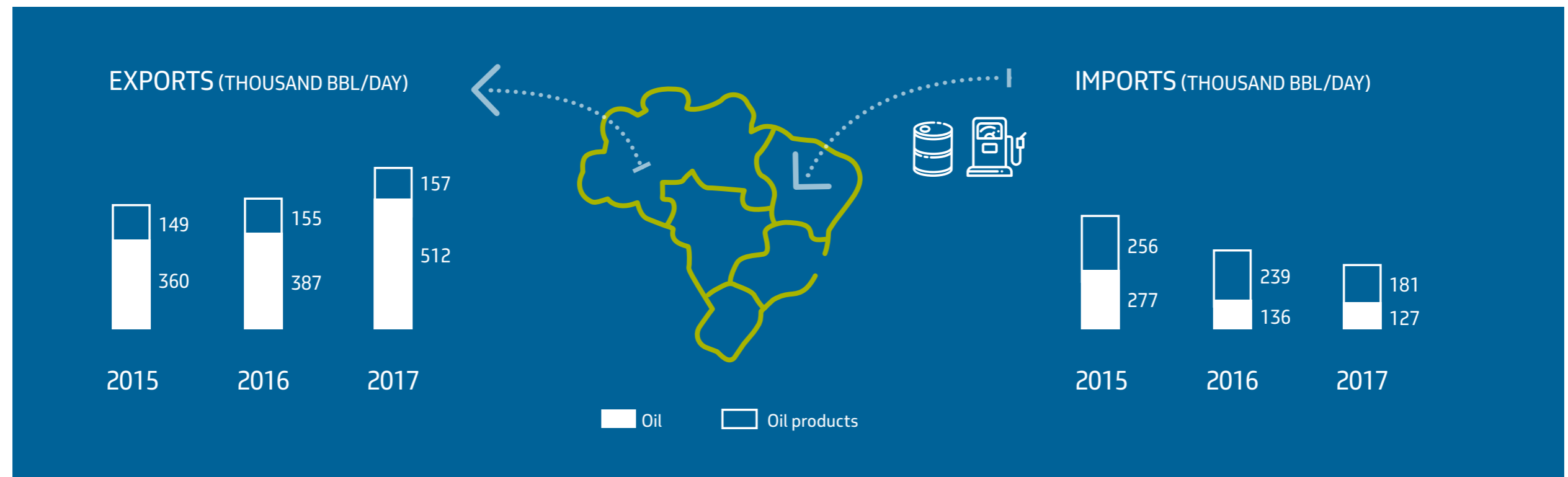
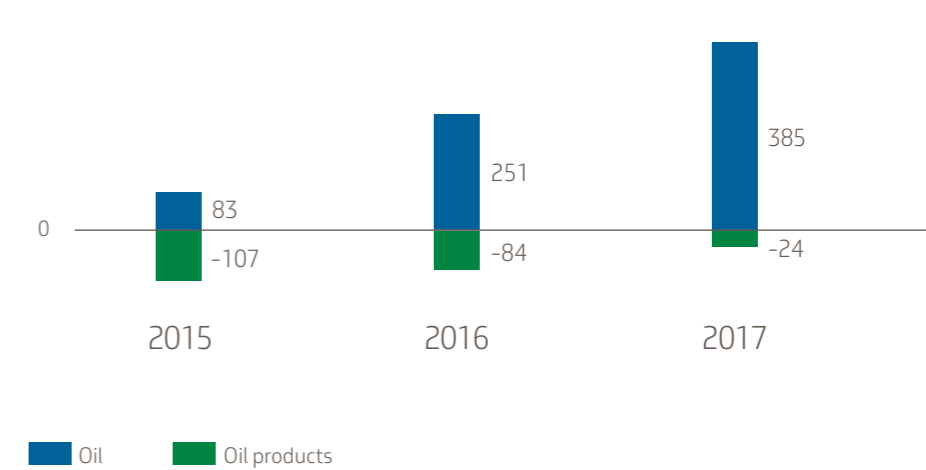
Exports x Imports

Our oil exports reached 512 thousand bbl/day, a 32% increase, due mainly to two factors: growth of the domestic oil production and retraction of the domestic market demand.

Our oil imports totaled 127 thousand bbl/day, a 7% reduction, and oil products imports totaled 181 thousand bpd, a 24% decline. The lower imported volume of oil products was also the consequence of the domestic market retraction, linked to the larger sale of products in the Brazilian market by third parties.

In 2017, we maintained our position of net exporters of oil and oil products. The financial results of our trade balance, calculated based on the exports and imports of oil and oil products, without including natural gas, liquefied natural gas (LNG) and nitrogen, presented a surplus of USD 7.3 billion.

NET TRADE BALANCE RESULTS (THOUSAND BBL/DAY)



Distribution

REFINING LOGISTIC MARKETING **DISTRIBUTION**

In the fuel and lubricant distribution, we operate through our subsidiary Petrobras Distribuidora, the largest distributor in Brazil in sales volume*, which operates in the marketing and distribution of oil products and biofuels throughout the country, through a network of 8,277 service stations and 5,567 large consumers. We also operate in the chemical, aviation, asphalt and energy business segments, and locally, in the State of Espírito Santo, in the distribution of piped natural gas.

Our interest in the oil products distribution market amounts to 29.9%*, and we are the leader in the service stations, large consumers and aviation segments, with 24.4%, 43.1% and 56.4% market share, respectively.

In 2017, Petrobras Distribuidora's sales volume was 5.7% lower than 2016, with the sales of diesel, coke, gasoline and ethanol presenting the greatest impact on the company's sales volume.

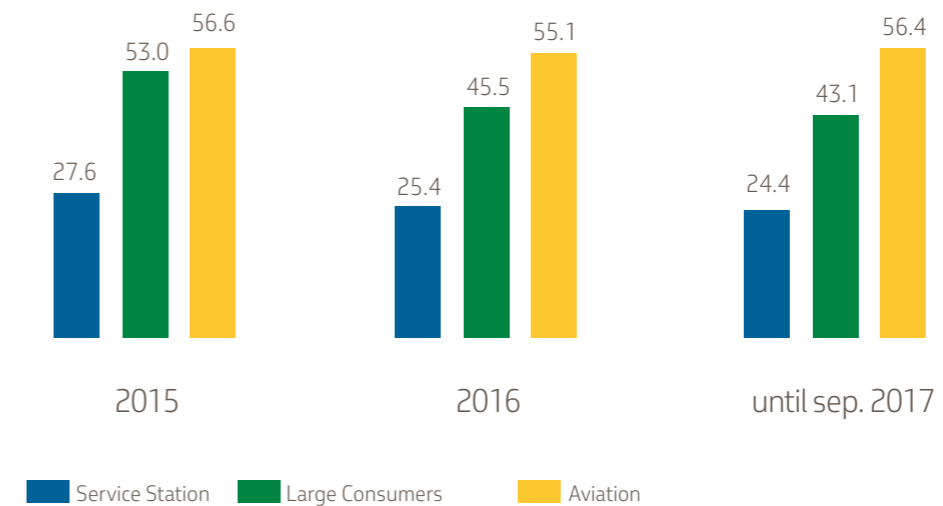
Such a reduction is explained by the greater participation of our competitors in the market, made possible by importing products at more competitive prices. In addition, we emphasize the dispatches to thermo power plants, 8.5% less than the volume traded in the previous year.

In 2017, we held Petrobras Distribuidora's IPO, which is no longer a wholly owned subsidiary.

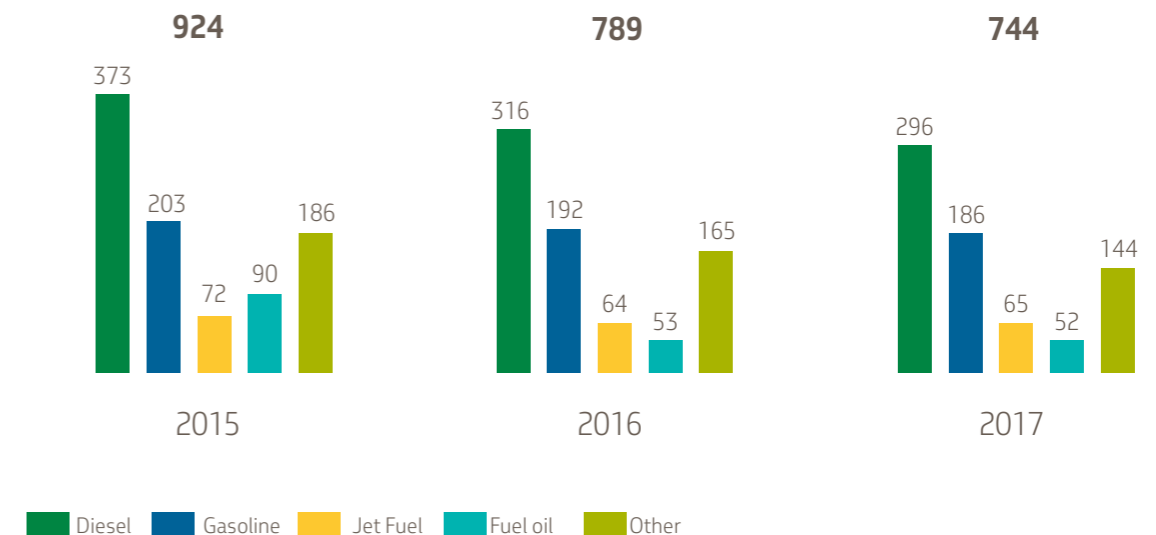
 For further information on Petrobras Distribuidora IPO, please refer to Financial Capital.

* Source: Plural/ANP

MARKET SHARE BY SEGMENT (%)




SALES VOLUME OF OIL PRODUCTS IN THE DOMESTIC MARKET BY PRODUCT (THOUSAND BBL/DAY)



In the external market, we operate in the distribution segment in Colombia, Paraguay and Uruguay, with 113, 192 and 88 service stations, and 4%, 17.7%, and 22.2% market share, respectively.

We also operate in the bottling, distribution and commercialization of liquefied petroleum gas (LPG) through the subsidiary Liquigás Distribuidora, which, in 2017, sold 1.6 million tons of LPG. We are in the process of selling that company, pursuant to the strategy of optimizing the business portfolio, leaving the LPG distribution activity.

 For further information on the process of selling Liquigás, please refer to Financial Capital.

NATURAL GAS

NATURAL GAS CHAIN



One of our main strategic objectives in this segment is to maximize the generation of value of the gas chain from the adequacy of our interest in each link of the production chain. Through this strategy, we will remain as a relevant player in the natural gas value chain, serving the market with our supplying portfolio.

Processing of Natural Gas



Natural gas originating from our exploration and production process needs to be treated at processing units in order to be transformed into marketable products, which will be used as fuel and raw material for different uses, such as in vehicles, industries, households, in the fertilizer industry and in the generation of thermoelectric power.

Our natural gas processing units are located in Amazonas, Ceará, Rio Grande do Norte, Alagoas, Sergipe, Bahia, Espírito Santo, Rio de Janeiro, São Paulo and Bolivia, and have the capacity to process natural gas in its gaseous and condensed forms.

In 2017, the average total volume of natural gas processed in Brazil amounted to 71.7 million m³/day, 16% higher than in 2016. After the processing of natural gas, the main products were 58.2⁵ million m³/day of natural gas and 3.8 thousand ton/day of LPG.

Besides the natural gas produced in Brazil, we also receive natural gas from Bolivia through the pipeline, and liquefied natural gas, imported from other countries in special vessels and re-gasified at terminals in Brazil.

In 2017, the average total volume of natural gas processed in Bolivia amounted to 20.5 million m³/day, 17% lower than in 2016.

⁵In addition to the consumer market, part of the volume of processed gas is destined to reinjection in isolated areas and to consumption in the processing units.

Natural Gas Logistics



We use a pipeline network that carries natural gas from the processing plants, regasification terminals, and the border with Bolivia, taking the product to local distributors and our own units. We hold the following equity interest on the gas transport companies in Brazil:

OUR INTEREST IN THE NATURAL GAS TRANSPORT SYSTEM IN BRAZIL

Company	PIPELINE EXTENSION (km)	OUR EQUITY INTEREST (%)
Transportadora Brasileira Gasoduto Bolívia Brasil S.A (TBG)	2,593	51 (via Logigás)
Transportadora Associada de Gás S.A (TAG)	4,504	100
Nova Transportadora do Sudeste S.A (NTS)	2,043	10
Transportadora Sulbrasileira de Gás S.A (TSB)	50	25 (via Logigás)
TOTAL	9,190	-

From the second quarter of 2017, with the sale of 90% of the NTS shares to Brookfield Infrastructure Partners and its affiliates, we started considering the charges for the transport services in those pipelines as operating expenses.

We also hold indirect interest of 11% at Gas Transboliviano S.A. (GTB), responsible for the Bolivian side of the Bolivia-Brazil gas pipeline, totaling 557 km..



GAS FROM PRE-SALT

In order to distribute the natural gas from our production at the Santos Basin pre-salt area, in addition to using part of the existing infrastructure, we have invested in the construction of distribution routes integrated to the processing units, seeking to optimize the use of the natural gas.

Route 1: 359-km pipeline consisting of two sections: the Lula-Plataforma de Mexilhão segment and the one connecting the Mexilhão platform to the Monteiro Lobato Gas Treatment Unit in the city of Caraguatatuba (SP), with capacity to transport up to 10 million m³/day of gas produced in the Santos Basin pre-salt.

Route 2: pipeline interconnecting the Santos Basin pre-salt to the Cabiúnas Processing Asset in the city of Macaé (RJ), with 401 km and initial capacity to distribute 13 million m³/ day, and later increased to 16.0 million m³/day, with the deployment of an additional treatment unit at Cabiúnas Processing Asset. This additional unit, once completed, will allow the distribution of the additional production for processing at the Route 3 units at Comperj.

Route 3: gas pipeline connecting the pre-salt to the Natural Gas Processing Unit located at the Rio de Janeiro Petrochemical Complex (Comperj) in Itaboraí (RJ), for the distribution of up to 18 million m³/ day. This pipeline will be 355 km long, of which 307 km will be at sea and 48 km inland. The Natural Gas Processing Unit will have two units with total capacity for processing 21 million m³/ day of natural gas, which will increase the supply of natural gas, LPG and natural gasoline (C5+) to the market. Route 3 is scheduled to start operating in 2020.

Marketing

PROCESSING

LOGISTICS

MARKETING

DISTRIBUTION

SOURCES

Total offer
natural gas

53.7
million m³/day
originated from
national production

5.0
million m³/day
liquefied natural gas
(LNG) were subject
to regasification at
the LNG terminals in
Pecém (CE), at Baía
de Guanabara (Rio
de Janeiro) and in
Bahia (BA)

24.0
million m³/day
were imported
from Bolivia

CONSUMPTION

We supply,

The average of
82.7
million m³/day
natural gas

25.7
million m³/day
for the internal
consumption of
our units

57.0
million m³/day
to the market

We sell

through
45 agreements

with
**19 distribution
companies,**

both for the thermoelectric
segment, as for the non-
thermal segment, including
cogeneration units.
Additionally, we serve two
free consumers and one
other consumer forced
by judicial injunction, who
purchase directly from
Petrobras

Total volume
delivered

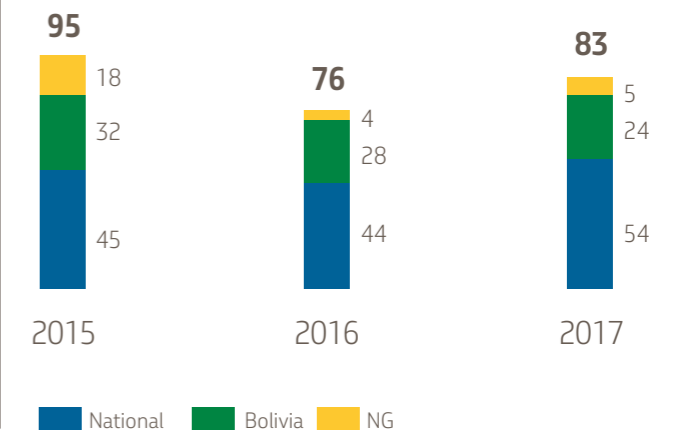
We delivered
29.2
million m³/day
to the thermoelectric market

15.4
million m³/day
to the refining units and
fertilizer manufacturers

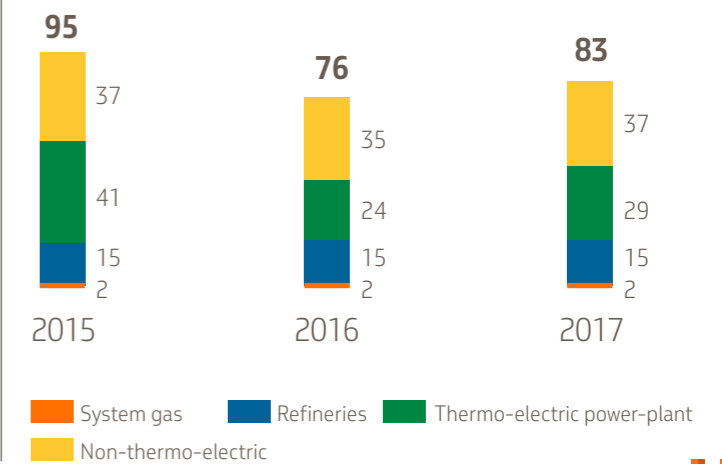
36.7
million m³/day
to the gas distributors
for supplying the non-
thermoelectric market

1.4
million m³/day
was consumed by
the natural gas carriers
hired by Petrobras for
the provision of
transport service

OFFER OF NATURAL GAS (MILLION M³/DAY)



DEMANDA DE GÁS NATURAL DEMANDA FOR NATURAL GAS (MILLION M³/DAY)



Natural Gas Distribution



The distributors provide gas through their distribution networks to commercial establishments, households, industries, vehicles and thermal power plants. This is how the end customer receives natural gas.

We operate in Brazil and Uruguay in the natural gas distribution business.

In Brazil, we are controllers, with 51% stake of Petrobras Gás (Gaspetro), a holding that consolidates our equity interests in 19 of the 27 state distributors of natural gas. Additionally, Petrobras Distribuidora operates the natural gas distribution in the State of Espírito Santo.

In Uruguay, through Petrobras Uruguay S.A de Inversión, we have equity interest in two companies in the natural gas distribution business, which are responsible for distribution throughout the Uruguayan territory.

NATURAL GAS DISTRIBUTORS

NATURAL GAS VOLUME SOLD AND NUMBER OF CLIENTS

	2015	2016	2017
BRAZIL¹			
Number of clients (thousands)	298	351	402
Volume (million m ³ /d)	29	21	24
URUGUAY			
Number of clients (thousands)	59	59	59
Volume (million m ³ /d)	0.16	0.18	0.16

¹ Distributors with Gaspetro interest



ELECTRICITY

We operate in the generation and sale of electricity with a generating network consisting of 20 thermoelectric power plants, among owned and rented plants, powered by natural gas, diesel oil or fuel oil, with a total installed capacity of 6,100 MW.

In 2017, upon the storage reduction of the reservoirs supplying the hydro-electric power plants in the National Interconnected System (SIN), a result of the unfavorable hydrological scenario observed throughout the year, the thermoelectric dispatch of our plants increased, mainly in the second half of the year, presenting an increase of 41% in 2017.

We also have generating plants using renewable sources and minority stakes in other projects, which add approximately 325 MW to our power generation capacity.

The electricity market segment in Brazil involves the Free Marketing Environment (ACL) and the Regulated Marketing Environment (ACR).

SALE AND GENERATION OF ELECTRICITY

	2015	2016	2017
Electricity Sales (ACL) – average MW	858	835	788
Electricity Sales (ACR) – average MW	3,160	3,172	3,058
Electricity Generation – average MW	4,646	2,252	3,165

The sales of electricity in ACR decreased in average 114 MW due to the termination of the agreements from the 15th Auction of Existing Energy, an auction category aimed supplying the distributors with energy originated from ongoing projects.

OTHER SEGMENTS

We are also present in the petrochemical industry, in the production of biofuels and fertilizers. However, since our strategy focus on oil and gas, in order to optimize the business portfolio, we are leaving these activities until 2022. However, we will continue investing in the research and development of these areas, so as to enable our future operation in these segments, after our financial situation improves.

Petrochemicals

Our operation in the petrochemical sector takes place through interest in the following companies:

EQUITY INTERESTS IN THE PETROCHEMICAL INDUSTRY

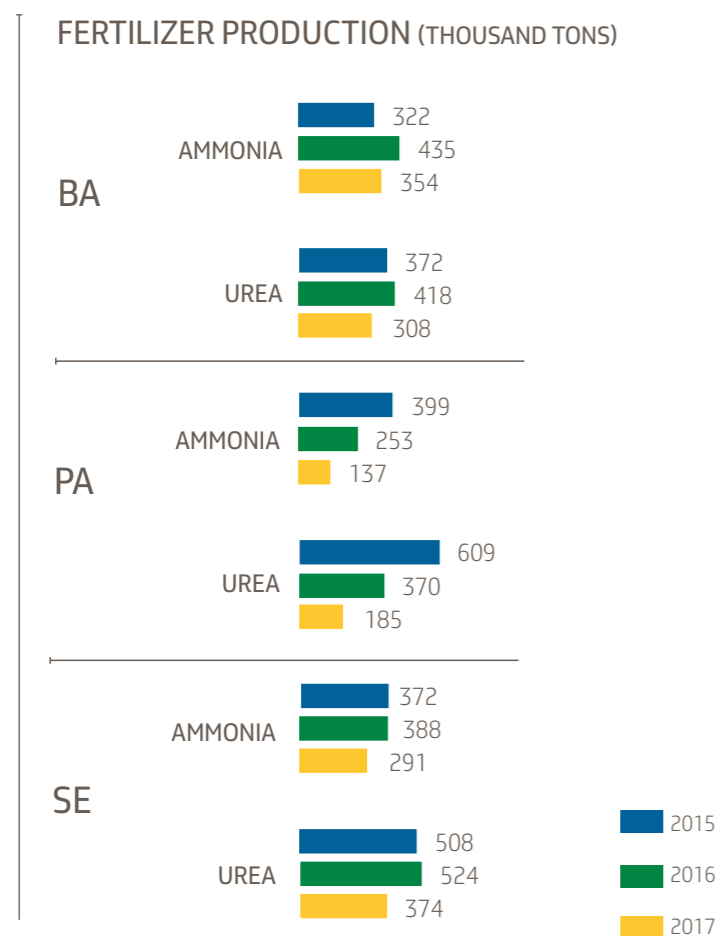
COMPANY	PRODUCT	EQUITY (%)
Braskem S.A	Ethylene, polyethylene, polypropylene and PVC	36.2
Deten Química S.A	Raw materials for detergents: linear alkyl benzene (LAB), linear alkyl benzene sulfonic acid (LAS), heavy alkylated (ALP)	27.88
Metanor S.A/Copenor S.A	Methanol, formaldehyde and hexamine	34.54
Fábrica Carioca de Catalisadores	Catalysts and additives	50
Petrocoque S.A	Calcined petroleum coke	50
Companhia Petroquímica de Pernambuco (PetroquímicaSuape)	Purified terephthalic acid (PTA)	100
Companhia Integrada Têxtil de Pernambuco (Citepe)	PET resin (polyethylene terephthalate) and polyester filaments	100

Braskem S.A. Shareholders' Agreement is under negotiation of terms and conditions, aiming to improve the corporate governance of that company, and, together with the other business strategies, create value for all its shareholders. The negotiation with Odebrecht S.A has evolved to studies with the purpose of carrying out a corporate reorganization with the unification of Braskem's shares. However, those studies are still in the preliminary stage.

In February 2018, the Court of the Administrative Council for Economic Defense (Cade) approved the sale of Companhia Petroquímica de Pernambuco (PetroquímicaSuape) and Companhia Integrada Têxtil de Pernambuco (Citepe), both Petrobras wholly-owned subsidiaries, to Alpek, through the signing of a Merger Control Agreement (ACC).

Fertilizers

We currently have three plants located in the States of Bahia, Sergipe and Paraná, which jointly have the installed capacity for the production of 1.852 million ton/year of urea, 1.406 million ton/year of ammonia, 300,000 ton/year of ammonium sulphate, and 800,000 ton/year of ARLA-32. The plants produce mainly ammonia and urea.



We started the process of selling Araucária Nitrogenados S.A (Ansa), which operates in Araucária (PR), and the Fertilizer Unit – III (UFN-III), whose plant in Três Lagoas (MS) is 81% complete.

Biofuels

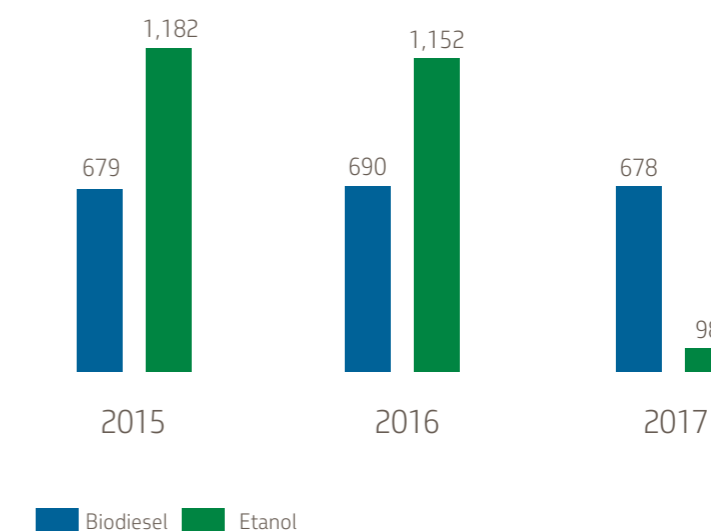
We operate in the production of biodiesel and ethanol through our wholly owned subsidiary Petrobras Biocombustível, which manages our operation in the production, logistics and marketing of these products.

BIOFUEL ASSETS

	EQUITY	CAPACITY/YEAR
CANDEIAS		
Biodiesel Production	100%	217,000 m ³
MONTES CLAROS		
Biodiesel Production	100%	152,000 m ³
QUIXADÁ¹		
Biodiesel Production	100%	109,000 m ³
BSBIOS MARIALVA		
Biodiesel Production	50%	288,000 m ³
BSBIOS PASSOFUNDO		
Biodiesel Production	50%	288,000 m ³
PROJETO BELÉM		
Cultivation and Crushing of Palm	50%	42,000 ha
BIOÓLEO		
Processing and Refining of vegetable oils	50%	Extraction 130,000 ton/year grains
		Refining 54,000 ton/year
BAMBUÍ		
Ethanol production	8,4%	211,000 m ³

¹ The Quixadá plant had its operations closed in November 2016 and is currently in hibernation.

BIOFUEL PRODUCTION (THOUSAND M³)



Considers 100% of the volume of affiliated companies; Ethanol considers the sum of anhydrous and hydrated ethanol.

In 2017, we completed the sale of our entire equity at Petrobras Biocombustível in Guarani to Tereos and the exchange of shares of Nova Fronteira Bioenergia for shares at São Martinho S.A. as part of the divestment process. In February 2018, through auction at B3, Petrobras Biocombustível sold the São Martinho S.A. (SMT03) shares held by the company. With that sale, our equity of 6.593% in the share capital of São Martinho S.A. was terminated.



For further information on partnerships and divestments, please refer to Financial Capital.

Consolidated Financial Performance

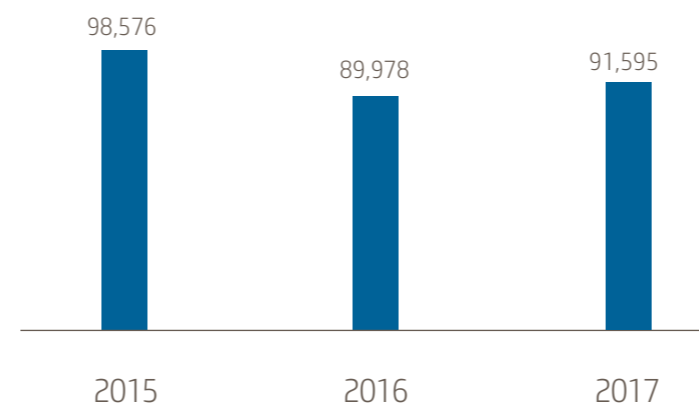
We presented improvement in our operating profit in the year, caused by the rise in the Brent, as well as in the volume and margin of oil exports and the increased sales of natural gas, reduction of personnel expenses, lower expenses with the write-off of dry and/or sub-commercial wells and equipment idleness, as well as gains with the sale of Nova Transportadora do Sudeste S.A. (NTS) and expressive decrease of impairment and depreciation. On the other hand, there was a decrease in the volume of oil products in the domestic market and higher production taxes. Those factors resulted in an operating profit of BRL 35,624 million, 108% greater than 2016.

During 2017, aiming at eliminating litigation risks and uncertainties, we signed a settlement agreement related to the *class action*, in the amount of BRL 11,198 million (including taxes), and we joined four Brazilian federal settlement programs which affected our results, generating a loss of BRL 446 million.

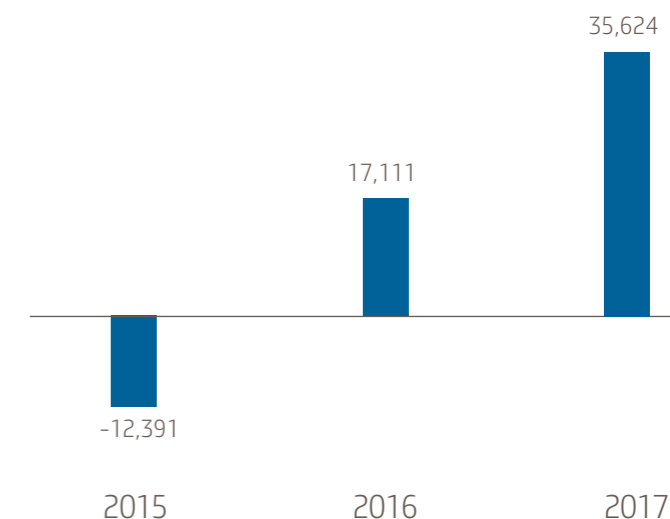
The Brazilian federal settlement programs have also affected the net financial expenses; however, they were offset by the reduction in the interest expenses, allowed by the active liability management, which provided the reduction of both the amount and its cost of debt. However, the greater depreciation of the US dollar against the Pound and Euro during the period led to a worsening of the net finance expense, totaling an expense of BRL 31,599 millions.

Free Cash Flow increased by 6%, reflecting the reduction in investments.

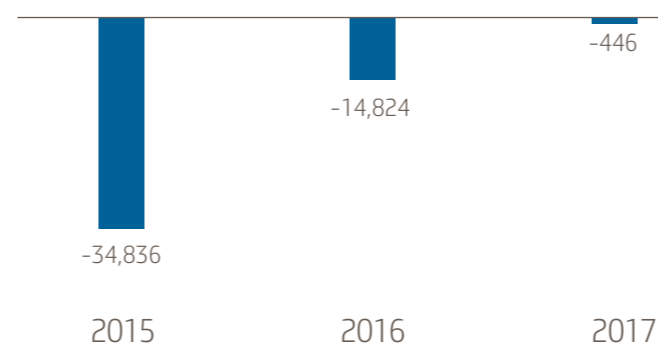
GROSS PROFIT (BRL MILLION)



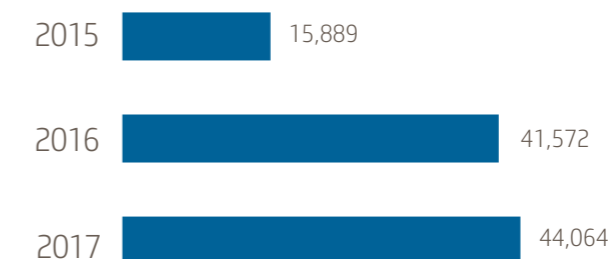
OPERATING PROFIT (LOSS) (BRL MILLION)



NET RESULT – PETROBRAS SHAREHOLDERS (BRL MILLION)

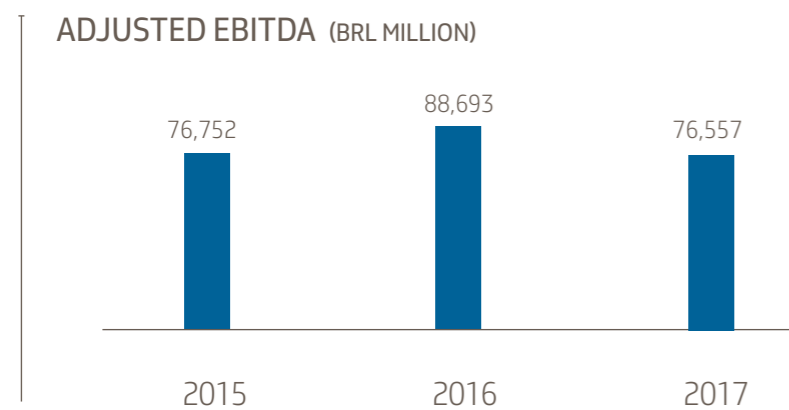


FREE CASH FLOW (BRL MILLION)



ADJUSTED EBITDA

The Adjusted Ebitda decreased 14%, to BRL 76,557 million, mainly due to the provision of BRL 11,198 million for the payment of the agreement to terminate the class action and the Brazilian federal settlement programs entered throughout 2017. The Adjusted Ebitda margin was 27% in 2017.



For further information on indebtedness and impairment, please refer to Financial and Productive Capital, respectively.

ADJUSTED EBITDA RECONCILIATION (BRL MILLION)

	2017	2016	2017 x 2016 (%)
Net Income (Losses)	377	(13,045)	103
Net Financial Income	31,599	27,185	16
Income Tax and social contribution	5,797	2,342	148
Depreciation, depletion and amortization	42,478	48,543	(12)
EBITDA	80,251	65,025	23
Results of investment participations	(2,149)	629	(442)
Reversal/Loss in the value of asset recovery – Impairment	3,862	20,297	(81)
Execution of accumulated conversion adjustments – CTA	116	3,693	(97)
Result with disposals/write-off of assets ¹	(5,523)	(951)	(481)
ADJUSTED EBITDA	76,557	88,693	(14)
Adjusted Ebitda Margin (%)	27	31	(4)

¹ Includes the results with the disposal and write-off of assets and gains/losses of remeasurement – equity interests.

The Ebitda (Earnings Before Interest, Taxes, Depreciation and Amortization) is an indicator calculated as the net profit for the period plus plus income tax, net financial income (expense), depreciation, depletion and amortization. We disclose the Ebitda, as provides in CVM Instruction No. 527 dated of October 4, 2012.

In order to reflect the vision of the managers regarding the formation of the result from the company's current activities, the Ebitda is also presented in its adjusted form (Adjusted Ebitda) through the results in equity-accounted investments, impairment, cumulative foreign exchange adjustments reclassified to the income statement and results from divestments and write-off of assets.

Ebitda and Adjusted Ebitda are not provided in the International Financial Reporting Standards (IFRS), and should not be used as a comparison with the data disclosed by other companies, nor should it be considered a substitute to any other measurement calculated according to IFRS. Those measures should be considered together with other measures and indicators for a better understanding of the company's performance and financial condition.



STRATEGIES AND PERSPECTIVES

Strategic
Planning
100

2018-2022 Business
and Management Plan
103

Management System:
Evolution Project
108

Strategic Planning

Technological innovations, regulation advancement and the adoption of new strategies by the companies point to an energy transition period towards a low-carbon-based economy. The scope and pace of such changes are still uncertain. Likewise, it is not evident which business models will predominate in that new environment. These issues not only make long-term strategic planning even more complex, but also reinforce their importance for the resilience of companies in this context of great challenges.

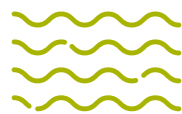
UNCERTAINTIES AND LONG-TERM SCENARIOS

The energy industries are facing a confluence of forces that seem to point towards important transformations. The development and dissemination of new technologies have been favoring supply expansion and energy price reductions. With the 2014 decline in oil prices, the industry's reaction was to cut costs and postpone investments, considerably changing the competitiveness conditions of this market.

On another front, advances in wind and solar generation technologies and energy storage, as well as the dissemination of distributed generation and smart grids are reconfiguring the electricity production and consumption.

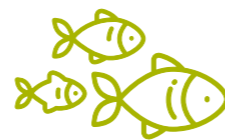
Simultaneously, the growing social perception on the risks of climate change favoured the Paris Agreement, negotiated during COP-21 and intensified the demand for services with reduced emissions impact, whether by replacement by renewable sources or permanent improvement in energy efficiency.

To better handle this high degree of uncertainty, we are improving our scenarios methodology. Based on the scenarios that are elaborated our assumptions used for an analysis of investment projects and quantification of our strategic and business plans. The marine universe was our inspiration to name our scenarios, an environment where we have developed our history and where we concentrate our activities.



STREAM

A world of great economic growth, but still houses many social and resource conflicts. It presents distinct trends for the energy matrices of developed and emerging countries.



SHOAL

Local issues dominate the political agenda. Changes in society's values drive important transformation in the mobility of major urban areas. Each region seeks its own solutions to decarbonize its energy matrix.



CORAL

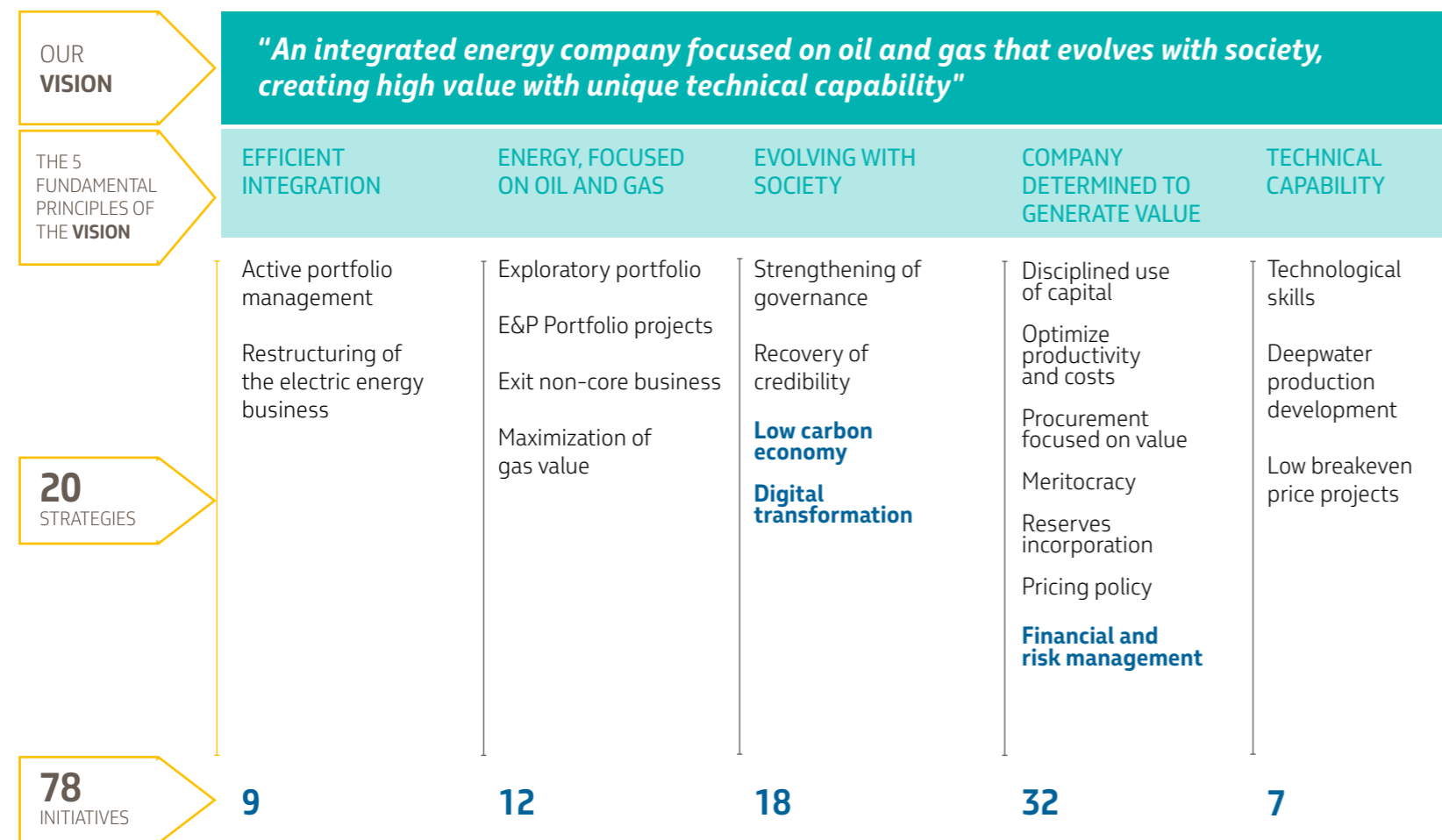
The energy transition gains strength with a broader perception of the risks of climate change. Binding global agreements, innovations directed to the environment and society's changes in behavior interact to foster the transition

STRATEGIC MONITORING

We approved our Strategic Plan in 2016, highlighting our vision and its five fundamental principles that define what we want to be, and also the 21 strategies linked to these principles.

As a result of the continuous process of strategic monitoring, in December 2017 our Board of Directors approved the changes proposed in the set of strategies established in the Strategic Plan approved in 2016, resulting in a total of 20 strategies and 78 corresponding initiatives. Each initiative, in turn, has systematic monitoring features, to ensure discipline in its execution.

INTEGRATED VISION AND STRATEGIES MAP



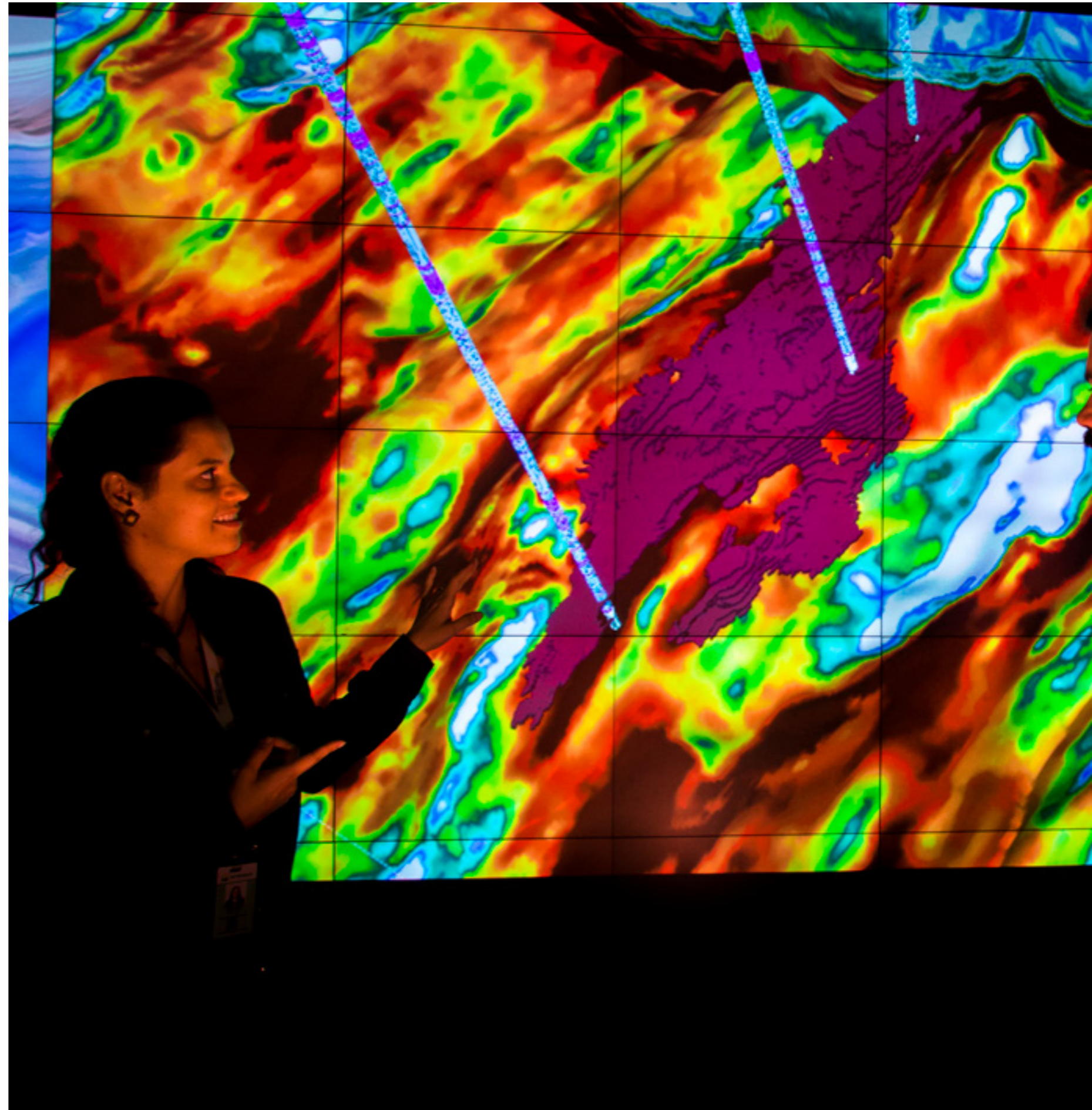
As shown in the Integrated Map, our set of strategies supports the five fundamental principles of our Vision: efficient integration; energy, focused on oil and gas; evolving with society; company determined to generate value; and technical capability.



For more information on the 20 strategies, see the Reference Form (item 10.8), available on our website: www.investidorpetrobras.com.br/en

In addition to the changes made to the set of existing strategies, we introduced three new strategies:

- (1) **Low Carbon Economy:** prepare the company for a future based on low carbon economy, developing actions to reduce greenhouse gas emissions from our production processes; invest and promote new technologies to mitigate the impact of climate change; develop high value business in renewable energy from our technological skills and new business models.
- (2) **Digital Transformation:** capture the opportunities created by digital transformation, applying new technologies to our processes and/or generating new processes or new business.
- (3) **Financial and Risk Management:** optimize our financial and risk management, to improve financial planning and assessment of cash flow uncertainties, increasing safety while fulfilling our objectives and targets defined in the Business and Management Plan.



Business and Management Plan 2018-2022

Our 2018-2022 Business and Management Plan (2018-2022 BMP) remains focused on safety and reducing financial leverage, the two major metrics already defined in the 2017-2021 BMP⁶. These metrics guide our strategic actions and are unfolded at all organizational levels.


SAFETY



TOTAL RECORDABLE INJURY FREQUENCY RATE (TRI)



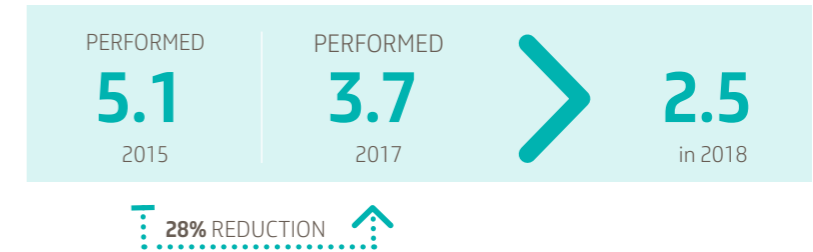
The safety metric considers the Total Recordable Injury frequency rate recorded per million men-hours (TRI), a metric widely used in the oil and gas industry. This metric's limit in 2018 was changed from 1.4 to 1.0 due to deployment of the Commitment to Life Program in 2017, which had 100% of its actions completed, contributing to a TRI reduction of approximately 50%, which dropped from 2.15 in 2015 to 1.08 in 2017. The new 2017-2018 cycle of the program includes actions based on process safety that follow principles and guidelines that also cover the Environment and Health dimensions.

 See Safety for further information.

FINANCIAL



NET DEBT/ADJUSTED EBITDA



The financial indicator continues to be the Net Debt/adjusted EBITDA, with a target of 2.5 in December 2018. The objective is for the indicator to decline and converge by 2022 with the global average of the main oil and gas companies rated as investment grade.

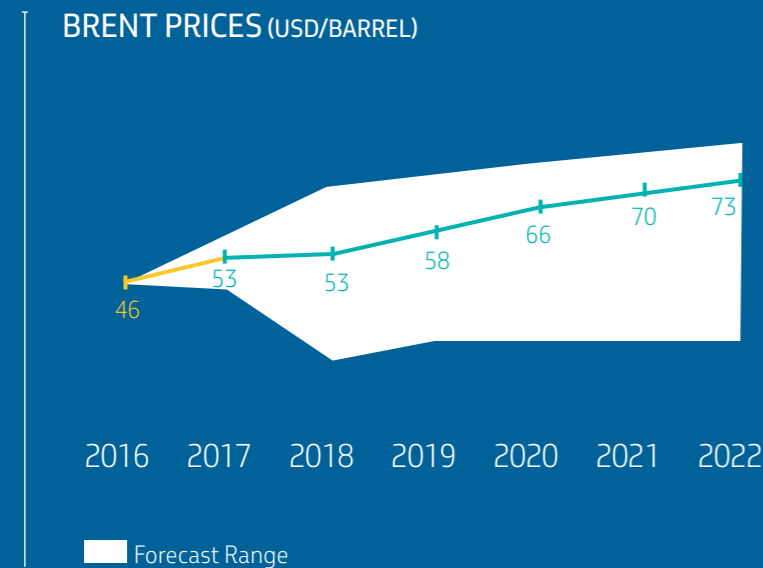
⁶ 2017-2021 BMP defined two major metrics, one in safety and another in finance, which guide the company's strategy: (i) reduce the Recordable Injury Frequency Rate by 36%, from 2.2 in 2015 to 1.0 in 2018; and (ii) reduce leverage (Net Debt/Adjusted EBITDA) from 5.11 in 2015 to 2.5 by 2018.



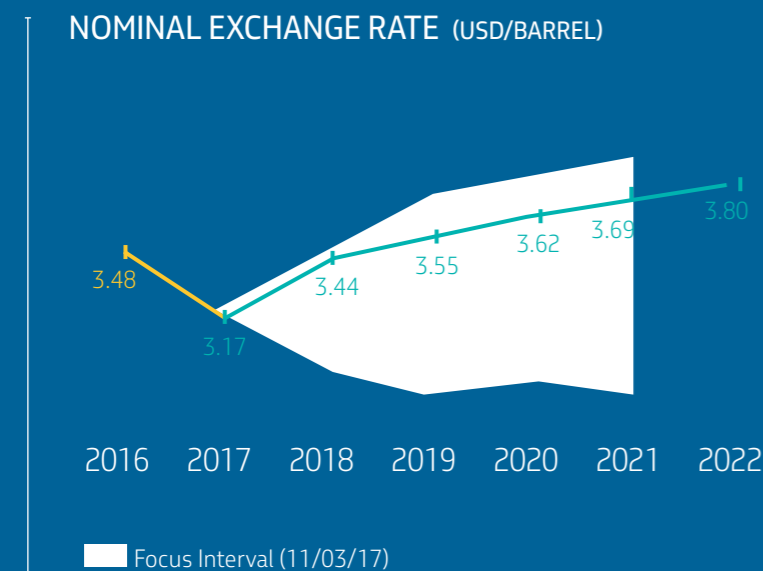
ASSUMPTIONS OF THE 2018-2022 BMP

The Brent price of oil and the exchange rate are among the main assumptions that impact our business. We consider the following variables in our 2018-2022 BMP:

BRENT PRICES (USD/BARREL)



NOMINAL EXCHANGE RATE (USD/BARREL)



Our 2018-2022 BMP includes four value generation pillars: competitive prices, investment efficiency (capex), operational expenditure efficiency (opex), and partnerships and divestments program. Safety, cultural transformation and the management system are imperatives that support the actions on these four fronts.



For further information on safety and cultural transformation, see *Safety and Human Capital*, respectively. And for more information on the management system, see the *Management System* item: *Evolution Project*

Competitive prices: Competitive pricing: in June 2017, we approved the revision of the pricing policy for diesel and gasoline marketed in our refineries, aiming to increase price adjustment frequency. The principles of the pricing policy approved in October 2016 remain unchanged in this revision, considering the international price parity (IPP), margin for compensation of the risks inherent to the operation and the market share level.



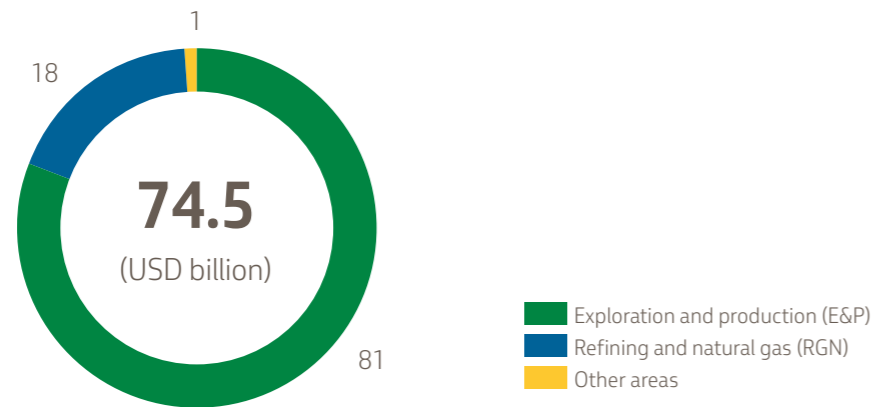
The new policy's application will allow, throughout the 2018-2022 BMP horizon, greater adherence of domestic prices to the international market, as well as provide better competitive conditions, in order to reach the company's optimal market share.



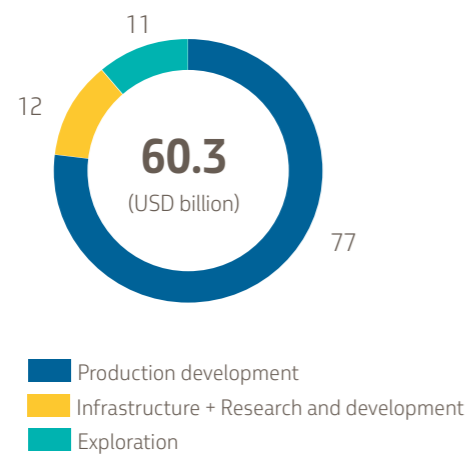
For more information on our pricing policy, see *Business Performance*.

Investment efficiency (capex): the investment portfolio of the 2018-2022 BMP maintains the same level of investments with respect to the 2017-2021 BMP and continues to prioritize oil exploration and production projects in Brazil. In other business areas, investments are intended primarily to maintain operations and projects related to the flow of oil and natural gas production and are distributed according to the following charts:

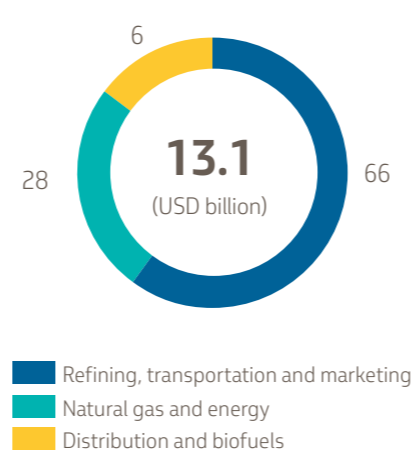
2018-2022 INVESTMENTS (%)



2018-2022 INVESTMENTS E&P (%)



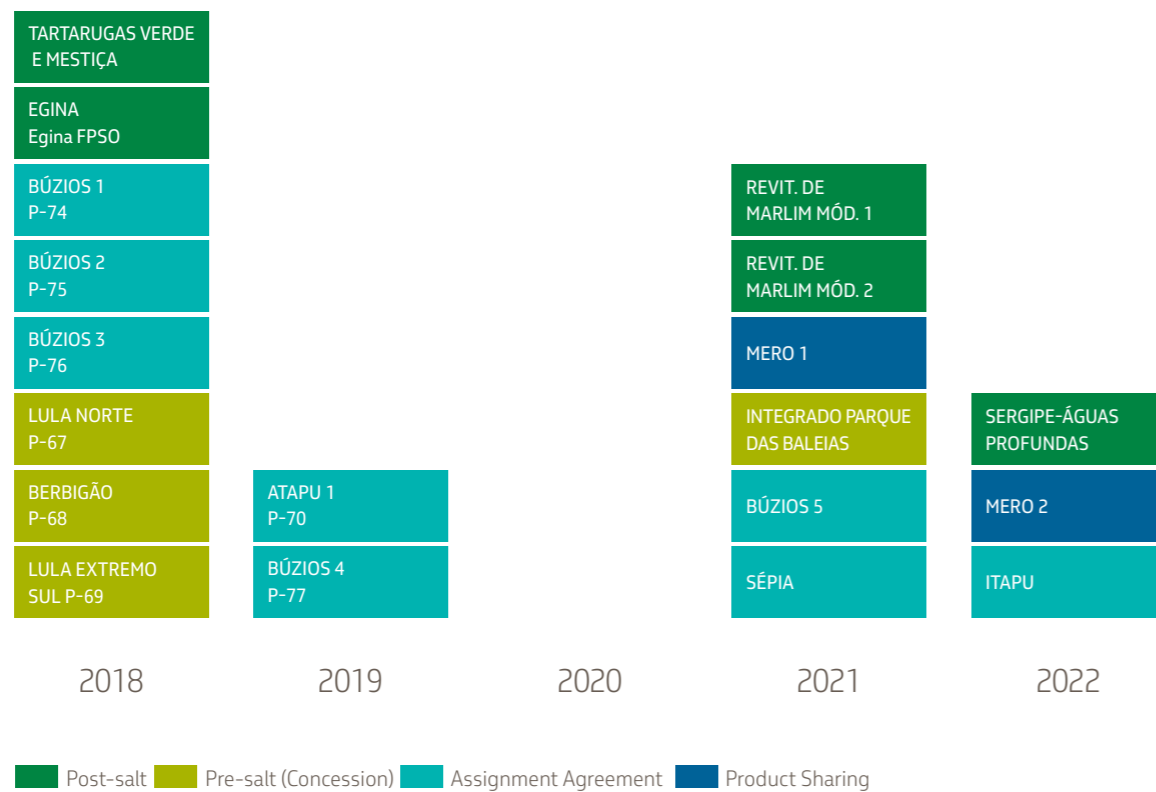
2018-2022 INVESTMENTS RGN (%)



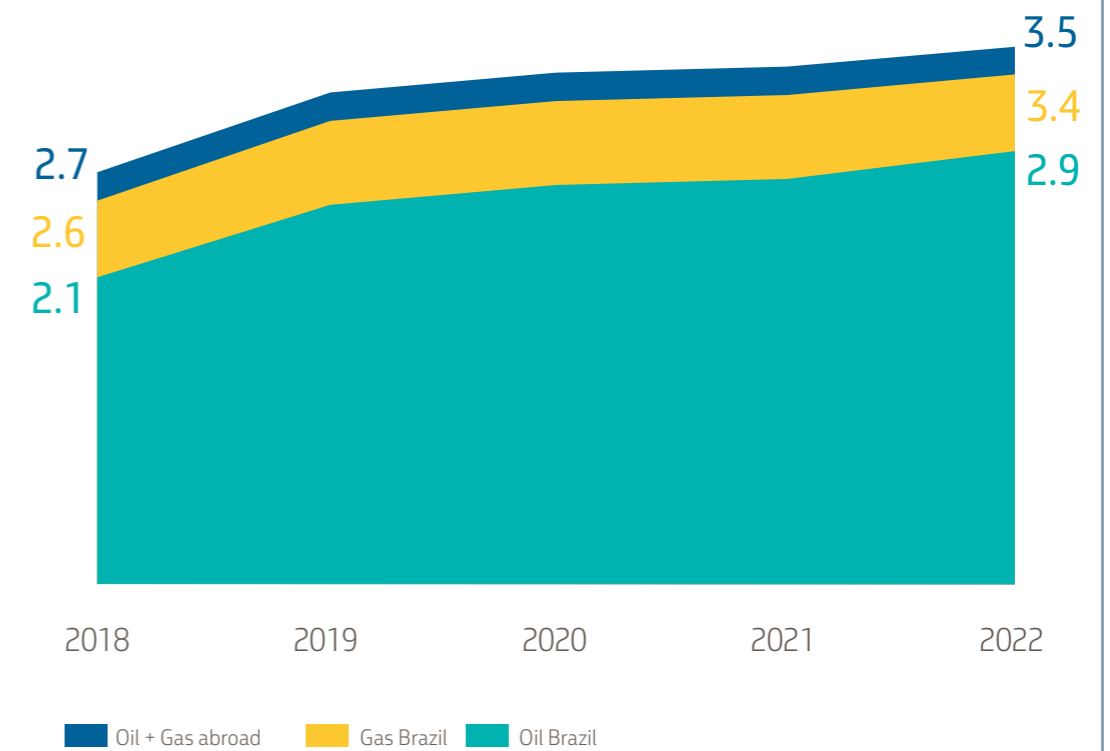
OIL, NGL AND NATURAL GAS PRODUCTION CURVE

With 19 new production systems coming online between 2018 and 2022, we expect to reach a total oil and gas production, in Brazil and abroad, of 3.5 million barrels of oil equivalent per day (boed) in 2022, with 2.9 million barrels per day (bpd) of oil and natural gas liquids (NGL) in Brazil, already considering the investments, partnerships and divestments.

19 NEW PRODUCTION SYSTEMS COMING ONLINE BY 2022



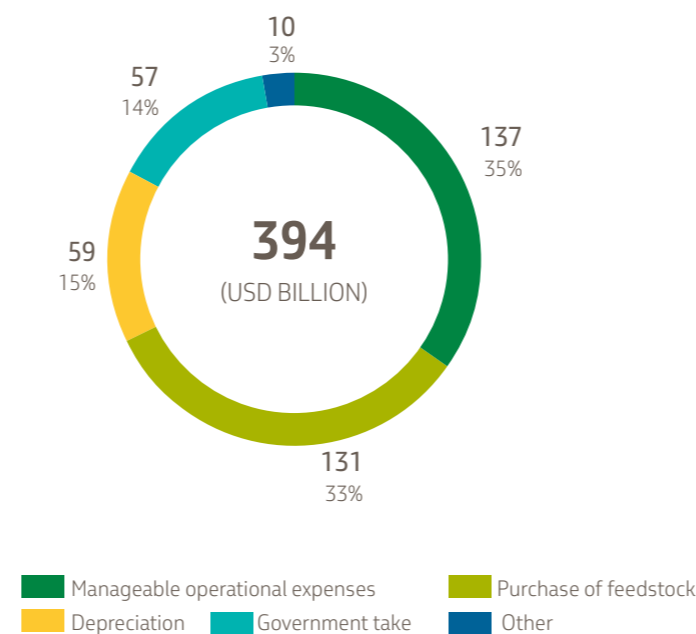
PRODUCTION OF OIL, NGL AND GAS (MILLIONS OF BOED)



Operational expenditure efficiency (opex): we continue our efforts to identify opportunities to optimize opex, foreseeing a total expenditure of USD 394 billion by 2022, including USD 57 billion in government equity, which reflects the magnitude of the company's impact on the country's economy.

Of that total, provision of USD 137 billion is made for manageable operational expenditures, which include the greatest potential for improvements in cost management. Our actions are concentrated on reducing extraction costs, from USD 11.0 per barrel in 2017 to USD 9.9 per barrel (average of the 2018-2022 BMP), as well as refining cost improvements to USD 2.6 per barrel (average of the 2018-2022 BMP) compared to USD 2.9 per barrel, level attained in 2017.

OPEX 2018-2022 (USD BILLION)

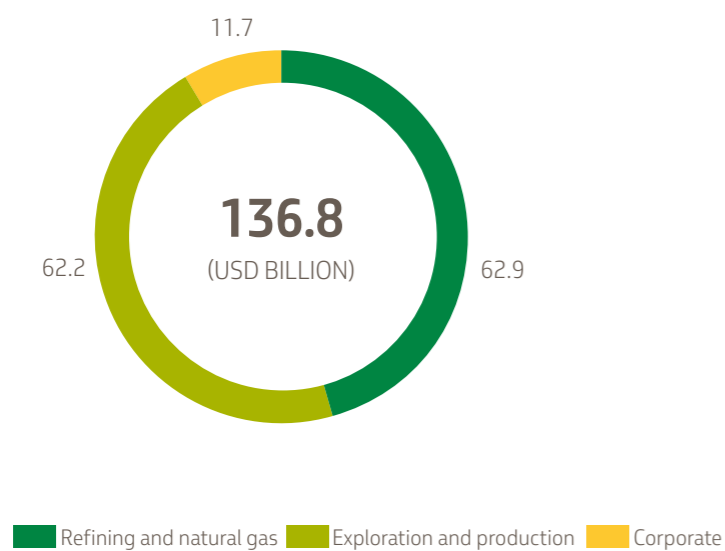


Partnerships and divestments: for the 2017-2018 biennium, the target is to reach USD 21 billion, to obtain additional resources to support our investment program.

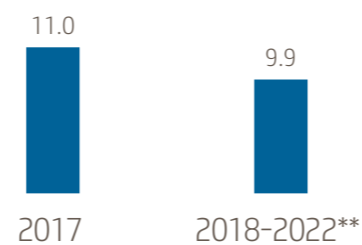
For further information on partnerships and divestments, see Social and Relationship Capital and Finance, respectively.

These initiatives, associated with operational cash flow generation, after dividends, estimated at USD 141.5 billion, from 2018 to 2022, will allow us to make our investments and reduce our debt (interest and amortization payments), with the need for new net borrowing during the Plan. The following chart presents the sources and uses of the 2018-2022 BMP:

MANAGEABLE OPERATIONAL EXPENSES
2018-2022 (USD BILLION)



EXTRACTION COST (USD/BBL)

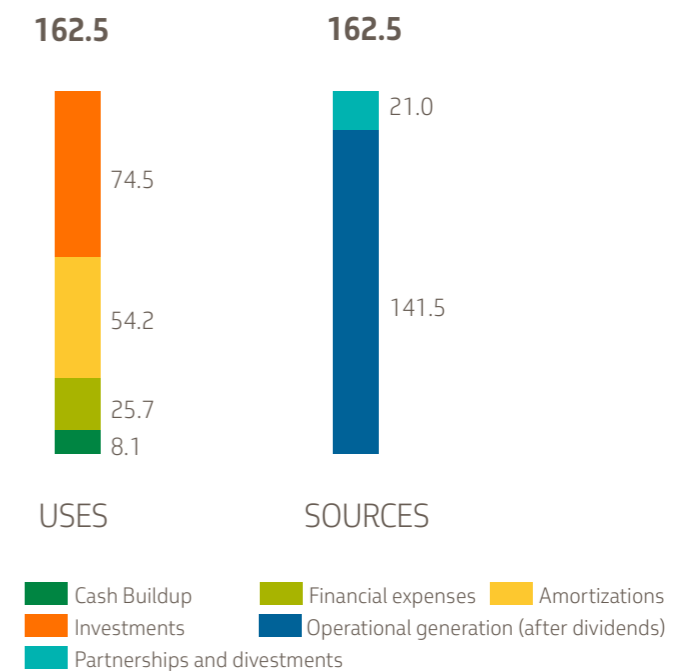


REFINING COSTS* (USD/BBL)



*Brazil ** Average of the 2018-2022 BMP

2018-2022 SOURCES AND USES (USD/BBL)





Management System: Evolution Project

The Evolution Project was created to monitor the delivery of the main targets and progress of the strategic initiatives foreseen in the Strategic Plan, for the purpose of developing the Management System.

To that end, the Evolution Project distributed the goals throughout the management body and, by applying PDCA (Plan, Do, Check, Act) processes and standards, deployed a governance and monitoring system, which considers the control and capture process of the results and holds meetings in which deviations are handled, once the root causes are identified and recovery plans are proposed.

The strategic initiatives and the main indicator targets are tracked monthly in the different thematic subcommittees, comprised of executive managers. The Evolution Project Leadership Committee (CLPE), led by the Director of Strategy, Organization and Management System, assesses the top indicators on a weekly basis and the deviations that arise throughout the cycle, recommending specific studies and actions when required. The closing of each tracking cycle occurs during the monthly Managing Committee meeting, when the members of the CLPE present the results of their assessments to senior management (CEO and directors).

The system deployed therefore ensures the appropriate disclosure of the information and any course corrections, with the structured involvement of the entire corporation.



Corporate
Governance
110

Ethics
117

Compliance
and Internal
Controls
118

GOVERNANCE AND COMPLIANCE

Corporate Governance

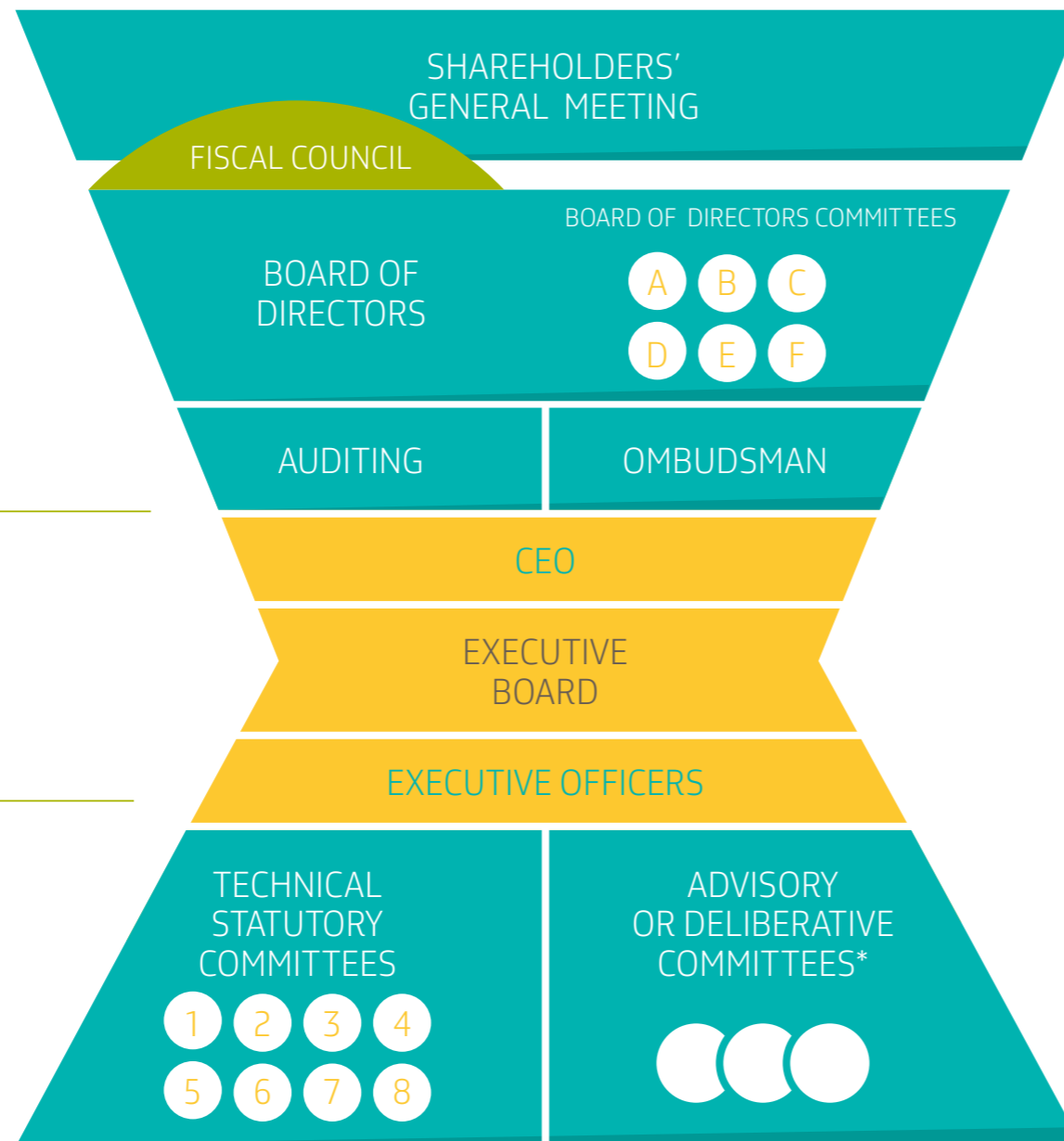
The year 2017 was a year of continuing improvement and strengthening of our corporate governance mechanisms. Since 2015, we have announced and implemented a series of measures to improve our governance and revert the problems and challenges faced by the Car Wash Operation. As one of the main actions, we established a new corporate governance model and created a set of rules and procedures that seeks to ensure that future decisions proceed in line with good governance.



Our corporate governance structure is comprised of: Shareholders' General Meeting, Fiscal Council, Board of Directors and its committees, Auditing (Internal and External), Ombudsman's Office, Executive Board and its committees, according to the following chart.

Setting strategies and monitoring its execution.

Proposal and execution of strategies. Management and supervision of operations.



*THE EXECUTIVE BOARD MAY CREATE ADVISORY OR DELIBERATIVE COMMITTEES ACCORDING TO THE RELEVANCE OF TOPICS AND SUBJECTS.

BOARD OF DIRECTORS COMMITTEES:

- A Strategic
- B Finance
- C Audit
- D Health, Safety and Environment
- E Nomination, Compensation and Succession
- F Minority

TECHNICAL STATUTORY COMMITTEES:

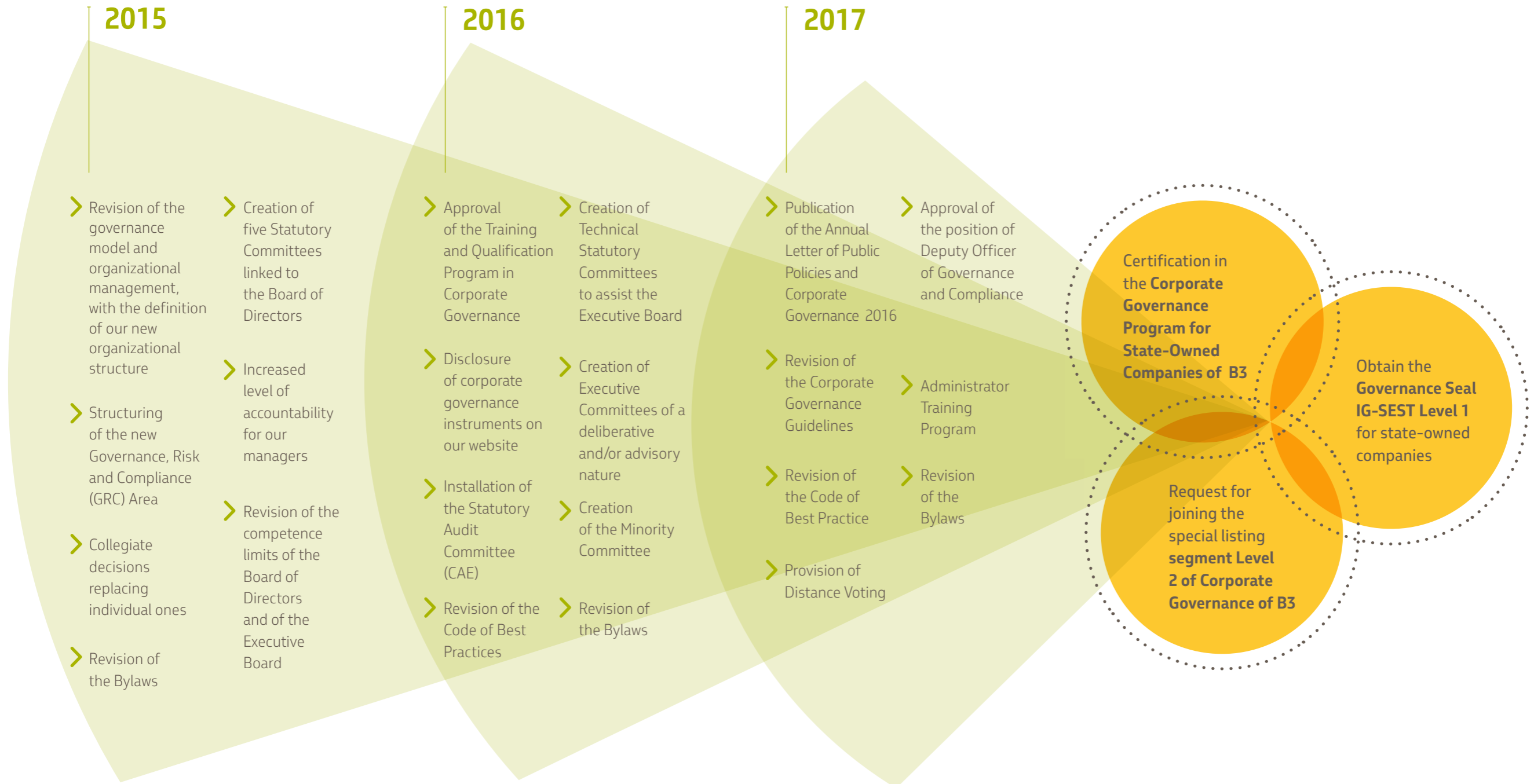
- 1 Production and Technology Development
- 2 Exploration and Production
- 3 Refining and Natural Gas
- 4 Financial and Investor Relations
- 5 Corporate Affairs
- 6 Governance and Compliance
- 7 Strategy, Organization and Management System
- 8 Investments and Divestment

We also rely on a Special Investigation Committee, of an independent nature and that reports directly to the Board of Directors. Comprised of three members, two of which are external, independent and with renowned technical knowledge, and our Executive Director of Governance and Compliance, this committee operates as spokesperson in the independent investigations regarding the implication of the Car Wash Operation. The recommendation of this Committee, since its creation in December 2014, have allowed for the improvement of our processes.

For more information on the Board of Directors and Executive Board committees, see the following item on our website: [Corporate Governance/ Governance Bodies/Committees](#)

MAIN IMPROVEMENTS IN OUR GOVERNANCE

We have been promoting strengthening actions for our governance, to establish better practices aligned with our strategy and in compliance with the requirements of new governance regulations adopted by the company (Law No. 13.303/2016, Decree No. 8.945/2016, Corporate Governance Program for State-Owned Companies of B3 and request for joining the special listing segment Level 2 of Corporate Governance of B3.



The review of the Bylaws, publication of the Annual Letter of Public Policies and Corporate Governance, implementation of Distance Voting and the Regulations on Contract Bidding stand out among the changes in 2017, as well as revisions to some of our policies that make up the constant search to improve our Code of Best Practices.

Bylaws

The revision of the Bylaws in 2017 included the following changes, among other points:

- **Minority Committee:** expansion of this Committee's duties, which began to examine and issue opinions on certain matters, in an advisory and non-binding nature, and through registration in minutes published in the Shareholders' General Meeting Manual.

The holders of preferred shares do not have a right to vote, but acquire the right to a voice through their representatives on the Minority Committee.

- **Tag along of 100% for preferred shares:** inclusion of clauses that ensure the concession of 100% tag along for preferred shares, under the same conditions granted to common shares, in addition to rules for public offering of shares acquisition.
- **Arbitration Proceedings:** the provision for arbitration proceedings was adapted to the B3 Level 2 regulations, except for disputes or controversies regarding Petrobras activities based on Article 1 of Law No. 9,478, dated August 06, 1997, and subject to the provisions of our Bylaws, with respect to the public interest that justified its creation, as well as to disputes or controversies involving unavailable rights.

- **Public interest:** the Bylaws now foresee, in a clear and transparent manner, that our activities may be guided by the Federal Government to contribute to the public interest that justified our creation. However, if said Federal Government guidance leads us to assume obligations and responsibilities in conditions other than those of any other corporation of the private sector operating in the same market, they must be defined in law or regulations and have their costs and revenue broken down and published. In addition the Federal Government must reimburse us, each fiscal year, for the difference between the market conditions and the operating result or economic return of the undertaken obligation.

- **Prohibition of reappointment:** the administrators and audit board members who do not participate in annual training provided in the last two years may not be reappointed to the position.

Annual Letter of Public Policies and Corporate Governance

We published the Annual Letter of Public Policies and Corporate Governance 2016, intended for the general public and joining, in a synthetic manner, the main information regarding commitments to achieve public policy objectives, activities performed, control structure, economic-financial data, risk factors, policies and corporate governance practices and a description of our administration's composition and compensation.



Our Bylaws and Annual Letter of Public Policies and Corporate Governance are available on our website: www.investidorpetrobras.com.br/en

Distance Voting


We implemented the distance voting process in 2017 for our shareholders in the Ordinary and Extraordinary Shareholders' General Meetings (AGO and AGE, respectively), which makes it easier for shareholders to exercise their rights. Distance voting is a CVM requirement for general shareholders' meetings where members of the board of directors and fiscal council are elected. However, to stimulate our shareholders' participation, we expanded this option to all AGO and AGE votes.

Bidding and Contract Regulation

To govern the general bidding standards and attend to the requirements of Law No. 13.303/2016, we published our Bidding and Contracts Regulation in January 2018. The document presents the new ways of hiring, the steps to be taken in bidding processes, contract management and the ancillary procedures, including supplier registration.

One of the main themes addressed by the new legislation addresses hiring regulations, with changes and innovations regarding the regulations in force to that point. The law determines that all hiring must be performed, as a rule, through public bidding, which means it will be open to any interested party that has conditions to fulfill the bidding notice. This new feature broadens the participation of suppliers and makes our processes more transparent.

The regulation is being expanded in a progressive manner, by organizational units, since February 2018.

 To present the changes brought by Law No.13.303/2016, we launched the New Hiring Rules website, accessed at: <http://contratacao.petrobras.com.br/en>


Petrobras Code of Best Practices

Our Code of Best Practices joins the main governance policies:

- Relevant Act or Fact Disclosure and Negotiation of Securities Policy;
- Appointment Policy for Members of the Audit Committee, Board of Directors, Executive Office and officers in the general structure of Petrobras and Petrobras System Companies;
- Corporate Policy;
- Business Risk Management Policy;
- Policy and Guidelines of the Ombudsman Function for the Petrobras System;

- Petrobras' Dividend Distribution Policy;
- Communication Policy; and
- Petrobras' Related Party Transactions Policy.

In compliance with the State-Owned Companies Law, the Corporate Governance Program for State-Owned Companies of B3 and the new CVM instructions, we made changes to the following policies in 2017: Relevant Act or Fact Disclosure and Negotiation of Securities Policy; Business Risk Management Policy; Appointment Policy; and Related Party Transactions Policy. Changes were made to the latter on the provision for performing prior analysis of a set of transactions on the part of the Statutory Audit Committee, in situations where prior analysis by the Minority Committee is also required, under the criteria of materiality of the transactions and, in accordance with the provisions of the State-Owned Companies Law, the provision for at least an annual revision of this policy was included.

 Our Policies are available on the website: www.investidorpetrobras.com.br/en/corporate-governance/governance-instruments/code-best-practices-and-associated-policies

"SIMPLIFY PETROBRAS" PROGRAM


The purpose of the "Simplify Petrobras" Program is to reduce red tape and provide agility in decision-making, without compromising compliance and security. Its expected result is an increase in productivity by simplifying processes. It is made up of projects in different areas, wherein the scope of each one is defined after extensive diagnostics with leaders and employees. Its governance consists of a Management Committee, which is the guidance and decision-making instance. Through December 2017, the Program contributed to simplifying more than 100 processes, whose benefits include reduction of procedural time limits and of costs with redundant systems, scanning and automation of reports, with less document printing, and increasing decision making agility.

RECOGNITION OF OUR PROGRESS

Our advances in governance, reaffirming our commitment to continuous governance improvement and alignment to best market practices, are bringing results:

- we received certification in the "**Corporate Governance Program for State-Owned Companies**" of B3 and created for the purpose of encouraging state-owned companies to improve their corporate governance practices and structures.
- we obtained full marks (10) in the **Governance Indicator** (IG-SEST), prepared by the Secretariat of Coordination and Governance of State-Owned Companies (Sest). With this result, we attained Level 1 Sest governance.
- we approved changes to our Bylaws in the **Shareholders' General Meeting** for membership in the special listing segment Level 2 of Corporate Governance of B3. We forwarded a formal request to B3 for membership in the referred listing segment and, if approved, we will sign, along with the Federal Government, as controlling shareholder, the Level 2 participation agreement.

These initiatives help perpetuate the advances made in our corporate governance.

 See *Intellectual Capital* for other references to our governance improvements.

 For further information on Corporate Governance, access our website: *Governança Corporativa/Instrumentos de Governança*.



OPERATION CAR WASH (LAVA JATO)

We do not tolerate any form of corruption and consider any illegal acts involving our employees and suppliers inadmissible. We are officially recognized as victims of crimes disclosed in the Car Wash Operation. For that reason, we are acting as assistants to the prosecution and an interested party in 49 criminal proceedings filed as a result of the Car Wash Operation. We are awaiting approval of qualification in two more proceedings. The purpose of the lawsuits is to charge for crimes of criminal organization, corruption, money laundering, bidding fraud, illegal acts of administrative misconduct, among others.

We continue to monitor the investigations and effectively cooperate with the work of the competent authorities to clarify the facts.

We presented to the competent authorities the non-compliance items found in investigation made by internal committees instituted to verify possible irregularities in contracts with service providers.

For certain companies investigated by the Car Wash Operation, we have relied on precautionary measures since 2014 that prevent their

participation in new bidding processes and from signing new contracts with us. On a case by case basis, Petrobras can consider again sign contracts with those suppliers who cooperate with the investigation of the authorities and is subjected to the Integrity Due Diligence process, which includes verification of the existence and application of an effective integrity program, based on the parameters set forth in Article 42 of Ordinance No. 8.420/15.

We have been taking necessary measures to recover from damage suffered as a result of these acts, including those related to our corporate image. That's why we filed 15 public civil legal actions up to December 2017 for acts of administrative misconduct, including claims for moral damages. Furthermore, as the investigations result in leniency agreements with the companies investigated or cooperation agreements with individuals who agree to return funds, we may be entitled to receive part of these funds. Therefore, we have already received, as compensation for incurred damages set forth in leniency and cooperation agreements, **BRL 1,475,586,737.78** up to December 2017.



COLLECTIVE ACTION (CLASS ACTION) AND RELATED PROCEEDINGS

Between December 2014 and January 2015, five collective actions (class actions) were filed by investors against Petrobras before the Federal Court for the Southern District of New York, in the United States. These lawsuits were later consolidated into one collective lawsuit, where the claimants alleged that Petrobras supposedly reported materially false information and committed omissions capable of inducing investors to error.

In January 2018, we signed an agreement to finalize the class action suit in which we agreed to pay USD 2.95 billion, in two installments of USD 983 million and a final installment of USD 984 million. The first installment was paid on March 1, 2018 and the second installment will be paid within ten days of final approval by the Federal Court of New York. The last installment shall be paid (i) within six months of final approval or (ii) on January 15, 2019, whichever comes last. The total amount of this agreement was recognized in our 4Q17 results.

In addition to the consolidated class action suit, 33 individual lawsuits were filed by investors before

the same judge of the Federal Court of New York, and one was filed in the Federal Court of the Eastern District of Pennsylvania, with allegations similar to those presented in the class action lawsuit. Of this total, we have already celebrated agreements in 21 individual lawsuits and 13 are still pending. Since the claimants in this individual lawsuits are eligible to participate in the agreement signed in the class action lawsuit, the individual cases may be terminated, if they agree with the terms set forth. However, these individual claimants will also have the option of not joining the class action lawsuit agreement and in this case, such lawsuits will be maintained.

In addition to the amount regarding the class action suit, to reflect the agreements signed with the individual claimants, as well as negotiations in advanced stage with other individual suit claimants, we recognized BRL 1,476 million in the result throughout the process (BRL 1,215 million of which was recognized in 2016).

Class action lawsuit filed by the investors Foundation in the Netherlands

In January 2017, Stichting Petrobras Compensation Foundation filed a class action lawsuit in the Netherlands, in the District Court of Rotterdam, against Petrobras, some of

its subsidiaries and the company's former managers. The Foundation claims to represent an unidentified group of investors and demands a legal ruling as to the alleged illegality defendants' conduct regarding the investors that acquired shares and securities issued by Petrobras and its subsidiaries outside the U.S., due to the alleged financial loss suffered as the result of false financial information disclosed by the company, supposedly revealed by facts discovered in the Car Wash Operation.

Given the uncertainties present at this time, it is not possible to make any safe assessment regarding any risks related to this dispute. We deny the allegations made by the Foundation and are strongly defending ourselves in this suit.

Other related proceedings

We are also part of arbitrations and legal proceedings in Brazil, which are currently in their initial stages. These lawsuits were filed by investors that purchased shares in the B3 and claim losses resulting from the acts revealed by the Car Wash Operation.



For further information on class action lawsuits and related proceedings, please refer to Financial Statements (note 30.4).

Ethics

We believe that ethics is a commitment of each one for the good of all. We are constantly seeking ethical behavior throughout relations with different stakeholders through the dissemination of ethical principles and conduct commitments, among other references, which regulate the conduct of the workforce. In December 2017, we reached approximately 96% of the workforce with training on our Code of Ethics and Code of Conduct of the Petrobras Group.

Additionally, in 2017 we provided training on ethics management for the members of the Board of Directors, with the participation of members of the Executive Board.



For further information on ethics, see Sustainability 2017



In the **Code of Ethics**, we present the main ethics principles (respecting life and all human beings, integrity, truth, honesty, justice, equality, institutional loyalty, responsibility, diligence, merit, transparency, legality, impersonality and consistency between speech and practice) and the conduct commitments that must be followed by the members of the Board of Directors, Fiscal Council and Executive Board, as well as our employees, interns and service providers.



The **Code of Conduct** is intended for the same target audience, and introduces the consequences of the Code of Ethics principles, with behavioral guidelines for situations in professional life or situations that arise from it.

Compliance and Internal Controls

We work to disseminate a compliance culture, in the prevention, detection and correction of cases of fraud, corruption and money laundering, in the management of our internal controls, analysis of the integrity of our managers and counterparts, seeking to ensure a healthy environment for our business.

We have a **Corporate Compliance Policy**, which intends to describe and disclose the commitments we assume with respect to the promotion of the highest ethical values and transparency when conducting business, with zero tolerance for fraud, corruption and money laundering. For integration and strengthening of the compliance initiatives, we use, in addition to the Code of Ethics and Code of Conduct, the **Petrobras Corruption Prevention Program (PPPC)**.

PETROBRAS CORRUPTION PREVENTION PROGRAM (PPPC)

- The PPPC is driven by continuous actions on prevention, detection and correction of acts of fraud, corruption and money laundering.
- Intended for our different stakeholders, such as clients, suppliers, investors, partners, public authorities, own employees and service provider companies.
- The program has been continuously improved and it adheres to the best market practices and anticorruption laws, especially Law No. 12.846/2013; to the Foreign Corrupt Practices Act (FCPA), U.S. federal law of 1977; and to the UK Bribery Act, a British law to fight and prevent corruption of 2010.

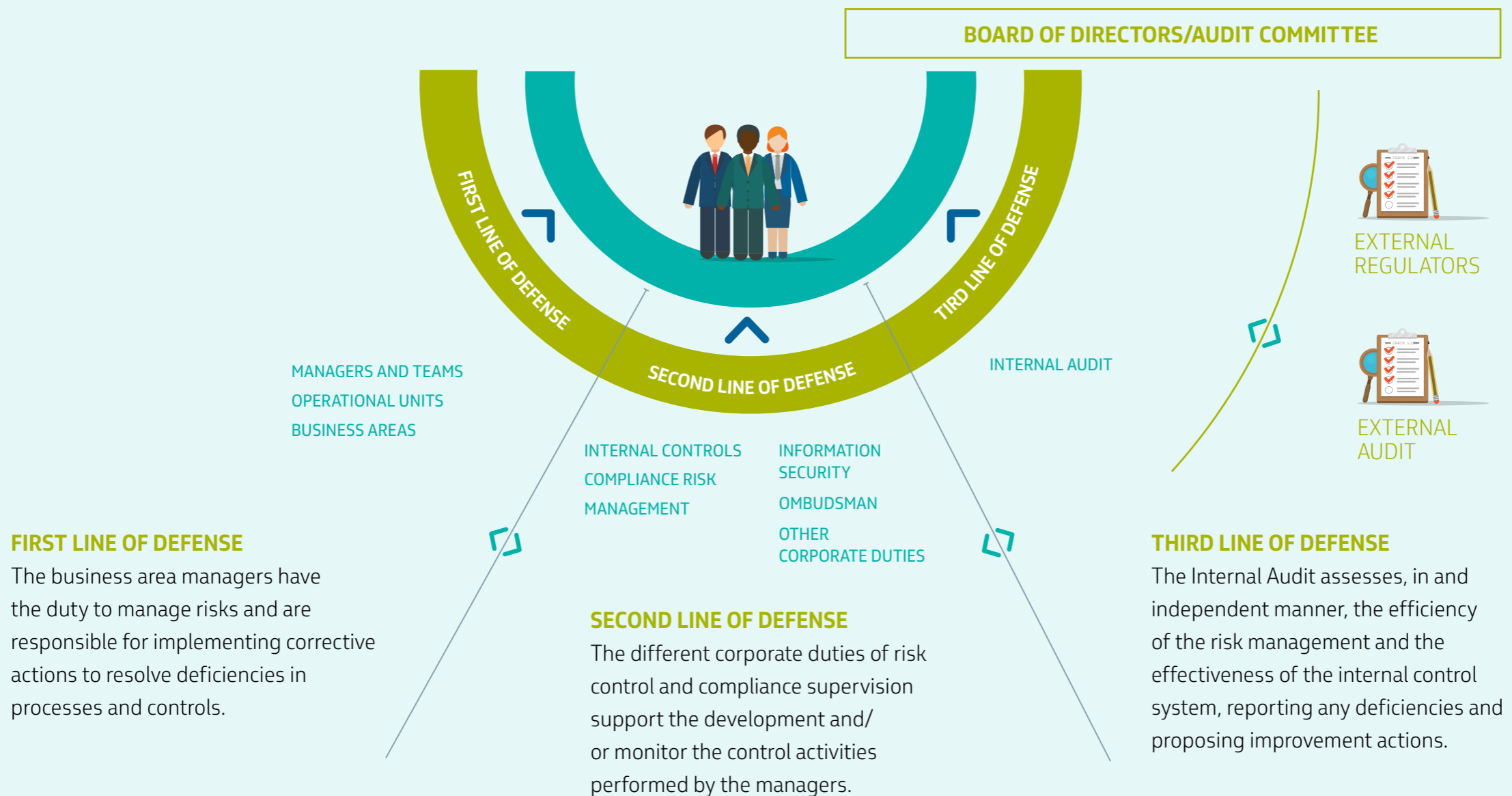


In line with our goal of being a reference in ethics and integrity, we improved initiatives in 2017 to mitigate the possibility of acts that set aside or violate the existing controls or acts not in compliance with our internal policies and standards, and with the laws applicable to our operations. All controls are part of a set of new procedures and actions to improve governance and compliance. The main actions implemented include:

INICIATIVE	DEFINITION	IMPROVEMENTS 2017
Integrity Background Check (BCI)	Summary of information on the integrity of candidates to management and senior management positions to support the manager prior to making a decision.	Additional integrity requirements become mandatory after the inclusions of the Nomination Policy for members of the boards and executives in the Bylaws, assessed by the BCI process.
Integrity Due Diligence (DDI)	Analysis of integrity of the counterpart that allows us to become aware of and assess integrity risks to which we may be exposed in our relationships.	It was extended to other stakeholders, such as clients, sponsored entities and companies interested in divestment processes for assets and/or corporate equity interests, in strategic and operational partnerships, in addition to suppliers of goods and services, which have been analyzed since 2015.
Disciplinary Committee	Created to reinforce our system of consequences, guide, standardize and monitor the application of disciplinary sanctions in cases related to fraud or corruption.	Improvement of the committee's assessment process through a matrix that captures the accumulated experience of case analysis.
Complaint Channel	Independent channel that provides confidentiality to the complainant, secrecy and integrity of information, traceability of the processes and full handling of the complaints.	Revision of the handling and monitoring processes for reports of fraud and corruption filed and sent by the complaint channel outsourced for further internal investigation.
Commitment to Compliance Attitude	Constant requirement for assessment of the results of all employees, for the purpose of assessing the capacity to perform the activities focused on the prevention of noncompliance, respecting the standards, procedures, regulations and laws, in order to strengthen the internal control environment, our image and reputation and fight deviations related to fraud and corruption.	Only employees who have concluded mandatory training within the established deadlines in compliance and ethics may be assessed as complying with the attitude.

LINES OF DEFENSE

With the “three lines of defense” model, we strengthened our internal control system and contributed to allowing the organization to reach its objectives through risk management in a standardized manner and to the resulting implementation of effective controls. In this model, each group of managers that comprises the lines of defense performs a distinct role in the internal control system, according to our governance structure.



INTERNAL CONTROLS

As part of our compliance process, we have an internal control system that seeks to ensure the mitigation of corporate risks of strategic, business, financial compliance or operational nature, providing reasonable security to obtain our objectives.

Using a risk analysis, we identify the more sensitive processes and develop appropriate controls. The effectiveness of these controls is tested internally and also by independent auditors.

Once we identify any control deficiency, we correct it and propose improvement actions, as well as in the diagnosis of potential occurrences in other areas.

A deficiency, individually or together with other deficiencies, may be classified as significant if it has sufficient importance to deserve management's attention.


In 2016, we identified significant deficiencies related to the following controls which, however, did not cause impacts on our financial statements:

- (i) identification of the need to perform accounting adjustments to certain down payments to suppliers that did not result in future economic benefits, as well as identification of the need to report expenses with the dissolution of the respective agreements;
- (ii) classification of the possibility of loss with contingencies;

- (iii) management, revision and monitoring of access to the corporate management system, including critical functions and segregation of duties; and
- (iv) generation of data to calculate actuarial liabilities related to our healthcare plan (AMS) and pension plan (Petros), as well as monitoring of certain assets of the benefits plans generated by the Petros Foundation.

Our managers, supported and supervised by senior management, implemented several actions to correct these deficiencies in 2017, seeking to strengthen our control environment.

At the end of 2017, our administration assessed the effectiveness of our internal controls on financial statements based on criteria set forth in the Integrated Internal Controls Structure, issued by the Committee of Sponsoring Organizations of Treadway Commission (Coso). Based on this assessment, using the internal control deficiencies classification of Brazilian Accounting Standard 265 (NBC TA 265), the administration found that our actions were capable of correcting, in all relevant aspects, all significant deficiencies identified in previous exercises. In this manner, it concluded that our internal controls on financial statements were effective on December 31, 2017.

 For further information of our improvement of our Internal Control, please see Reference Form (item 5.3) available in our website: www.investidorpetrobras.com.br/en.

The administration found that our actions were capable of correcting, in all relevant aspects, all significant deficiencies identified in previous exercises.

RISKS AND OPPORTUNITIES

Risk Management
123

Crisis Management
125

Opportunities
125

Risk Management

The integrated and proactive management of risks is fundamental for delivering results in a secure and sustainable manner.

Since 2014, our risk management process has been centered on a corporate area, allowing for standardization and uniformity of the risk analyses of the Petrobras Group and management of risk responsibilities, which are structured according to the three lines of defense model.


We have an Executive Risk Committee for the purpose of advising the Executive Board on the analysis of matters specific to risk management. As such, each organizational unit must identify, prioritize, monitor and, along with the Executive Management of Corporate Risks, periodically notify the Executive Risk Committee of the main risks and the mitigating actions planned.

To assist in this process, our Corporate Risk Management Policy establishes guidelines and responsibilities and is based on the following fundamental principles:

- respect life in all of its diversity;
- full alignment and coherence with our Strategic Plan;
- ethical operation in compliance with legal and regulatory requirements;
- integrated risk management;
- guidance of risk response actions focused on the aggregation or preservation of value for the shareholders and business continuity.

In 2017, we revised our Corporate Risk Management Policy to incorporate the recent governance improvements as well as facilitate their adoption by the other companies of the Petrobras Group. In addition, the duties of the Executive Risk Committee were inserted and some of the managers' duties were altered, to make their risk management roles more evident.

The risks to which we are exposed are classified in five groups, according to our risk management system: Strategy, Business, Finance, Compliance and Operations.

 For information on the risks of each group, see the Risk Factor session of the Reference Form and Form 20F, available on our website: www.investidorpetrobras.com.br/en. On Form 20F, we describe two more groups, in addition to the five cited above: one related to Brazil and to our relationship with the Brazilian Federal Government and another with risks related to our investors.

RISK GROUPS



STRATEGIC

Risks that can compromise the strategic objectives and/or the fulfillment of the Business and Management Plan.



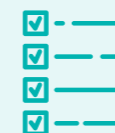
BUSINESS

Risks related to the company's business, according to its value chain, specific to an integrated oil company (exploration and production, refining, distribution, natural gas, transportation, etc.)



FINANCIAL

Market, credit and liquidity risks, which may negatively affect cash flow and the financial statements.



COMPLIANCE

Risks related to compliance with laws and regulations of our Code of Ethics, Code of Conduct and other related documents.



OPERATIONAL

Gathers risks resulting from failures, deficiencies or inadequacy of internal and industrial processes, supply of goods and services, systems, as well as natural disasters and/or third party actions.

RISK MANAGEMENT IN THE BUSINESS AND MANAGEMENT PLAN

In the process of elaborating the Business and Management Plan 2018-2022, senior management and other executives identified the risks that may impact its implementation. Among the main risks identified, we highlight:

MAIN RISKS

MITIGATION



CHANGES RELATED TO MARKET CONDITIONS

Such as oil and natural gas price volatility, product sales and margins

- Continuous monitoring of the evolution of the external scenario and of the operation of our different stakeholders;
- Robust planning process and portfolio management;
- Improvement of the efficiency of operations.



DELAYS IN CONSTRUCTION OF PLATFORMS

- Qualification of suppliers according to the new system, established by the Supplier Base Management Program, which ensures greater hiring security;
- Development of the supplier base, seeking to enhance competitiveness in the hiring processes;
- Promotion, through institutions of which it is a part, of the construction of a business environment that favors the viability of projects that stimulate oil industry activity in Brazil and consequent activity throughout the productive chain.



PERFORMANCE OF DIVESTMENTS AND PARTNERSHIPS

- Continuous analysis of the partnership and divestment portfolio, seeking to adapt it to our necessities and to market opportunities;
- Comprehensive identification of risks and elaboration of action plans to increase chances of success for partnership and divestment projects.



LEGAL PROCEEDINGS AND CONTINGENCIES

- Management of the contingency portfolio with a risk matrix and internal controls of the processes and routines;
- Governance practices for analysis and collegiate review for relevant causes;
- Internal regulations and standards for the work process throughout all steps of the process;
- Creation of work groups for relevant processes focused on improvement of the theses, differentiated support for the processes and treatment of the root cause;
- Legal analysis prior to decision-making, which generates inputs for the definition of more robust procedures with less risk of judicial questioning.



MAJOR ACCIDENTS/ ASSET INTEGRITY

- Continuous inspection and maintenance programs for our facilities and training for our workforce for the correct compliance with safety requirements, according to best international practices.

HEDGE POLICY

We preferably maintain exposure to the price cycle, avoiding the use of derivatives to systematically protect purchase or sale operations of goods whose objective is to attend to our operational needs. However, subject to analysis of the business environment and of perspectives of fulfilling the business plan, the execution of occasional protection strategy may apply. Derivatives transactions performed in 2017 had the exclusive purpose of protecting results expected from short-term trade transactions.

Crisis Management Opportunities

In 2017, we launched the Crisis Management Guide. The document attends to the recommendations of the Corporate Risk Management Guide of the Brazilian Institute on Corporate Governance (IBGC) and B3's Corporate Sustainability Index.


The Crisis Management Guide formalizes and addresses, in a structured and integrated manner, the procedures and response teams for unplanned events (leaks, fires, operational outage, intentional acts, fraud, legal issues, etc.) with potential to generate a crisis.

Our Corporate Risk Management Policy not only considers anticipating the threats that may negatively affect our strategic, economic-financial, operational or compliance objectives, but also takes advantage of the positive aspects of the risks, identifying and strengthening new business opportunities, processes and products, or even improving existing ones, resulting in actions and projects that are continuously covered by our strategic planning. In the context of the challenges associated with energy industry transformations, we identify the following opportunities:

Recomposition of the exploration portfolio: we are recomposition our exploration portfolio with the acquisition of new areas in the 14th concession round and in the 2nd and 3rd production sharing rounds, with an expectation to increase the average of exploration wells per year. Also, new pre-salt discoveries occurred in the Campos Basin, such as Forno, Brava and Tracajá. We continue to be active and selective in coming auctions in the production sharing and concession regimes already announced by the ANP in 2018 and 2019.

Strategic Partnerships: our partnerships are formed along with companies that excel in all areas where we operate. We believe that the establishment of these relationships allows us to reduce our debt, helps us support future investments, allows us to share business risks, in addition to contribute to technical and/or technological exchange and to improve governance in long-term decision making.

Our notorious knowledge in deep and ultra-deep waters, as well as our pioneerism in the introduction of new technologies, have allowed the conclusion of several partnerships in exploration and production projects in the last two decades. More recently, we expanded our partnerships to explore opportunities in natural gas, transportation and marketing of our products, as well as low carbon initiatives. We are studying a model that allows us to extend the benefits of the partnerships to the refining segment.

 For further information on our partnerships, see Social and Relationship Capital.

Review of the Assignment Agreement: throughout the execution of the operations under o assignment agreement contract, with the volume of information obtained by drilling more than 50 wells and long-term production tests, associated with extensive knowledge acquired in the pre-salt layer of the Santos Basin, it was possible to conclude that there are volumes of more than 5 billion barrels of oil equivalent originally contracted. Thus, we consider that the existence of surplus volumes in the areas under Assignment Agreement constitute an opportunity for both parties, the government and Petrobras, to establish a compensation agreement to Petrobras in the assignment agreement review process.

Digital transformation: recent advances in the acquisition and analyses of data, connectivity, artificial intelligence, robotics and other technologies, are changing sources of advantage. The increase perception among investors that the general of value expected from the companies is increasingly dependent on the adoption of digital technologies and of new forms of work, cooperation and innovation.


Specific studies on the oil and gas industry indicate several opportunities of value aggregation with the adoption of digital solutions with low uncertainty and high maturity. The order of magnitude of this potential and the need to prepare for a new competitive environment is causing the major companies in the sector to structure their digital transformation journeys.

 For further information on Digital Transformation, see Sustainability 2017.

Low Carbon Economy: a set of factors is accelerating the march toward a low carbon economy. In particular, the commitments undertaken by the countries of the Paris Agreement (in 2015) represent a landmark that stimulates the energy industries to join their actions with global efforts to mitigate climate change.

The transformations promoted by the energy transition impose enormous challenges to our traditional business in the oil and gas industry. Preparing for this context requires better identification, assessment and transparency of the potential risks (physical, regulatory and market) to which our assets and business are exposed. It also requires us to broaden our participation in initiatives and forums on climate change. In this sense, strengthen our planning and expanding our institutional engagement for the purpose of understanding the context, we define strategies and identify improvement possibilities in our enterprises that are part of the emerging opportunities.

Since November 2017, we have been participating in the Oil and Gas Climate Initiative (OGCI), an initiative formed by ten oil and gas companies (BP, CNPC, ENI, Pemex, Reliance, Repsol, Saudi Aramco, Shell, Statoil and Total), committed to investing USD 1 billion in ten years to stimulate low carbon technologies, as an oil and gas industry response to the challenges of climate change.

 For further information on Low Carbon Economy, please refer to Sustainability 2017.



OTHER INFORMATION

- Annexes
128
- Acknowledgments
129
- Glossary
130
- Management and
Editorial Staff
132

Annexes

INFORMATION ON THE PROVISION OF SERVICES OTHER THAN THE EXTERNAL AUDIT BY THE INDEPENDENT AUDITOR – CVM INSTRUCTION 381/2003

Our corporate management instruments are based on our Code of Ethics and Code of Good Practices and on the Corporate Governance Guidelines.

Article 30 of our Bylaws determines that the independent auditors cannot provide us consulting services during the term of the audit agreement.

On December 20, 2016, we hired KPMG Auditores Independentes (KPMG) to provide independent auditing services for fiscal years 2017 to 2019, with a renewal possibility for another two years.

KPMG provided the following services during the 2017 fiscal year, including for our subsidiaries and controlled companies:

SERVICES	BRL
Accounting Audit	19,214
SOX Audit	3,627
Additional services related to audits	1,178
Tax Audit	833
TOTAL SERVICES	24,852

CONTRACTUAL OBLIGATIONS

The following table summarizes our obligations and commitments on December 31, 2017.

	PAYMENTS DUE BY PERIOD			
	Total	2018	2019 -2022	2023 on
BALANCE SHEET ITEMS¹				
Debt obligations ²	360,724	23,160	155,081	182,483
With transfer of benefits, risks and asset control	759	84	242	433
Provision for descomissioning ³	47,347	3,133	5,525	38,690
Total of the balance sheet items	408,830	26,377	160,848	221,606
OTHER CONTRACTUAL COMMITMENTS				
Natural gas ship-or-pay ⁴	23,182	4,678	18,504	-
Service contracts	189,907	66,090	53,060	70,757
Natural gas supply agreements ⁴	26,066	4,616	21,450	-
Without transfer of benefits, risks and asset control	304,398	27,844	83,505	193,049
Purchase commitment	29,782	21,944	7,777	61
Total of other commitments	573,335	125,172	184,296	263,867
TOTAL	982,165	151,549	345,143	485,473

¹Excludes the amount of R\$ 121,916million related to our pension and medical benefits obligations, which are partially funded by R\$49,704 million in plan assets. Information on employees' post-retirement benefit plans, including a schedule of expected maturity of pension and medical benefits obligations, is presented in Note 22 to our audited consolidated financial.

²Includes accrued interest, short-term and long-term debt (current and non-current portions). Information about our future interest and principal payments (undiscounted) for the coming years is presented in Note 33.6 to our audited consolidated financial statements.

³Includes R\$563 million of liabilities related to assets classified as held for sale.

⁴The current import contract is expected to terminate in December 2019, but it will be automatically extended until the entire contracted volume be taken by Petrobras up to, at least, April 2022.



Acknowledgments

We thank our employees for their dedication and performance, which has enabled the recovery of the company, and our shareholders, the market and society, for the confidence in the company's recovery process, pride of all Brazilians. We also thank professor Luis Nelson Guedes de Carvalho, chairman of our Board of Directors, for the initiative to produce the first Integrated Petrobras Report.

Glossary

Terms not listed in this glossary were defined throughout the text.

Free commercialization environment (ACL): market segment in which electricity purchase and sale operations are performed, the object of bilateral agreements freely traded, according to specific marketing rules and procedures.

Regulated trade environment (ACR): market segment in which electricity purchase and sale operations are performed between sales and distribution agents, preceded by bidding, except the cases set forth in the law, according to specific trading rules and procedures.

Boed: barrels of oil equivalent per day.

Brent: oil used as one of the main references in the international oil market. Dated contracts for Brent or its derivatives in the financial market reference several oil purchase and sale agreements in the world.

Class action: a type of collective lawsuit set forth in foreign law that allows a class composed of individuals who have suffered the same damage, or harmed by the same fact and, therefore, with a common interest, to claim compensation together for damages suffered.

CO₂: carbon monoxide.

Public Ethics Commission (CEP): the Public Ethics Commission, bound to the President of the Republic, was created by an Ordinance of May 26, 1999, authorizing it to operate as an advisory instance to the President of the Republic and the ministries of the State in matters of public ethics; manage the application of the Code of Conduct of the Superior Federal Administration, and it must submit measures to the President of the Republic to improve the

document; resolve issues regarding the interpretation of its standards, deliberating on omitted cases; investigate, by means of a report or ex officio, conducts noncompliant with the standards provided therein when practiced by the authorities submitted thereto; to resolve doubts on the interpretation of the standards of the Code of Professional Ethics of the Public Civil Servant of the Federal Executive Branch referred to in Decree No. 1.171./1994; coordinate, assess and supervise the Public Ethics Management System of the Federal Executive Branch; approve its internal regulations and choose its chairman.

Completion: oil exploratory phase in which is installed in the well the necessary equipment to controllably lift the desired fluid to the surface, and allows the installation of monitoring equipment in the well.

Condensate: hydrocarbon mixture in a gaseous state in the reservoir which, on the surface, becomes liquid under normal atmospheric conditions.

The Assignment Agreement: specific regime of exploration and production of oil and natural gas for certain deposits located in the polygon of the pre-salt layer. Petrobras was directly contracted by the Federal Government to discover and produce reserves with a maximum limitation of up to five billion barrels of oil and natural gas.

Statement of Commerciality: written notification from the concessionaire to ANP declaring a deposit as a commercial discovery in the concession or sharing area.

Decree No. 8.945/2016: regulates, in the scope of the Federal Government, Law No. 13.303, dated June 30, 2016, which governs the legal statute of the public company, joint stock company and its subsidiaries, in the scope of the Federal Government, the States, the Distrito Federal and the Municipalities.

Local Response Structure: set of resources (human, material), defined in the emergency response plan, for

accident control and to mitigate potential damage in the initial phase of the emergency.

Organizational Response Structure: previously established structure for emergency management, mobilized for the purpose of planning response actions for accident control and to mitigate potential damage, defining the resources required.

Occupational exams: examinations performed periodically for monitoring, prevention and promotion of workers' health. They include medical, dental and nutritional assessment, with a custom approach to clinical and occupational history.

Foreign Corrupt Practices Act (FCPA) of 1977: U.S. federal law to fight corruption, to which we are subject due to the fact that we have ADRs (American Depositary Receipts) traded on the New York Stock Exchange.

FPSO: Floating production, storage and offloading unit.

GLP-P13: Liquefied Petroleum Gas for residential use, sold in canisters of up to 13 kg.

Hedge: transaction or combination of transactions, whether financial or otherwise, that produce the effects to fully or partially offset the variation of price or value of the good, right or obligation.

Impairment: loss in the recovery value of assets.

The Development Index (ID): the relationship between the proven reserves developed and the proven reserves.

Reserve Replacement Rate (IRR): measures the replacement of the production by addition of reserves, whether via extensions, revisions of estimates or supplemental recovery.

Reserve/Production Rate (R/P): measures the longevity of the current proven reserves considering constant production levels.

Law No. 12.846/2013: Anticorruption Law: governs the administrative and civil accountability of legal entities for the practice of acts against public, national or foreign administration.

Law No. 13.303/2016: State-owned Companies Law: governs the legal statute of the public company, the joint stock company and its subsidiaries, under the scope of the Federal Government, States, Distrito Federal and Municipalities.

Law No. 13.414/2017: Annual Budget Law: estimates the income and sets the Federal Government's expenses for a certain fiscal year.

Existing Energy Auction: bidding process for contracting energy generated by plants already built and that are in operation, whose investments have already been recovered and, therefore, have the lowest cost.

Alert Limit: maximum permissible parameter of a given indicator in a defined period, used to apply corrective actions and process improvements.

Concession model: regime of exploration and production of oil and natural gas in which a company or a consortium of companies performs these activities in an area granted by the government. In Brazil, if oil or gas is found, the companies securitize the volumes produced and, in return, pay the government stake—royalties and the special stake (when applicable to the field in production). In Brazil, concessions are granted through bidding of areas for oil exploration and production, promoted by the National Agency of Petroleum, Natural Gas and Biofuels (ANP), which also performs the technical regulation of exploration and production activities. The concession model is applied in all Brazilian sedimentary basins, except for the areas defined in the pre-salt polygon. It should be noted that the concession model is adopted in cases where the areas were tendered prior to the effectiveness of the production sharing system that defined the pre-salt polygon.

Production sharing model: regime of exploration and production of oil and natural gas in which a company performs these activities through a production sharing contract between a state-owned company, which represents government interests, and a company or consortium of companies (contractors) for the exploration and production of oil by

compensating the parties upon sharing the production of an oil field. Companies or consortia responsible for production must pay royalties to the government. In Brazil, Pre-Salt S.A. (PPSA) inspects the costs and has specific powers in consortia formed to carry out the activities under sharing. The current production sharing model is adopted only for areas of the pre-salt polygon, without the effect of amending concession contracts for the areas already under contracts executed prior to Law No. 12.351/2010. With the advent of the recent Law No. 13.365, dated of November 29, 2016, Petrobras no longer has the obligation to be the operator and hold 30% stake in the blocks to be granted under this regime, providing the company, however, with the option to express preference to sign a contract with the government.

Profit Oil: the surplus in oil that corresponds to the portion of oil and/or natural gas production to be shared between the Federal Government and the company, according to criteria defined in the agreement, resulting from the difference between the total production volume and the portions related to the cost in oil and the royalties due.

Route 2 Gas Pipeline Project: project conducted by partnerships ("Joint Operating Agreement" – JOA), consisting of three sections: (i) Section 1 – offshore (Lula – NE to Cernambi): 18" Gas Pipeline/approx. 19 km. BM-S-11 Consortium: Petrobras – 65%; BG – 25% and Petrogal – 10%; (ii) Section 2 – offshore (Cernambi to Praia do Lagomar – Macaê): 24" Gas Pipeline/ approx. 377.5 km. Cabiúnas 1 Consortium; and (iii) Section 3 – onshore (Praia do Lagomar to Tecab): 24" Gas Pipeline/approx. 4.5 km. Cabiúnas 1 Consortium. "represents gas pipeline sections 2 and 3.

HSE Conduct Treatment System: system to assist managers in making decisions regarding expected HSE behaviors, with valuation of positive practices and/ or attitudes, and HSE behaviors that are not expected, differentiating error from violation, enabling the application of employee recognition program and the Petrobras disciplinary system.

SNOX: catalytic process for the reduction of emissions from gas streams, removing solid, liquid and gaseous contaminants and generating commercial sulfuric acid.

Suezmax: oil tanker class with dimensions that allow its passage through the Suez Canal.

Tag Along: a protection mechanism for minority shareholders of a company in the case of alienation of corporate control that obligates the purchaser to make a public offering to purchase minority interest shares with the right to vote for a price of no less than 80% of the amount paid per share with the right to vote, as part of the control block, as set forth in article 254-A of Law No. 6.404/76.

TRI: Total Recordable Injury Frequency Rate or number of recordable injuries with or without lost time, and with casualty, for every million man hours of exposure to risk in the period considered.

Long-Term Test (TLD): activity performed during the exploratory phase, for the exclusive purpose of obtaining data and information for knowledge of deposits.

Refining line: set of processing units that mainly involves the separation of oil into oil products, the conversion of oil's heavier parts of lower value into smaller molecules, originating nobler oil products, and treatment to adjust oil products to market-required quality.

UK Bribery Act of 2010: Anti-corruption law of the United Kingdom that allows British courts to rule on crimes related to fraud and corruption committed by companies incorporated in the United Kingdom or which carry out operations on its territory.

UPGN: Natural Gas Processing Unit.

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Controlling Shareholder

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www.petrobras.com.br is our internet website, which provides general information on the Company, including a specific investor relations room, with notes on the results, financial statements (Brazilian and U.S. standard), annual reports, audio and transcriptions of investor presentations, Bylaws, stock quotes, shareholder information, etc.

GENERAL SHAREHOLDERS' MEETING

The General Shareholders' Meetings (AGO) are held in the first four months following the end of the fiscal year, according to Article 39 of the Bylaws, at our headquarters, located at Avenida República do Chile, 65, Centro, Rio de Janeiro.

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Note: Shareholder support is conducted throughout the bank's entire branch network.

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