REPORT OF THE ADMINISTRATION 2013

PETROBRAS

Contents

PROFILE

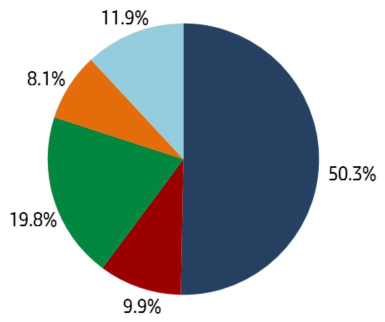
Over the last 60 years, we have built a substantial track record of overcoming challenges, exemplified by the fact that we are the world leaders in exploration and production technology in deep and ultra-deep waters, where more than 90% of our reserves are located. Underpinned by innovation and boldness, we have filed more local and foreign patents than any other Brazilian company.

In the oil, gas and energy industry, we operate in an integrated manner in the exploration and production, refining, marketing, transportation, petrochemical, oil product distribution, natural gas, electric power and biofuel segments.

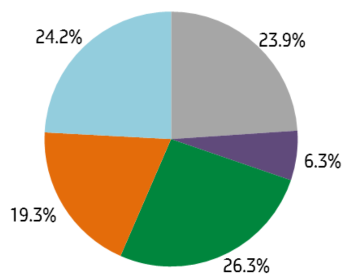
We lead the Brazilian oil and gas product distribution market and have an important share of the electricity sector. We are Brazil's main refining company and ninth worldwide, according to the ranking published by *Petroleum Intelligence Weekly*. We also develop renewable energy sources such as biodiesel and are seeking to expand ethanol production and sales. In the petrochemical segment, our Brazilian and Latin American operations are fully integrated with our other business. Besides Brazil, we are present in 17 countries

OWNERSHIP STRUCTURE AT THE END OF 2013

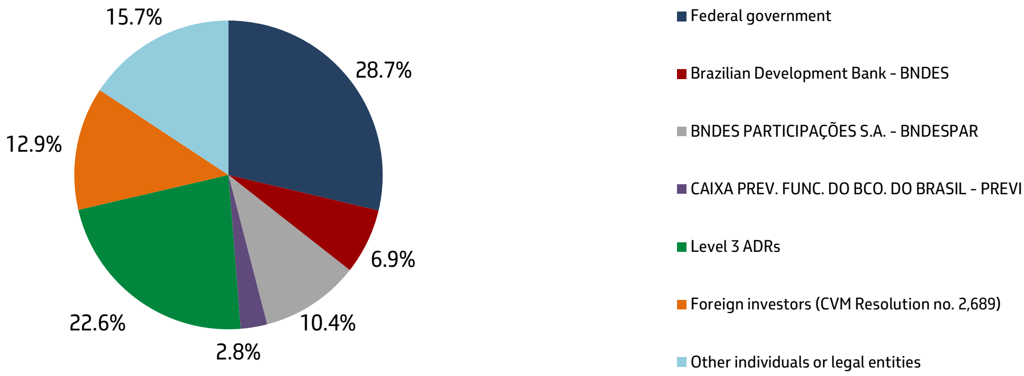
Voting capital - Common stock



Non-voting capital - Preferred stock

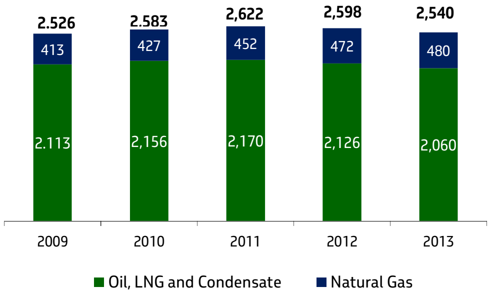


Capital Stock

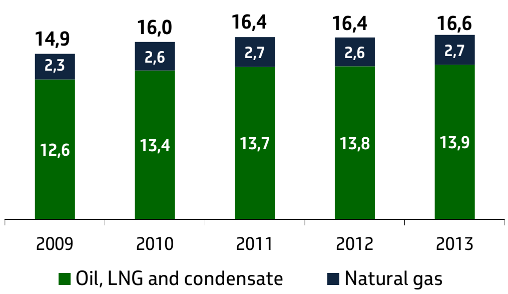


MAIN INDICATORS

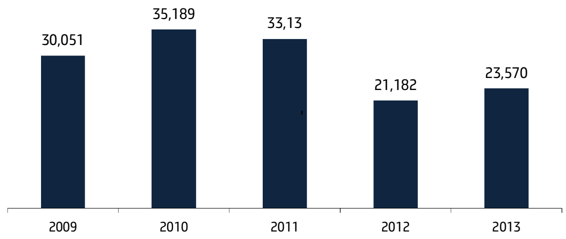
Oil, LNG, Condensate and natural Gas production (thousand boed)



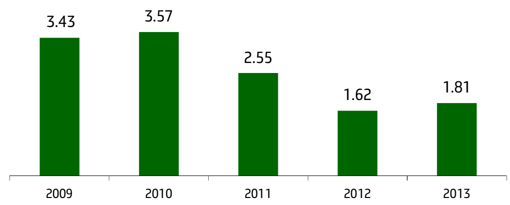
Proven oil, LNG, condensate and natural gas reserves - ANP/SPE criterion (billion boe)



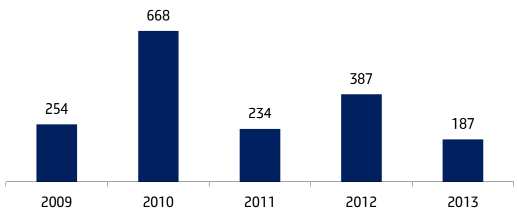
Consolidated Net Income
(R$ million)



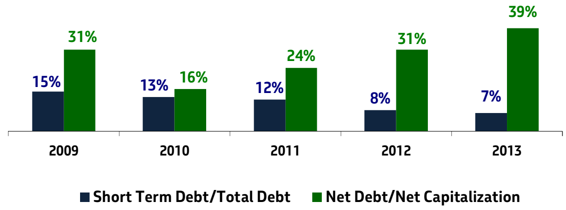
Consolidated earnings per share (R$)



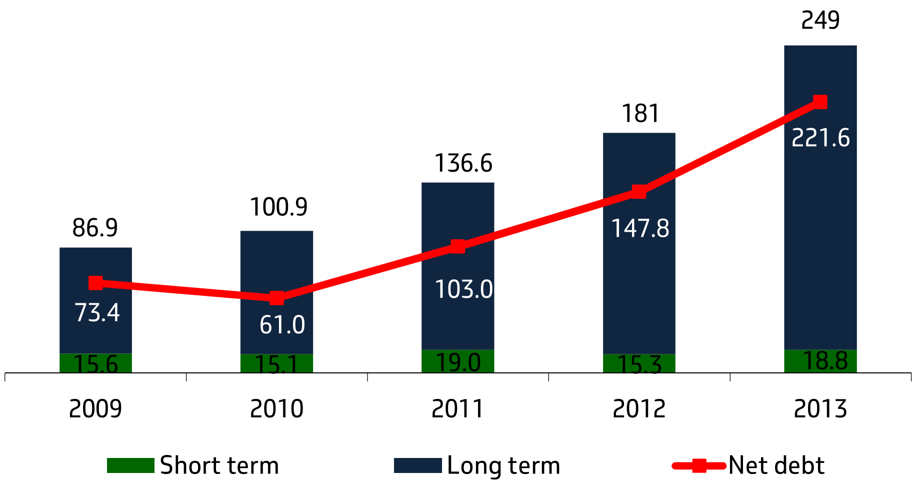
Oil and Oil Products Spills (m^3)



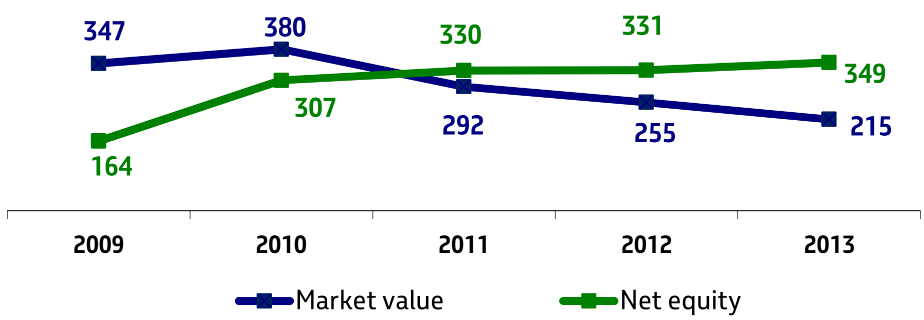
Debt ratios



Consolidated Debt (R$ billion)



Market capitalization vs. Net equity
(R$ billion)



MESSAGE FROM THE CHAIRMAN OF THE BOARD

Dear Shareholders and Investors,

In 2013, Petrobras showed that it continues to build the foundation to monetize the full potential of its assets. We finished the construction of rigs that add 1 million barrels per day of production capacity and we will achieve a growth of 7.5% (+ / - 1 percentage point) in the production of oil of Petrobras in Brazil in 2014.

We demonstrated the success of our major programs, aimed at optimizing operating costs, increasing efficiency and productivity, and which are already definitely entered in the company's management practices and embedded in our culture.

And this is our focus: a more productive, efficient Company which strives to direct its funds to improve its operational and financial performance with long-term sustainability while respecting the safety and health of our employees and the preservation of the environment, which is evidenced by the achievement in 2013 of the best known HSE indicators.

By reason of this new way of managing our business in 2013, we have achieved an increase of 6% in the production of oil products in Brazil, maximizing the volumes of diesel and gasoline, and therefore reducing the need to import these derivatives. As a result of the highest sales volume of oil products in Brazil (4%), a direct consequence of economic growth with social inclusion and higher income, Petrobras has still remained as a net importer, but this position will be reversed during 2015 with increased oil production and additional refining capacity.

At the time, the investments required for this increased production are not fully covered by our operating cash flow, which is why we have increased the Company's indebtedness. However, it is essential to consider that this expansion is precisely what gives us the assurance of increased cash flow in the future and the consequent gradual reduction of the debt.

It is undeniable that Petrobras has been facing the current challenges of the oil industry in the world, as well as huge obstacles to ensure the replenishment of its reserves and sustain production at competitive costs.

Regarding production, if we analyze the performance of Petrobras since the discovery of pre-salt layer, we will see that our production of oil and natural gas increased by 11% between 2006 and 2013, while the production of the major independent oil companies decreased 6% in the same period.

Petrobras, in turn, has been replenishing over 100% of its reserves for twenty-two consecutive years, which demonstrates the geological potential of the sedimentary basins and the foundations for sustainable growth in production at competitive costs, due to the high productivity wells of the pre-salt layer. Another successful initiative was the auction of the Libra field, the first under the production sharing regime, resulting in the formation of the consortium Petrobras, Shell, Total, CNPC and CNOOC, which are winning companies with recognized offshore experience and financial strength.

This prospect of value creation for our shareholders and investors has motivated us to continue shaping this promising future for our Company.

Minister Guido Mantega

Chairman of the Board of Directors of Petrobras

MESSAGE FROM THE CEO

Dear Shareholders and Investors,

Our 2013 net income was R$ 23.6 billion, a 11% rise from 2012's result. This rise was influenced by higher fuel sale prices, due to three diesel and two gasoline price increases during the year, by the significant increase in oil products production at our refining facilities, by significant cost cutting and productivity boost as well as by the gains from asset sales.

Indeed, 2013 stands out for the successful implementation of our Structuring Programs, which by establishing new benchmarks for productivity and management of investment projects, imposed discipline in the use of the company's financial resources.

Notably, through PROCOP – Operating Expenses Optimization Program – we reached savings of R$ 6.6 billion in 2013, far exceeding the R$ 3.9 billion target set for the year. The sale of assets under PRODESIN – Divestment Program – contributed R$ 8.5 billion to Cash Flow in 2013. Since this program was established in 2012, 21 transactions worth R$ 23.4 billion in asset sales and financial restructuring have been made.

The Structuring Programs have also brought the benefit of avoiding capital expenditures in 2013, as is the case with PRODESIN, INFRALOG – Logistical Infrastructure Optimization Program – and PRC-Poço – Well Cost Reduction Program, which, combined, have led to CAPEX savings of R$ 2.0 billion in the year.

We made further advances by establishing targets aimed at better positioning company personnel in order to meet the challenges of our Business and Management Plan. During the second half of 2013, we implemented *Programa Mobiliza*, which provided employees with 3,399 opportunities to move internally into areas that will require more personnel in the coming years, resulting in 1,133 voluntary transfers and consequently lower costs arising from new hires.

Another recently launched initiative was POP – Productivity Optimization Program, which resulted in the approval of the Voluntary Separation Incentive Plan, with voluntary enrollment until March 31, 2014. The plan covers eligible employees aged 55 or older and, in theory, can include up to 8.397 employees, approximately 10% of the company's personnel.

Our oil output in Brazil averaged 1,931 thousand bpd, down by 2.5% from the forecast, due to factors already discussed in my previous letter, which include delay of the Buoyancy Supported Riser Systems for FPSOs Cidade de São Paulo and Cidade de Paraty, the need to make changes to the subsea layout of the Papa-Terra/P-63 project, as well as the limited number of PLSVs (Pipe-Laying Support Vessels).

We would like to point out that these matters have already been resolved not only by the unprecedented delivery of nine production units in 2013, with the addition of 1,000,000 barrels per day in capacity, but mainly by the successful installation of the first buoy on FPSO Cid. São Paulo and of the first well interconnected to this gathering system, which went into operation on February 18th, currently producing 36 thousand barrels per day and allowing the presalt production to achieve a new daily record of 407 thousand barrels per day on February 20th. Platforms P-63 and P-55 went into operation in November and December 2013, respectively, and units P-58 and P-62 will begin production in the first and second quarter of 2014 respectively. Six new PLSVs will be delivered in 2014, adding to the 11 vessels of this type that are currently in operation, enabling faster well to platform interconnection.

Improvement in the operational efficiency of older systems was another relevant factor in achieving the result. PROEF – Campos Basin Operational Efficiency Improvement Program – contributed 63 thousand bpd in additional oil output in 2013. Operational efficiency reached 75% at the Campos Basin Operational Unit (against 66% in April 2012) and 92% at the Rio Operational Unit (against 82% in September 2012).

The Petrobras Executive Board has made the implementation of these programs a top priority and, as shown, program results have significantly contributed to the achievement of the 2013 economic/financial result.

Sustained output growth in 2014 will not only count on necessary investments to maintain older and new systems – wells, submarine equipment and top-sides, but it will also count on the start-up of two new production units in the second half of the year, FPSOs Cidade de Ilhabela and Cidade de Mangaratiba.

As for exploration, our proven reserves in Brazil reached 16 billion barrels of oil equivalent, with a reserves-to-production of 20 years and a reserve-replacement ratio of 131%, above 100% for 22 years in a row. Proven reserves in the pre-salt grew by 43% in 2013. Our exploratory success rate was 75% in 2013, reaching 100% in the pre-salt, already reflecting the Exploratory Policy implemented last year, which prioritizes less-risky locations and allocates more resources to production development activities. In 2013, prospecting and drilling expenses (dry wells) were R$ 6.1 billion, down 14% from R$ 7.1 billion in 2012.

As for the quantification of our production curve as of 2020, I would like to stress the excellent outcome in the auction of Libra field, the first to be developed under the production sharing agreement in Brazil, where we will work in partnership with Shell, Total, CNPC and CNOOC, companies with recognized experience and financial soundness.

In Refining, we continue to operate with excellent efficiency levels, which have led to an average oil products production of 2,124 thousand bpd, up by 6% from 2012's output of 1,997 thousand bpd, notably due to higher gasoline (+53 thousand bpd) and diesel (+68 thousand bpd) production and a 97% utilization factor, against 94% reported in 2012.

This new operating parameter was achieved by the improved performance of our refineries resulting from the start-up of new units of quality and conversion since 2012, as well as the optimization of refining processes and removal of infrastructural bottlenecks in the movement of oil and oil products. In January 2014, Petrobras also began selling ultra-low sulfur gasoline (Gasoline S-50), a product whose quality is equivalent to that of the strictest markets in the world. This will allow new vehicles containing modern emission treatment technologies to enter the Brazilian market.

This notable performance of the refineries enabled a decline in the imported volumes of diesel (from 190 thousand bpd in 2012 to 174 thousand bpd in 2013) and gasoline (from 87 thousand bpd in 2012 to 32 thousand bpd in 2013), the latter also due to the higher anhydrous ethanol content in gasoline C.

New records were established in natural gas sales and electricity generation due to higher natural gas demand of 85 million m^3/day in 2013, up by 15% from 2012. Petrobras-supplied thermoelectric generation was 7.5 GW/average, up by 66% from 2012.

I reiterate that the company's excellent operational results were achieved by rigorously complying with standards and maintenance procedures at its facilities, ensuring the physical integrity of personnel and equipment. As a result, in 2013 we achieved the lowest reportable incident rates ever in the company's history, which includes fatal accidents and spills, despite growing man-hours of exposure to risk.

Another important measure also adopted in 2013 related to foreign exchange was the extension of Hedge Accounting to future exports, enabling foreign exchange gains or losses related to net indebtedness exposed to foreign exchange variation to be recorded in stockholders' equity and transferred to the financial result as exports are made. This measure promotes greater alignment between accounting results and our risk management policy, mitigating sudden oscillations on the financial result due to foreign exchange volatilities, which could not appropriately reflect the company's economic performance in a given period.

Regarding our Diesel and Gasoline Price Policy, its effectiveness has been assessed on a monthly basis by our Board of Directors, according to the Relevant Fact released on November 29th, 2013.

Additionally, I would like to notice that in the second half of 2013 we implemented the Corruption Prevention Program, reaffirming the commitment of the Petrobras Executive Board and of its employees with ethics and transparency at our organization. The program complies with both national and international initiatives against fraud and corruption, as well as with the laws of the countries where Petrobras operates, with positive impacts in the relations with all its stakeholders.

We are building a higher value company: training our employees, mastering the necessary technologies to implement projects, our relevant oil reserves and rising output in the short-run along with our continuous commitment to increase efficiency, productivity and capital discipline will lead us to achieve even better results. Rising share prices and ensuring a fair return to our shareholders is a natural consequence of fulfilling our obligations.

Maria das Graças Silva Foster

CEO

RESULTS AND BUSINESSES

Corporate Strategy

Our corporate strategy focuses on expanding all our business areas, mainly oil Exploration and Production activities and based on the following sustainability factors: integrated growth, profitability and social and environmental responsibility:

In February 25th, 2014 the Board of Directors of Petrobras approved the 2030 Strategic Plan (SP 2030) and the 2014 – 2018 Business and Management Plan (BMP 2014-2018).

Keeping its position as an integrated energy company, the 2030 Strategic Plan defines the Major Choices of its business areas as:

- **Exploration and Production:** produce an average of 4.0 million bpd between 2020 and 2030, considering Petrobras stake in fields in Brazil and abroad and acquiring exploratory rights to support this goal;

- **Refining, Transportation, Commercialization and Petrochemical:** supply the Brazilian oil products market, reaching a refining capacity of 3.9 million bpd, in line with market requirements;

- **Distribution**: maintain leadership in the Brazilian fuel market, increasing the value added and the preference for Petrobras brand.

- **Gas, Power and Gas-chemical:** add value to the businesses of the natural gas chain, monetizing the natural gas from the pre-salt and from the interior basins of Brazil;

- **Biofuels:** keep growing in biofuels, ethanol and biodiesel aligned with Brazilian diesel and gasoline markets;

- **International:** Perform E&P activities, with focus in oil and gas exploration in Latin America, Africa and the US.

Petrobras 2030 Vision is: "Be one of the world´s top five integrated energy companies (*) and the company of choice for our stakeholders".

(*) Defined as being among the top five oil producing companies, incluidng both listed and non-listed companies

Petrobras 2030 Strategic Plan reaffirms Petrobras's mission: "Work ethically, safely and profitably in the oil and natural gas industry, with social and environmental responsibility, providing the right products for costumer needs and contributing for the development of Brazil and the countries in which it operates."

The Strategic Plan also establishes the Corporate Guidelines, which guide all Petrobras businesses and activities: Profitability, Social and Environmental Responsibility and Integrated Growth.

Aligned with the 2030 SP and focusing on short and medium term, the Board of Directors also approved the 2014-2018 Business and Management Plan with total investments of Petrobras of US$ 220.6 billion.

2014 – 2018 Business and Management Plan (in US$bn)

Segment	Investment	%
Exploration & Production (E&P)	153,9	70%
Downstream	38,7	18%
Gas & Power (G&P)	10,1	5%
International	9,7	4%
Petrobras Biocombustível	2,3	1%
Petrobras Distribuidora	2,7	1%
Engineering, Technology and Procurement	2,2	1%
Other areas*	1,0	0,5%
Total	220,6	100%

*Finance, Strategic and Corporate-Services Areas

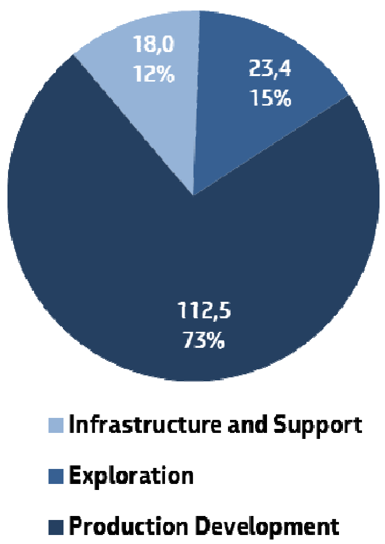
The 2014-2018 BMP maintains the project management principles from the previous plans, but reclassifies them into three project Portfolios: Projects under Implementation, Projects under Bidding Process and Projects under Evaluation. The Portfolio of Projects under Implementation includes all projects under construction or that have already received accepted bids among all business areas, as well as the resources required for studies of projects in the Portfolio of Projects under Evaluation. The Portfolio under Bidding Process includes all E&P projects in Brazil not yet under implementation that still must pass through the contracting process, as well as the Premium I and Premium II Refineries that will have their bidding process conducted in 2014. Petrobras's share of spending for these two portfolios, Projects under Implementation and Bidding Process, totals US$ 206.8 billion.

The Portfolio under Evaluation totalling US$ 13.8 billion, includes projects of all the business areas except E&P in Brazil that are currently in Phase I (opportunity identification), II (conceptual project) and III (basic project). These projects are less mature and do not have a significant impact on the oil production curve and on the oil products processed in Brazil through 2020.

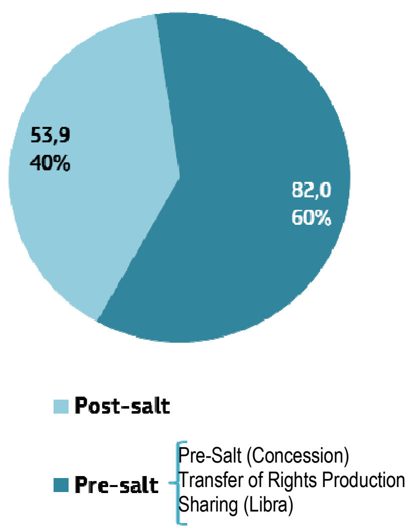
All 2014-2018 BMP projects incorporate the use of S curves (graphs that represents a projects' physical and financial progression) and projections are based on the analysis of these curves. The S-Curves are closely monitored by the Executive Board in order to ensure that the Plan's targets are met.

The Exploration & Production segment in Brazil will invest US$ 153.9 billion, which represents an increase of 4.3% (US$ 6.4 billion) from the 2013-17 BMP, mainly due to the inclusion of 2018 investments that reflect the acceleration of planned production by 2020. Of the total investment, 73% will be allocated to production development, 15% to exploration and 12% to infrastructure. Considering US$ 135.9 billion to be invested in production development and exploration activities, 60% will be destined to pre-salt and 40% to post-salt.

Total of Investments in E&P Brazil
US$ 153.9 billion



Production Development + Exploration
US$ 135.9 billion



The Downstream portfolio of Projects under Implementation and Bidding Process comprise US$ 38.7 billion of investments. The principal Projects under Implementation are the Abreu e Lima Refinery, the first phase of Comperj and the construction of 45 transportation vessels of oil and oil products (Promef). The Portfolio of Projects under Bidding Process within the downstream area is the Premium I and Premium II Refineries.

The Gas&Power segment has US$ 10.1 billion allocated in the 2014-2018 BMP, notably with the projects Três Lagoas Fertilizers Plants, Uberaba Fertilizers Plants, and the gas offloading pipelines from the Pre-salt (Route 2 and Route 3), and the Units of Natural Gas Processing (UPGN), all under Implementation.

The International area will have investments of US$ 9.7 billion, with emphasis on the E&P segment, which represents 92% of these investments.

The Biofuels segment has allocated investments of US$ 2.3 billion, mostly related to ethanol and biodiesel projects.

The Distribution business has investments of US$ 2.7 billion, with highlight to projects aimed at maintaining market leadership and increasing market share in the automotive segment.

Health, Safety, Environment and Energy Efficiency remain as basic values for all the Company´s operations.

BMP 2014-2018 Structuring Initiatives

The BMP 2014-2018 continued the structuring actions initiated in 2012 and incorporated the Subsea Cost Production Program (PRC-SUB) in a total of five programs that give sustainability to the plan and contribute to our profitability:

- **Program to Increase Operational Efficiency (Proef) of the Campos Basin and Rio de Janeiro Operational Units:** aims to make the delivery of oil production more reliable by improving the operational efficiency of the two units and the integrity of the old Campos Basin production systems, as well as reducing the risks of efficiency losses in the newer systems.

- **Operational Costs Optimization Program (Procop):** aims to increase cash flow and productivity of the operational activities, as well as strengthen the management model focused on cost efficiency. 2014-2018 BMP incorporates operational efficiency gains from the Procop with potential savings of R$ 37.5 billion (nominal values) in the 2013-2016 period. Highlight to the reductions in Lifting Cost, Logistics Cost in the Downstream and Refining Cost.

- **Logistics Infrastructure Optimization Program (Infralog):** aims to plan, monitor and manage projects and initiatives in an integrated manner in order to meet our logistics infrastructure needs by 2020, adopting simpler logistics solutions and capturing the synergies between the business.

- **Well Cost Reduction Program (PRC-Poço):** envisages a reduction in the unit costs of offshore wells, the optimization of project scopes and productivity gains through 23 initiatives.

- **Subsea Cost Production Program (PRC-SUB):** the PRC-Sub, started in 2013, aims to increase the availability of critical items, generate productivity gains, reduce unit costs and volume, in addition to increased logistic efficiency. Throughout the year, we designed the program, setting the schedule, operational indicators and estimated earnings for the next year.

In addition to these five structuring programs in the 2014-2018 BMP, we created the Program for the Exploration, Production and Monetization of Natural Gas from Brazilian Onshore Sedimentary Basins, in Conventional and Non-Conventional Reservoirs (Pron-Gás), whose purpose is to identify the natural gas potential of these basins and evaluate their production costs, maintaining the logic of thermal power generation next to transmission lines and complementary nitrogenous fertilizer production.

Analysis of the Oil Market

Oil prices remained relatively stable throughout 2013. Price variations in the period were chiefly influenced by swings in the global economy, especially in the United States, Europe and China, influenced by the exacerbation of geopolitical tensions in Egypt and Syria and the increased supply of shale oil in the USA.

WTI oil prices, referenced in Cushing, in the U.S. Midwest, fell in 2012 due to stockpiling in the region, which moved from being an importer to an exporter, thanks to non-conventional production growth. In 2013, WTI prices moved up, fueled by increased logistics transportation capacity from the U.S. Midwest to the Gulf of Mexico.

With the WTI upturn, the Brent-WTI differential narrowed from US$20/bbl to US$12/bbl in 2013. WTI prices ranged between a low of US$86.68/bbl and a high of US$110.53/bbl, averaging US$98.01/bbl for the year as a whole, 4.2% up on 2012. Brent averaged US$108.79/bbl, down 2.9% on the year before, with a low of US$96.79/bbl and a high of US$119.34/bbl.

Gobal oil consumption recorded a moderate upturn of 1.2 million bpd, 1.3% more than in 2012, driven by non-members of the Organization for Economic Co-operation and Development (OECD), especially India and China. Demand from the OECD nations declined due to the economic recovery difficulties faced by the United States and the European countries.

Global oil supply was guaranteed by the growth of non-conventional production in North America and increased output in Iraq. The market faced rising prices associated with the risk of a U.S. intervention in the Syrian civil war, which was avoided thanks to a diplomatic solution brokered by Russia. Other factors also impacted prices, especially the production and export terminal stoppages in Libya, caused by a new wave of political demonstrations in that country. In the United States, the government standstill, and doubts concerning the renegotiation of the public debt ceiling also affected prices.

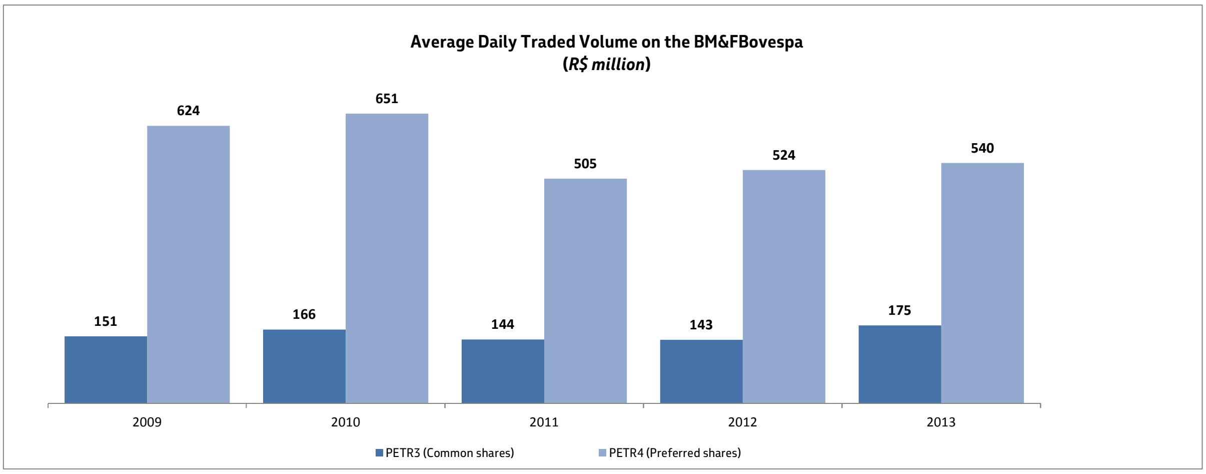
OPEC maintained its production target at 30 million bpd in the belief that the moderate growth expected in 2014 would be met by increased production outside the organization.

Stock Performance

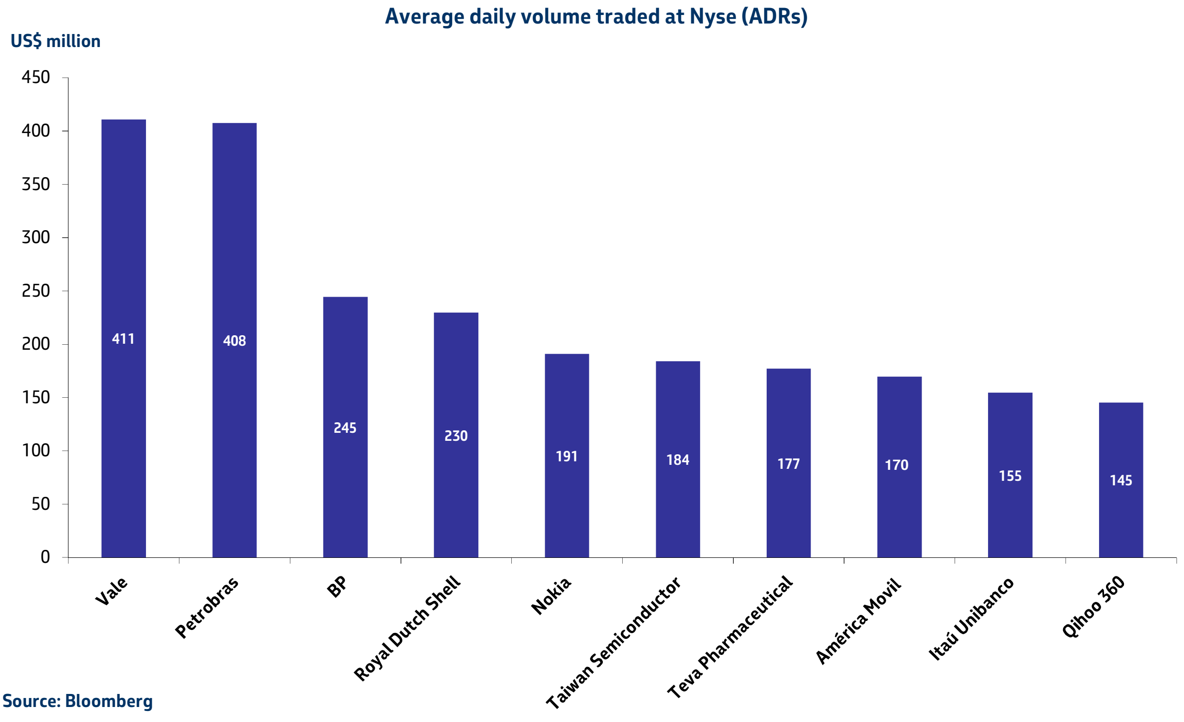
In 2013, investors demonstrated concern over the behavior of the Brazilian economy, especially due to the inflationary pressure and the country's fiscal scenario, causing a capital flight from the BM&FBovespa. Its main index, the Ibovespa, recorded one of the worst performances among the world's stock indices, falling by 15.5% over the previous year.

The European and U.S. markets both recorded an upturn, following the signs of economic recovery in those regions. In the United States, the Dow Jones index appreciated by 26.5% and in Europe the most important stock exchanges also recorded gains.

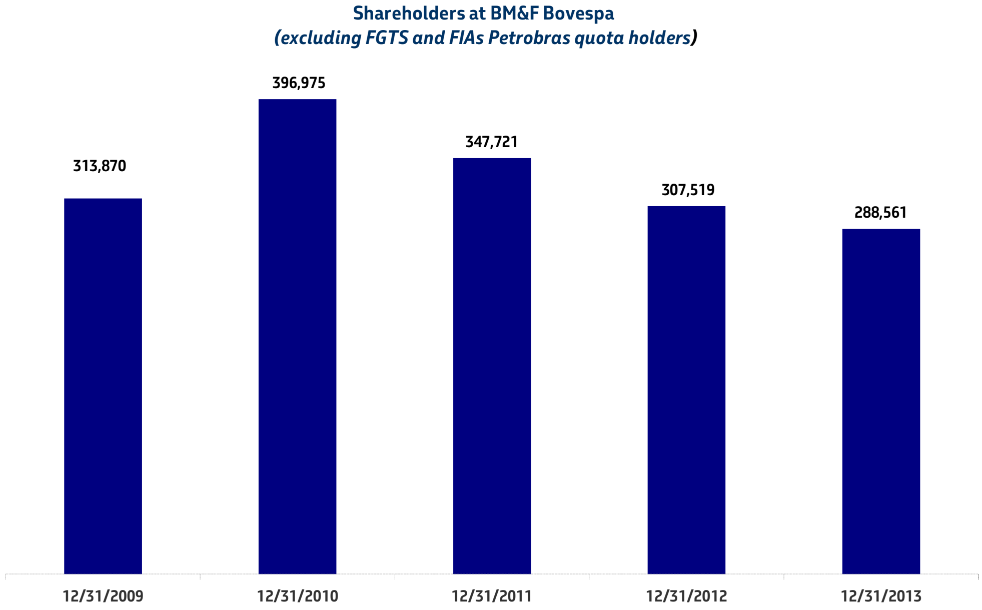
In line with trajectory of the domestic stock market, our common (PETR3) and preferred shares (PETR4) fell by 18.2% and 12.5%, respectively. On the NYSE, where common (PBR) and preferred (PBR/A) share receipts are traded, the respective downturns came to 29.2% and 23.9%, impacted by the 15% depreciation of the Real against the dollar. As a result, our market cap closed the year at R$215 billion (US$92 billion).



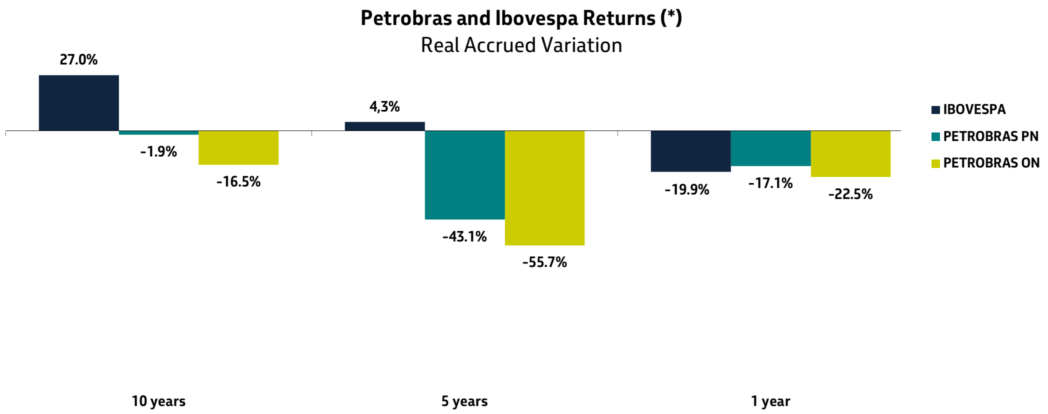
Source: Bloomberg



Source: Bloomberg

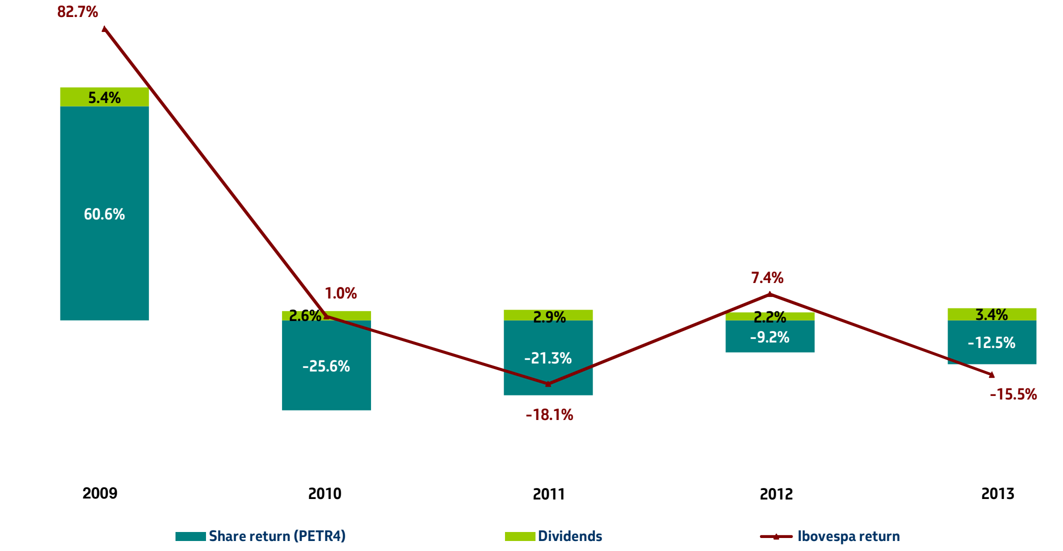


Source: BM&FBovespa FIAs: share investment fund



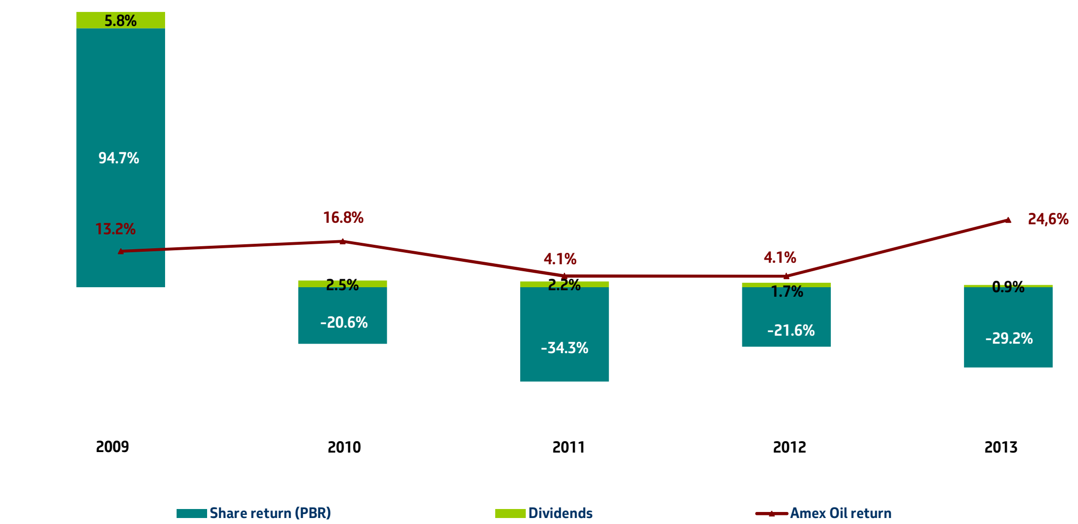
(*) The IGP-DI was used as deflator..
Source: Bloomberg.

Annual Return Comparison: Petrobras preferred shares (PETR4) vs. Ibovespa
(assuming reinvestment of dividends)



Source: Bloomberg

Annual Return Comparison: PBR vs. Amex Oil
(assuming reinvestment of dividends)



Source: Bloomberg

Exploration and Production

Our Exploration and Production area is responsible for the research, location, identification, development, production and incorporation of onshore and offshore oil and gas reserves. Achieving increasingly greater depths has made us a company internationally renowned for its excellence in the development of deepwater and ultra-deepwater production.

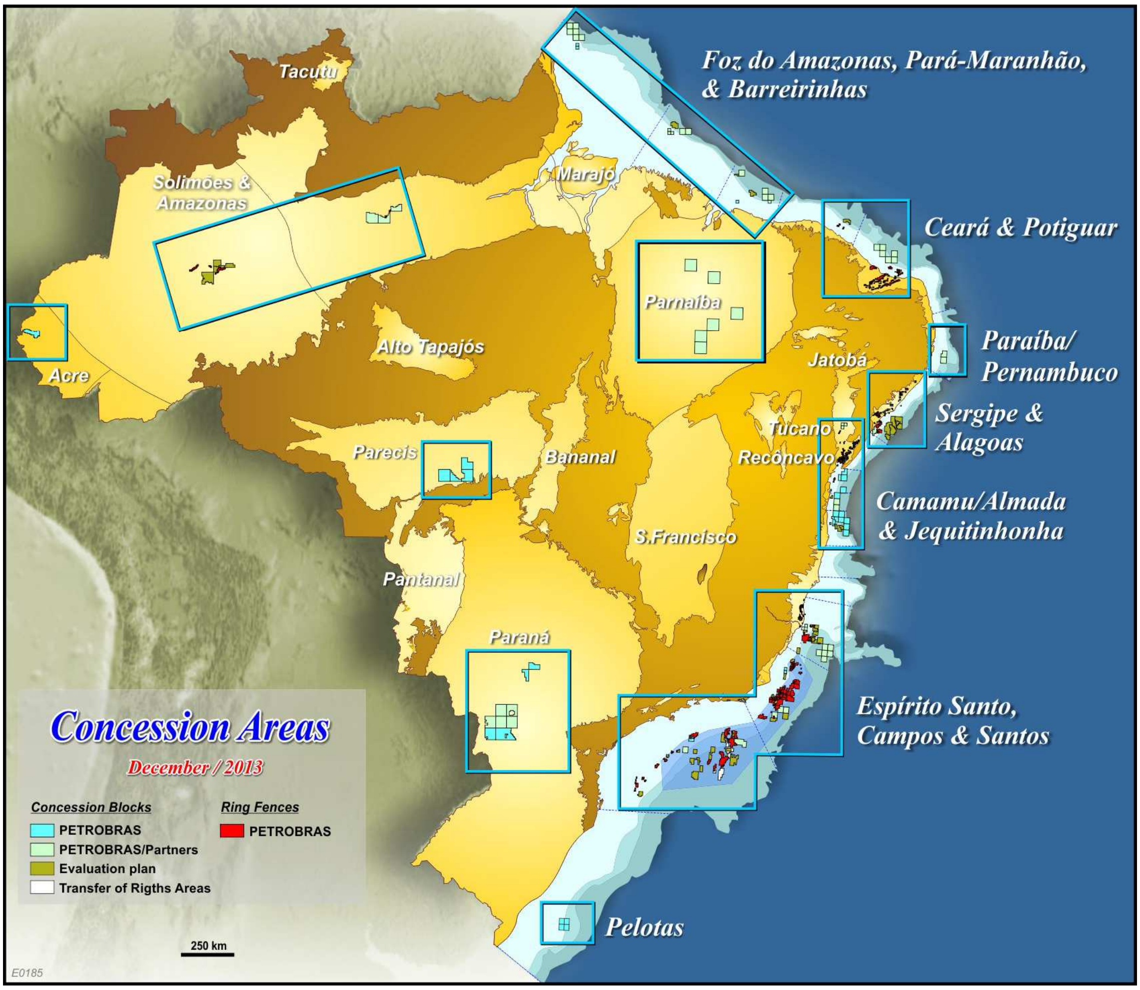
We work in a sustainable manner to increase oil and gas production and reserves. We seek to expand operations in areas with great potential for exploration and production, where our operational, technical and technological capacity constitute a competitive differential.

Concession Areas

Our operations begin with the study and acquisition of exploration blocks at auctions of the National Petroleum, Natural Gas and Biofuel Agency (ANP), through three different concession models:

- *Concession auctions:* the winner of each area offered for exploration is the one offering the highest bonus, paid at the time of the acquisition, the best minimum exploration program and the highest local content ratio. The company must also transfer part of the area's production revenue to the federal government as royalties. Fields with exceptional productivity will also pay a special government take. Under this system, two rounds of ANP concessions were carried out in 2013. In the 11th round we acquired 34 blocks, 17 of which onshore and 17 offshore, with total investments in association with our partners of R$1.46 billion, R$537.9 million of which to be paid with our own resources. In the 12th round we acquired 49 onshore blocks, with total investments (including partners) of R$143 million, R$120 million of which from our own resources.
- *Onerous assignment:* a model through which we were granted, exceptionally, the right to produce five billion barrels of oil equivalent (boe) for an average of US$8.51/boe. There is no special government take and royalties are lower than in the concession system. Seven blocks were conceded under this model: Franco, Florim, Nordeste de Tupi, Sul de Tupi, Sul de Guará, Entorno de Iara and Peroba, with a total area of 3,865 km². The concession runs for 40 years, extendable for a further five years.
- *Production sharing*: a model established in 2010 by Congress for bids for as yet unconceded pre-salt areas, where we will have a share of at least 30% of each block and will be the operator. Production sharing envisages the payment of a fixed bonus and the winning proposal is the one that offers the highest percentage of oil profits to the government. The first auction under this model was in 2013 for the 1,547.76 km^2 Libra field in the Santos basin; the bonus was R$15 billion and the percentage of oil profits was 41.65%. We acquired another 10% of this field, raising our share to 40%, and our partners are Shell (20%), Total (20%), CNPC (10%) and CNOOC (10%). The minimum exploration program envisages 3D seismic surveys of the entire block, two exploratory wells and an extended well test (EWT). The EWT will produce oil, according to the exploratory program.

Our domestic portfolio includes 96 exploratory blocks and 51 discovery evaluation plans (PADs), totaling 103,000 km², 39,000 km² of which onshore and 64,000 km² offshore.



Exploratory activities

After the acquisition of the block, the exploratory phase begins, which terminates with the discovery of commercially viable volumes of oil and gas or the return of the block to the ANP. In 2013, we drilled 76 wells, 45 onshore and 31 offshore, with a success rate of 75%, among which were 14 pre-salt wells, with a 100% success rate, leading to discoveries that will help raise our production level. Depending on the results of the PADs, the discoveries will be incorporated into our reserves.

Exploration investments totaled R$17,265 million, mainly covering drilling, seismic survey and block acquisition costs. The discovery cost per boe added to reserves was US$2.66. The table below shows the most important discoveries in 2013:

Well	Basin	Location	Water depth (m)	Column (m)	Quality	Consortium
Franco Leste	Santos	Pre-salt	2011	396	28° API	100% Petrobras
Iara Alto Ângulo*	Santos	Pre-salt	2128	310	28° API	65% Petrobras, 25% BG E&P Brasil and 10% Petrogal Brasil
Júpiter Bracuhy	Santos	Pre-salt	2251	160	18° API	80% Petrobras, 20% Petrogral Brasil
Farfan I	Sergipe Alagoas	Post-salt	2476	30	38° API	60% Petrobras, 40% IBV-Brasil
Muriú I	Sergipe Alagoas	Post-salt	2432	24	40° API	100% Petrobras
Iara Extensão IV	Santos	Pre-salt	2197	421	28° API	65% Petrobras, 25% BG E&P Brasil, 10% Petrogal Brasil
Florim	Santos	Pre-salt	2009	100	29° API	100% Petrobras
Entorno de Iara I	Santos	Pre-salt	2266	135	26° API	100% Petrobras
São Bernardo	Espírito Santo	Post-salt	2015	70	29°API	75% Petrobras, 25% Vale SA
Sagitário	Santos	Pre-salt	1871	170	31° API	60% Petrobras, 20% BG E&P Brasil, 20% Repsol Sinopec Brasil
Sul de Tupi	Santos	Pre-salt	2188	66	28° API	100% Petrobras
Franco Sul	Santos	Pre-salt	2035	348	27° API	100% Petrobras
Arjuna	Espírito Santo	Post-salt	2143	200	29° API	75% Petrobras, 25% Vale SA
Forno Extensão NE	Campos	Pre-salt	350m	87m	32° API	100% Petrobras
Pitu*	Potiguar	Post-salt	1731	188	26° API	80% Petrobras, 20% Petrogal Brasil
Moita Bonita I	Sergipe/Alagoas	Post-salt	2800	49	39° API	BM-SEAL-10 100% Petrobras; BM-SEAL-4 75% Petrobras, 25% ONGC

Mandarim	Campos	Post-salt	1874	100	16° API	100% Petrobras

*wells to be concluded in 2014

In 2013, we also declared the commercial viability of the following areas. It is particularly worth noting the Búzios, Sul de Lula and Lapa fields, previously known as Franco, Sul de Tupi and Carioca:

Field	Discovery	Basin	Location	Volume[1]	Water depth (m)	Quality	Consortium
Maçarico	2012	Potiguar	Onshore	1.5	Onshore	32° API	100% Petrobras
Paturi	2011	Potiguar	Onshore	1.4	Onshore	33° API	100% Petrobras
Búzios	2010	Santos	Pre-salt	3.058	2100	28° API	100% Petrobras
Sul de Lula	2013	Santos	Pre-salt	128.1	2200	27° API	100% Petrobras
Lapa	2007	Santos	Pre-salt	459	2140	26° API	45% Petrobras, 30% BG, 25% Repsol
Baúna Sul	2010	Santos	Post-salt	33.5	400	34° API	80% Petrobras, 20% Karoon

[1] Estimated recoverable volume, in millions of barrels of oil equivalent (boe)

Reserves

On December 31, according to the ANP/SPE criterion, our proven oil and natural gas reserves in Brazil totaled 15.973 billion barrels of oil equivalent (boe), distributed as follows:

Reserve (Brazil)	2012	2013
Oil (billion bbl)	13.284	13.512
Gas (billion m³)	388.746	391.286
Total (billion boe)	15.729	15.973

We sold interests in fields with proven reserves totaling 45 million boe. The balance of appropriations and sales resulted in the addition of 1.044 billion boe to proven reserves, versus production of 800 million boe. These volumes do not include output from EWTs in Brazilian exploration blocks.

In other words, for every barrel of oil equivalent extracted in 2013, we appropriated 1.31 boe, corresponding to a reserve replacement ratio of 131%. The Reserve/Production indicator (R/P) stood at 20 years.

Proven reserves in Brazil grew by 2% over 2012, while pre-salt reserves increased by 43%.

Production

In 2013, production averaged 1,931,4,000 barrels of oil per day (bpd) and 61,9 million cubic meters of gas per day (m^3/day), excluding liquefied gas, totaling 2,320 barrels of oil equivalent per day (boed),1,5% down on the year before, chiefly due to:

- the need to adjust the subsea arrangement of the P-63 platform well lines (Papa Terra field);
- more time needed for the installation of the buoyancy supported risers (BSRs) and the first steel catenary riser (SCR) systems to connect to the FPSO Cidade de São Paulo and FPSO Cidade de Paraty (Sapinhoá and Lula NE fields, respectively);
- the market scarcity of PLSVs (Pipe Laying Support Vessels) for the installation of pipelines to be used by the new systems;
- Delay in delivery of units expected to come on stream in 2013 (P-55, P-58, P-61 and TAD).

Total pre-salt oil production increased from 168,800 bpd in 2012, to 301,6 bpd in 2013, up by 79%, with successive records. We drilled 42 wells in this area and reached peak production of 390,000 bpd on January 14, 2014. Accumulated output from the pre-salt discoveries exceeded 290 million boe in just six years of production.

We have 126 offshore production platforms, 72 of which fixed and 54 floating. In 2013, we incorporated five units. The following units became operational in 2013:

Production Unit[i]	Field	Location	Basin	Capacity (mbpd)	Water depth (m)	1st Oil	Consortium
FPSO Cidade de São Paulo	Sapinhoá	Pre-salt	Santos	120	2,140	Jan 05	45% Petrobras 30% BG 25% Repsol
FPSO Cidade de Itajaí	Baúna	Post-salt	Santos	80	275	Feb 16	100% Petrobras
FPSO Cidade de Paraty	Piloto Lula NE	Pre-salt	Santos	120	2,120	Jun 06	65% Petrobras, 25% BG 10% Petrogal
P-63	Papa-Terra	Post-salt	Campos	140	1,165	Nov 11	62.5% Petrobras, 37.5% Chevron
P-55	Roncador	Post-salt	Campos	180	1,795	Dec 31	100% Petrobras

Five other units are scheduled to become operational in 2014. The units below will help guarantee our future production capacity:

Production Unit	Field	Location	Basin	Capacity (mbpd)	Operational Start-up	Consortium
P-58	Parque das Baleias	Pre-salt/ Post-salt	Campos	180	First quarter	100% Petrobras
P-62	Roncador	Post-salt	Campos	180	Second quarter	100% Petrobras
P-61	Papa-Terra	Post-salt	Campos	*	Second quarter	62.5% Petrobras 37.5% Chevron
FPSO Cidade de Ilhabela	Sapinhoá Norte	Pre-salt	Santos	150	Third quarter	45% Petrobras 30% BG 25% Repsol
FPSO Cidade de Mangaratiba	Iracema Sul	Pre-salt	Santos	150	Fourth quarter	65% Petrobras 25% BG 10% Petrogal

*joint capacity with P-63

In 2013 we posted record national natural gas delivery, reaching an annual average of 44.5million m^3/day. Production totaled 65.872 million m^3/day, including liquefied gas, an 2.3 million up on the previous year, chiefly due to the operational start-up of FPSO Cidade de Anchieta in September 2012, in Parque das Baleias, and the beginning of production in the Sapinhoá and Lula NE fields in the Santos basin pre-salt discoveries.

The success of the Natural Gas Optimization Program (Poag 2015), which has improved the performance of the operational units in the South and Southeast regions, also contributed to these results. In 2013, we recorded our highest ever annual exploration-and-production-associated gas utilization ratio of 92.60% with a monthly record of 94.36% in September.

Efficiency

We are constantly seeking productivity gains and, together with our partners and suppliers, develop new technologies, analyze new processes and implement programs to increase production, reduce costs and review our asset portfolio, including the Program to Optimize Operating Costs (Procop), the Program to Increase the Efficiency (Proef) of the Campos Basin and Rio de Janeiro Operational Units, the Divestment Program (Prodesin), the Well Cost reduction Program (PRC-Poço) and the Subsea Cost Production Program (PRC-sub).

Procop

In 2013, in the exploration and production area, Procop generated savings of R$1,934 billion, exceeding the annual forecast of R$807 million by 140%. This gain was chiefly due to a optimization in the number of onshore well interventions, the reduced consumption of diesel and of chemical products in the Southeast platforms, the lower number of vessels dedicated to maritime contingencies, the decommissioning of platforms, and the sale of drilling rigs.

Proef

Thanks to the Proef, the efficiency of the Campos Basin Operating Unit grew by 3.7 p.p., from 71.7%, in 2012, to 75.4% in 2013, while the Rio de Janeiro unit's efficiency increased by 0.7 p.p., from 91.7% to 92.4%. As a result, annual output from these areas increased by 63,000l bpd, mainly thanks to extensive platform maintenance and safety campaigns and a series of programmed stoppages to recover the integrity of the units.

We reinforced the culture of planning and control of operational efficiency as a critical management parameter and promoted the standardization of equipment to facilitate maintenance and the stockpiling of safety equipment needed for interventions, thereby guaranteeing the greater availability of resources.

Prodesin

We sold our 35% interest in Parque das Conchas (Block BC-10 in the Campos Basin, in production and operated by Shell and ONGC) for US$1.54 billion, equivalent to 15.5% of the program total.

PRC-Poço

Launched in 2013, PRC-Poço is designed to reduce offshore well construction costs through 24 initiatives on three main fronts: reducing unit costs, reducing scope and increasing productivity. The gains resulting from this program totaled US$344 million in 2013, exceeding the annual target of US$310 million.

PRC-Sub

PRC-Sub, also launched in 2013, aims to increase the availability of critical items, generate productivity gains, reduce unit costs and improve logistics efficiency. Throughout the year, we structured the program, defining the schedule, operating indicators and estimated gains in the coming years.

Technology

Among the various technologies in use, it is particularly worth mentioning the BSR and SCR systems, installed in the FPSOs Cidade de São Paulo and Cidade de Paraty, which operate in the Sapinhoá and Lula NE fields.

BSR (buoyancy supported riser system) is an innovative system composed of a submerged buoy, anchored to the sea-bed by tendons, whose main function is to isolate the movement of the rigid risers (pipes) from the movement of the platforms installed in ultra-deep waters. We opted for this technology when we were developing the project because flexible risers were not feasible due to the quantity of CO_2 present in the field.

An SCR (steel catenary riser system) was connected for the first time to a large-scale BSR in ultra-deep waters.

The first two BSRs are already anchored and we have completed the installation and commissioning of the first SCRs. The learning curve is proved by the reduction in the time needed for the offshore installation of the system components.

Refining and Marketing

Refining, Transportation and Marketing

Our Refining, Transport and Marketing area is responsible for the refining, transportation and sale of oil and oil products. Our strategy is to increase the capacity and efficiency of our new refineries in order to meet strong market demand. In the petrochemical segment, we prefer to work in partnerships integrated with our other businesses.

Refining

In 2013, our 12 refineries in Brazil processed 2,074,000 bpd of oil, 82% of which from Brazilian fields, and LNG (liquefied natural gas), and produced 2,124,000 bpd of oil products.

Oil-product output reached record levels, moving up by 6% over the previous year. Production in August was also a new monthly record, with a daily average of 893,000 bpd of diesel and 515,000 bpd of gasoline.

These results were due to greater refining efficiency and the increasing use of logistics assets, thereby reducing oil product imports, all of which reflects the integrated management of the refining, transport and marketing system.

As of January 2014, S-50 gasoline, with a maximum sulfur content of 50 parts per million, is available throughout the country, in line with the change in the product's specifications. The main benefits of the new fuel include a reduction in polluting vehicular gas emissions.

New Developments

Abreu e Lima Refinery

The Abreu e Lima refinery will have a heavy crude processing capacity of 230,000 bpd and will produce up to 162,000 bpd of S-10 diesel. The unit will also produce LPG (liquefied petroleum gas), petrochemical naphtha, fuel oil for ships and petroleum coke. Operational start-up of the first production phase is scheduled for November 2014 and the second stage for May 2015.

Premium Refineries

We are evaluating the construction of two refineries to produce premium oil products (high-quality and low-sulfur-content compounds), essentially medium distillates (diesel and jet fuel) and coke.

The Premium I refinery is planned to be installed in Bacabeira (MA), approximately 60 km from São Luiz, the state capital, and will be capable of processing up to 600,000 bpd of national crude into S-10 diesel. Construction will take place in two stages of 300,000 bpd each. A port terminal will also be built to receive, store and transfer solid and liquid oil products.

Premium II is planned to be built in Caucaia (CE), with a crude processing capacity of 300,000 bpd. It will be connected to a port terminal in Pecém by an 11 km pipeline.

Rio de Janeiro Petrochemical Complex (Comperj)

The Comperj refinery, under construction in Itaboraí (RJ), is programmed to begin operations in two phases: the first phase is expected to be concluded in 2016, with a crude processing capacity of 165,000 bpd, while the second, still under evaluation, should raise total capacity to 330,000 bpd. The refinery will produce LPG, jet fuel, naphtha, fuel oil, coke and sulfur for the national oil product market and will also supply raw materials to the petrochemical units.

Sales

Domestic Market

We sold 2,383,000 bpd of oil products on the domestic market in 2013, 4% up on 2012. The 5% increase in diesel sales was due to GDP growth, especially the upturn in retail sales and the record grain harvest, which required more transport, as well as electricity generation by the national grid's diesel-powered thermal plants.

Total gasoline sales grew by 4%, chiefly due to the expansion of the flex-fuel vehicle fleet and the price ratio between hydrous ethanol and gasoline C, which favored consumption of fossil fuel in most Brazilian states. However, the alteration of the anhydrous ethanol ratio in gasoline C from 20% to 25% as of May limited the growth of gasoline A sales.

LPG sales climbed by 3%, driven by the increase in the real wage bill and low average temperatures between July and October in the main consuming regions, while naphtha sales moved up by 4%, due to the low comparative base in 2012 as a result of the sluggish petrochemical market.

Fuel oil sales grew by 17% due to dispatch by the National Interconnected System thermal power plants, which offset the reduction in fuel oil consumption due to its replacement by natural gas in the Amazonas thermal plants.

Exports vs. Imports

Oil exports totaled 207,000 bpd, 43% down on 2012, chiefly due to the processing of a higher volume of national oil in Brazil's refineries and the decline in production. Oil product shipments came to 186,000 bpd, up by 1%.

Oil imports stood at 404,000 bpd, 17% more than in 2012, while oil product imports fell by 10% to 389,000 bpd, due to greater use of the refineries and the recovery of ethanol production.

Our 2013 financial trade balance, based on oil and oil product export and import volume, excluding natural gas, LNG and nitrogen compounds, recorded a deficit of US$16,2 billion

Petrochemicals

Our petrochemical activities are integrated with its other business segments in order to increase production of petrochemicals and biopolymers, preferably through acquiring stakes in Brazilian and foreign companies.

The following companies are our petrochemical subsidiaries, joint subsidiaries or affiliates.

- Braskem S.A. (36.20%) – main products: ethylene, polyethylene, polypropylene and PVC;
- Deten Química S.A. (27.88%) - LAB and LABSA, detergent raw materials;
- Metanor S.A. / Copenor S.A. (34.54%) - methanol, formaldehyde and hexamine;
- Fábrica Carioca de Catalisadores (50%) –catalysts and additives;
- Innova S.A. (100%) - ethylbenzene, styrene and polystyrene;
- Petrocoque S.A. (50%) –calcined petroleum coke.

Innova

As part of Prodesin, we sold 100% of Innova to Videolar S.A. for R$870 million (US$372 millions). The transaction was approved by a Petrobras Shareholders'' Meeting on September 30, but its definitive conclusion depends on approval by CADE, Brazil's antitrust authority. The buyers will also assume debt of R$23 million.

Main Projects

The following petrochemical investments foreseen in the 2014-18 BMP are particularly worth mentioning:

- Companhia Petroquímica de Pernambuco (PetroquímicaSuape) and Companhia Integrada Têxtil de Pernambuco (Citepe) – responsible for the implementation of the Suape Petrochemical

Complex, these companies will produce purified terephthalic acid (PTA), polyethylene terephthalate (PET resin), textile polymers and polyester yarn. The PTA unit began operations in January and the PET facility is scheduled for start-up at the beginning of 2014.

- Rio de Janeiro Petrochemical Complex (Comperj) – the project will be undertaken by Braskem and will use natural gas supplied by us as a raw material.
- Companhia de Coque Calcinado de Petróleo – Coquepar – we will hold a 45% interest in a petroleum coke calcining unit in Paraná, with a total production capacity of 350,000 tonnes/year.

Procop

In the Refining, Transportation and Marketing area, Procop generated savings of R$3.15 billion, 40% more than the annual estimate of R$2.25 billion, through a number of initiatives: in refining, increasing the operational efficiency of the assets and optimizing scheduled maintenance expenditure; in logistics, reducing oil and oil product inventories, shortening vessel terminal and platform mooring times and improving the maritime transport operational programming process.

Transportation

Transportation and Storage

A Petrobras Transporte S.A., (Transpetro), our subsidiary in the petroleum, oil product, biofuel and natural gas transportation and storage segment, operates 48 terminals (21 onshore and 27 offshore), 57 vessels, 7,517 km of oil pipelines and 7,152 km de gas pipelines.

Transpetro interacts with the production refining and distribution areas, as well as importing and exporting oil and oil products, and its main clients are distributors, petrochemical companies and thermoelectric power plants. It has a nationwide presence, with installations in 19 of the 27 Brazilian states.

In 2013, it transported 59.5 million tonnes of oil and oil products. Its oil pipelines and terminals handled 807.7 million m^3 of liquids, 4.3% up on 2012. Daily natural gas transportation averaged 69.8 million m^3, 15% more than the average of the year before.

New Vessels

The Fleet Modernization and Expansion Program (Promef) envisages the construction of 49 vessels, adding four million dwt to the current fleet tonnage and allowing the incorporation of new technologies. The program was developed based on three premises: the ships will be built in Brazil, there will be a minimum nationalization ratio of 65% in the first phase and 70% in the second phase, and the shipyards will become internationally competitive.

To date, seven vessels have been delivered through Promef, three of which in 2013: *Zumbi dos Palmares* and *Dragão do Mar*, our second and third suezmax oil tankers, respectively, both with 157,000 dwt, and the 48,300 dwt *Jose Alencar*, the fourth vessel, which will be used to transport oil products. The ships were incorporated into the maritime transport fleet, joining the other four already delivered, *Celso Furtado*, the first to be delivered in 2011, and *João Cândido*, *Sergio Buarque de Holanda* and Rômulo Almeida, all of which delivered in 2012.

The other Promef vessels are being built in Brazilian shipyards and will be delivered by 2020.

Eight ships that had finished their working life were sold this year.

Terminals and Oil Pipelines

Main highlights:

- Increase of 35% in the column of crude transported by the Oscan pipeline, which connects the Osório Terminal to the Alberto Pasqualini refinery (RS).
- Increased flow and reliability of the Osvat oil pipeline, which supplies the Henrique Lage and Paulínia refineries (SP), contributing to the record output of these facilities.
- Complete modernization of the pier installations of the Angra dos Reis Terminal (RJ), doubling oil flows to 7,000 m^3 per hour.
- Operational start-up of the 183 km Osduc IV, which transports LNG from the Cabiúnas Terminal (Tecab) to the Duque de Caxias Refinery (RJ). This pipeline will permit the outflow of all output from the Tecab Liquid Recovery Unit, increasing the terminal’s processing capacity by around 30%.
- Operational start-up of the Barra do Riacho Terminal in Aracruz (ES), which helps production outflow from FPSO Cidade de Anchieta and receives natural gas and LPG from the Cacimbas Gas Treatment Unit.

Natural Gas Operations

The Cabiúnas terminal is Brazil's largest gas processing complex, comprising seven plants with a joint processing capacity of 19.7 million m^3/day of natural gas and 4,500 m^3/day of natural gas condensate from the Campos basin. In 2013, processed volume averaged 11.8 million m^3/day and 924 m^3/day, respectively.

Procop

In 2013, Procop led to savings of R$231 million in Transpetro, 108% higher than the annual estimate of R$110 million, mainly from optimizing scheduled maintenance costs in relation to tanks and pipeline repairs, optimizing the contracted vehicle fleet, reducing vessel docking costs and tightening control over the acquisition of maintenance materials.

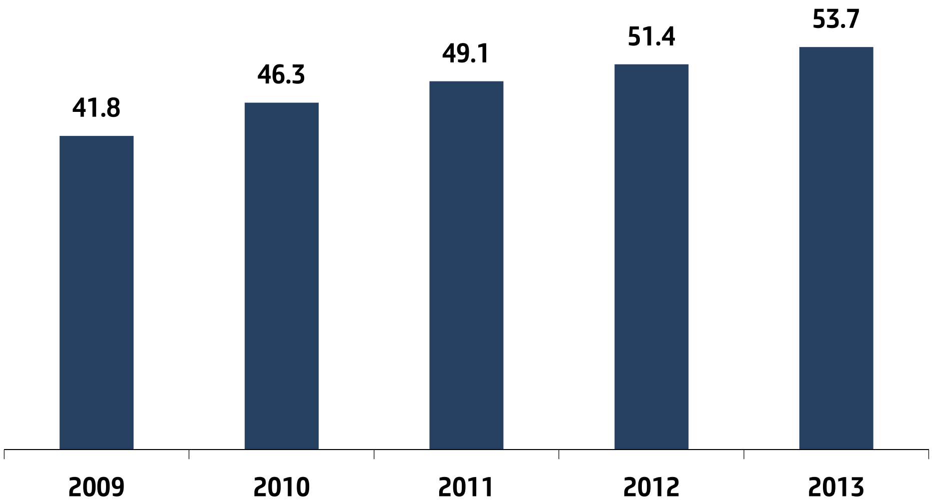
Distribution

Our subsidiary Petrobras Distribuidora distributes and sells oil products and biofuels throughout Brazil, and aims to maintain its growth pace, with an emphasis on profitability, together with an integrated, reliable and sustainable logistics system.

The domestic market leader, it sold 53.7 million m³ in 2013, 4.5% more than the previous year. Annual net operating revenue totaled R$86.6 billion and net income reached the record level of R$ 2.1 billion. With an annual market share of 37.5% in December 31st 2013, a chain of 7,710 gas stations and 13,105 clients, Petrobras Distribuidora posted record sales of 4.8 million m^3 in October.

Petrobras Distribuidora - Sales Volume Trends

(million m³)



Petrobras Distribuidora invested R$1.03 billion in 2013, R$545.6 million of which in the maintenance and expansion of logistics infrastructure; R$162.2 million in the development and modernization of the gas station network; R$45.4 million in gas distribution and energy sales;

R$ 146.7 million in the aviation segment and R$28.7 million in the major consumer segment. Another R$58.3 million went towards information technology, R$19.9 million to chemicals and R$4.1million to asphaltic products.

Investments in distribution infrastructure were fueled by higher consumption of oil products and the consequent logistics challenges, chiefly in the Southeast, North and Midwest regions.

The annual highlights included the operational start-up of the Porto Nacional Terminal (TO), the continuation of the Cruzeiro do Sul base (AC) construction works and the modernization and expansion of the Duque de Caxias lubricant factory (RJ), as well as the investments in expanding and improving 41 fuel terminals and distribution bases.

In the aviation segment, there were several important projects to increase operating capacity, such as the expansion of the aircraft supply fleet, as well as improvements to airport installations in order to increase efficiency, including that of the distribution pools.

Gas station investments went to works, equipment and adjustments to visual elements, as well as the expansion of the BR Mania and Lubrax+ convenience services. In the same segment, Petrobras Distribuidora formed new partnerships in order to improve the Petrobras Premmia loyalty program, increasing its attractiveness to consumers.

Procop

In Petrobras Distribuidora, Procop saved R$68 million, exceeding the annual estimate of R$54 million by 26%, mainly due to the reduction in unit freight costs and travel expenses, productivity gains in the bases and the commercial and corporate areas, and the reduction in gas station image expenses.

Gas and Power

Our Gas & Power area is responsible for the transportation, distribution and sale of natural gas, the generation and sale of electric power and the production and sale of fertilizers.

Our strategy is to monetize gas from Brazil's sedimentary basins. The upturn in gas production will help expand our fertilizer factories and thermal power plants and meet demand from the Refining, Transportation and Marketing area and the contracts with natural gas distributors.

Natural Gas

Natural gas supply totaled 85.9 million m³/day in 2013, 15% up on the year before, fueled by higher demand from gas-powered thermal plants, in accordance with the needs of the National System Operator (ONS), due to the low levels of hydropower plant water reservoirs, which were below the historical average.

Of this total, which includes own production and that of partners, domestic supply came to 40.8 million m^3 per day (excluding liquefied gas and gas used in the production process and well injection, as well as losses). Imports through the Bolivia-Brazil gas pipeline totaled 30.5 million m^3/d (excluding gas used for transportation) and imported regasified LNG totaled 14.5 million m^3/d. Brazil's gas pipeline network currently extends for 9,190 km.

Projects Concluded in 2013:

City Gates: Baixada Fluminense Thermoelectric Plant (RJ), Pindamonhangaba II (SP), Guaratinguetá (SP), Nitogen-Based Fertilizer Unit III (MS), Linhares (ES) and the Landulpho Alves Refinery (BA).

Ongoing Projects:

City Gates: Aquiraz (CE), São Mateus (ES), Goiana II (PE), Rio das Flores (RJ), Barra Mansa II (RJ) and São Bernardo do Campo II (SP).

Gasfor II Gas Pipeline (Fortaleza/ CE): Horizonte-Caucaia stretch, extending for 83.2 km.

OCVAP I and II Pipelines: extending for 70 km each, with flow of up to 3,6006 m³/day of LPG and 1,400 m³/day of C5+ through two pipelines between the Caraguatatuba Gas Treatment Unit (UTGCA) and the Henrique Lage Refinery.

Rota 2 Gas Pipeline: extending for 402 km, this pipeline will connect the Santos Basin pre-salt complex to the Cabiúnas Terminal (Tecab).

Natural Gas Production Unit (UPGN) Rota 2: will permit the reception of up to 13 million m³/day of gas from the Santos Basin pre-salt complex3, expanding the Tecab-Reduc System's daily gas processing capacity from 23 million m³ to 28 million m³ and Tecab's condensate processing capacity from 4,500 m³ to 6,000 m³.

Tecab Supplementary Gas Processing Unit: will permit the reception and processing of up to 2.9 million de m³;/day of additional gas from the Santos Basin pre-salt complex.

Rota 3 Gas Pipeline: extending for 355 km, this pipeline will connect the Santos Basin pre-salt complex to the Rio de Janeiro Petrochemical Complex (Comperj).

UPGN Rota 3: implantation of units to process 21 million de m³/day of gas from the Santos Basin pre-salt complex in Comperj.

Itaboraí-Guapimirim Gas Pipeline: extending for 11 km and with a flow capacity of up to 17 million m³/day, this pipeline will permit outflow of gas processes by the future Rota 3 UPGNs. It is also the first gas pipeline to be implanted under the concession regime, pursuant to Law 11909/09 (the so-called Gas Law).

Norte Rota 3 Gas Pipelines: comprising a 50 km pipeline to carry LPG from Comperj to the Campos Elíseos Terminal (Tecam), and an 11 km pipeline to transport gas from Gasduc II to the Rota 3 UPGN.

Norte Comperj Pipelines: comprising three 50 km pipelines connecting Comperj to Tecam, carrying oil, diesel/naphtha and jet fuel, as well as a pipeline connecting the Duque de Caxias Refinery to Comperj.

Pilar Scomp II: New Compression Service (Scomp), which will replace the current Pilar Scomp, expanding the gas handling capacity of the Pilar-Guamaré (PE) System to meet demand from the Termopernambuco Thermoelectric Plant and the Abreu e Lima Refinery and projected demand from Alagoas, Pernambuco, Paraíba and Rio Grande do Norte.

Liquefied Natural Gas

In 2013, we executed 11 Master Sales Agreements (MSAs), totaling 72 contracts already signed, and conducted 88 cargo purchase operations – 77 of which received in Brazil and 12 resold abroad, one of which re-exportation. It also concluded the construction and initiated the commissioning of the Bahia LNG Regasification Terminal, whose daily dispatch capacity is 14 million m³ of natural gas

Sales

In September 2012, we established a new short-term natural gas sales model involving monthly electronic auctions.

In 2013, the supply of short-term gas through monthly auctions occurred in January (1.3 million m^3), February (389,000 m^3), August (3 million m^3), September (2 million m^3) and October (1.5 million m^3). There were no sales under this model in the other months, given that Brazil's natural gas market is characterized by high demand from thermoelectric plants, which does not favor additional supply of the product.

In 2013, there were 14 secondary market supply contracts totaling 2.05 million m^3 per day, with effective delivery averaging, 310,600 m^3/day. This type of sale, which reallocates volumes not consumed by the thermoelectric market, is offered to clients in the industrial segment where natural gas is not the major source of fuel.

Distribution

Regional distributors' gas sales in Brazil averaged 62.5 million m^3/day in 2013, 14% up on 2012, reflecting the 54% increase in consumption from gas-powered thermal plants.

We have interests in 19 natural gas distributors, holding stakes ranging from 23.5% to 83%, and maintain outright control of Gás Brasiliano (SP) and Petrobras Distribuidora (ES).

These 21 distributors sold 33.2 million m^3/day in 2013, equivalent to 53% of Brazil's gas distribution market, 19% up on 2012.

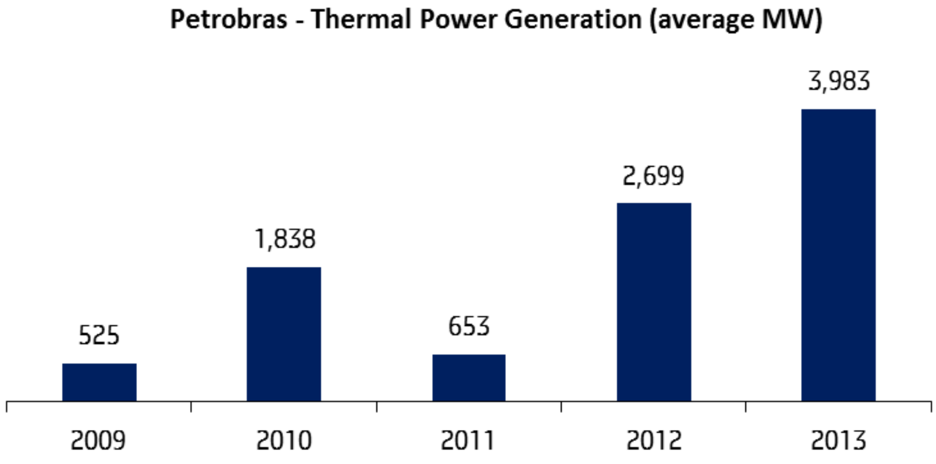
The year also saw the start-up of Companhia de Gás do Maranhão (Gasmar), in which we retain a 23.5% stake through its subsidiary Petrobras Gás. Gasmar distributes natural gas to the thermal plants in the Parnaíba (MA) complex, handling around 4 million m³ of the product per day.

Electric Power

In 2013, we generated 3,983 average MW for the National Interconnected System (SIN) from our18 owned and leased thermal power plants, with a joint installed capacity of 6,235.2 MW. Including those projects in which we retain a minority stake, capacity totaled 6,885.5 MW.

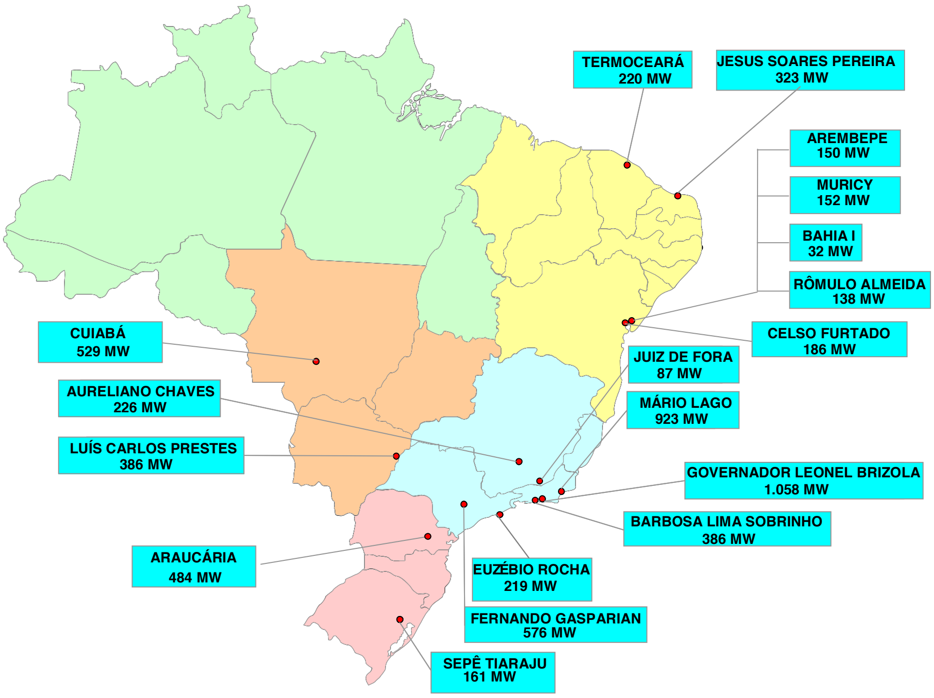
Generation increased by 48% over 2012 due to the greater number of dispatch requests by the ONS, as a result of the low level of hydro plant reservoirs.

Sales in the unregulated market totaled 2,056 average MW.



* The volume of energy generated varies in line with ONS requests.

PETROBRAS – INSTALLED THERMAL GENERATION CAPACITY



Note: Own thermal plants and those leased from the SIN. The map does not show our interests in other generation projects

Ongoing Projects

- Baixada Fluminense Thermoelectric Plant (Seropédica/RJ): construction of the 530 MW plant to meet demand from the contract arising from the company winning the A-3 Energy Auction in 2011. Operational start-up is scheduled for 2014.
- Sepé Tiaraju Thermoelectric Plant (RS): closure of the plant's cycle, with an increase in installed capacity from 161 MW to 248 MW, in order to increase the facility's efficiency and

meet the environmental requirements of the biofuel operation. Start-up is scheduled for 2014.

Fertilizers

We acquired Araucária Nitrogenados S.A., in Araucária (PR), with a production capacity of 700,000 tonnes of urea and 41,000 tonnes of ammonia per year, as well as Arla 32, giving us a total of three fertilizer plants. In addition to ammonia and urea, Fafen-BA produces nitric acid, Arla 32 and carbon dioxide, while Fafen-SE produces ammonia, urea, carbon dioxide and urea for Arla 32 production.

Sales in 2013 came to 1,060,000 tonnes of urea and 189,000 tonnes of ammonia, while production came to 1,138,000 and 882,000 tonnes, respectively.

Ongoing Projects

Nitrogen Fertilizer Plant III (Três Lagoas-MS): this plant, which is in the construction phase, will provide 1,223,000 tonnes of urea and 70,000 tonnes of ammonia per year as of 2014.

Expansion of Fafen/SE: an ammonium sulfate plant is under construction that will produce 303,000 tonnes per year from surplus sulfuric acid produced by the Abreu e Lima Refinery (RNEST). Conclusion is scheduled for February 2014.

UFN V Ammonia Plant (Uberaba/MG): in the basic project development phase, this plant will produce 519,000 tonnes of ammonia per year. Start-up is scheduled for 2017.

Procop

In the Gas and Power area, Procop generated savings of R$89.3 million, exceeding the initial estimate for 2013 of R$52.8 million, mainly due to the reduction in the operating costs of gas logistics assets and the increased productivity of the fertilizer and thermal power plants.

Biofuels

The subsidiary Petrobras Biocombustível S.A. was created in 2008 to produce biofuels in a safe and reliable manner, with social and environmental sustainability, thereby helping to reduce greenhouse gas emissions. Petrobras Biocombustível plans to continue growing in an integrated manner, prioritizing the production of ethanol and incorporating new technologies.

In the biofuel segment, Petrobras Biocombustível seeks to:

- Increase production of biodiesel, participating in the production chain and in the technological development of renewable fuels;

- Offset the loss of gasoline and diesel markets to ethanol and biodiesel through the production of biofuels;

- Accelerate the mastery of technological know-how, prioritizing the development of 2G ethanol, bio-jet fuel and competitive agricultural additives.

Biodiesel and Agricultural Additives

Petrobras Biocombustível S.A. (PBIO) owns three biodiesel plants directly, in Candeias (BA), Quixadá (CE) and Montes Claros (MG), and two others through the affiliated company BSBIOS, in Marialva (PR) and Passo Fundo (RS). In 2013, their joint biodiesel production capacity increased from 765,000 to 821,000 m^3 per year. All the plants have received the Social Fuel Seal, signifying compliance with the guidelines of the National Program for Biodiesel Production and Use.

Petrobras Biocombustível is developing the Belém Project in Pará, which envisages the cultivation of palm, the extraction of palm oil and the production of biodiesel. This year, was formed the joint venture Belém Bioenergia Brasil in association with the Portuguese Galp Energia to produce 346,000 m^3 of green diesel per year in Portugal from the proprietary production of vegetable oil in Brazil, in order to meet demand from Portugal and part of Europe.

Petrobras Biocombustível also processes castor beans, cottonseed and sunflower seed, as well as refining crude vegetable oil through the jointly-owned subsidiary Bioóleo. The plant, in Feira de Santana (BA), has an annual installed processing capacity of 130,000 tonnes of grains and 60,000 m^3 of semirefined crude cottonseed and degummed soybean oil. Bioóleo supplies vegetable oil to the Petrobras Biocombustível' three biodiesel plants in the country's semi-arid region.

Ethanol

Through its jointly-controlled subsidiaries Total, Nova Fronteira and Guarani, Petrobras Biocombustível retains an interest in nine ethanol plants in Minas Gerais, São Paulo and Goiás and one in Mozambique, in Africa. The three companies closed the 2013/14 harvest with a joint sugarcane crushing capacity of 25 million tonnes, ethanol production of 1.06 million m^3 and sugar output of 1.58 million tonnes. Surplus energy sales reached 954.6 GWh at the end of the harvest.

Investments in these subsidiaries in recent years have expanded their processing capacity, as well as renewing and expanding their plantations, thereby raising ethanol production and energy output from sugarcane bagasse.

Bambuí Bioenergia

Petrobras Biocombustível retains 43.58% of Bambuí Bioenergia S.A., which has an ethanol plant in Bambuí (MG).

In 2013, a Bambuí Bioenergia invested R$50.9 million to increase its planted area and conclude the industrial expansion of its plant, raising crushing capacity from 1.2 million to 2.4 million tonnes of sugarcane per year, in turn increasing ethanol production capacity from 104,000 m^3 to 211,000 m^3 per year and surplus energy sales from 43 GWh to 89 GWh per year.

Guarani

In March 2013, Petrobras Biocombustível invested R$ 225.1 million in Guarani S.A., increasing its interest to 39.56%. The transaction resulted from an agreement with Tereos Internacional S.A. for the acquisition of up to 45.7% of Guarani via a capital transfer of up to R$1.6 billion over five years. Currently, Guarani owns seven units in São Paulo and one in Mozambique.

Investments totaling R$809 million are under way to raise sugarcane crushing capacity, ethanol production, sugar output and energy cogeneration by 2015. The cogeneration projects in the Mandu and Vertente units were concluded, raising surplus energy sales capacity from 100 GWh to 244 GWh and from 18 GWh to 137 GWh, respectively. Guarani's programmed investments will increase its sugarcane crushing capacity from the current 21.5 million to 24.8 million tonnes per year, in turn expanding ethanol production from 1.02 million m^3 to 1.11 million m^3 per year, sugarcane production capacity from 2.1 million to 2.3 million tonnes per year, and surplus energy output from 905 GWh to 1,400 GWh.

Nova Fronteira

Petrobras Biocombustível retains 49% of Nova Fronteira Bioenergia S.A., in association with the São Martinho group. Investments totaled R$62.4 million to expand and renew the plantations and increase crushing capacity from 3.4 million to 4 million tonnes per year, ethanol production from 301,000 to 370,000 m^3 per year and surplus energy sales from 225 GWh to 250 GWh.

2G Ethanol

Research into the development of cellulosic ethanol began in 2004, since which time advances in technology have led to increased scale. The project is currently in the engineering phase and the aim is to construct an industrial plant in 2015.

In 2013, Procop generated savings of R$56 million in Petrobras Biocombuistível, 4% up on the annual estimate of R$54 million. The initiatives that made this gain possible included the updating of the company's organizational structure and the winding up of the contracts in Pará.

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International Operations

Operations

Our international operating strategy is based on:

- Exploration and production, with an emphasis on oil and gas exploration in Latin America and the United States;

- Maintaining natural gas supply from Bolivia to complement domestic gas supply;

- Improving operational efficiency in the distribution segment;

- Maintaining the operational integrity and improving the management of the overseas refineries;

Countries in which we maintained a presence in 2013:

Countries	Activities			
	Exploration and production	Gas & Power	Refining / Petrochemical	Distribution/ sales
American continent				
Argentina	√	√	√	√
Bolivia	√	√		
Chile				√
Colombia	√			√
U.S.A.	√		√	
Mexico	√			
Paraguay				√
Peru	√			
Uruguay	√	√		√
Venezuela	√			
African continent				
Angola	√			
Benin	√			
Namibia	√			
Nigeria	√			
Gabon	√			
Tanzania	√			
Asian continent				
Japan			√	

In 2013, we invested R$5.1 billion in the international market, 90% of which went to exploration and production and 10% to refining, petrochemicals, distribution and gas and power activities. Production totaled 128.5,000 bpd of oil and 15.5 million m³/day of natural gas, totaling 219.5,000 boed, while the three overseas refineries processed 169,4,000 bpd of crude, equivalent to 70% of total installed capacity of 230,500 bpd.

International proven oil, condensate and natural gas reserves closed 2013 at 592 million boe, according to the criterion of the Society of Petroleum Engineers (SPE), equivalent to 3.6% of total proven reserves and 17% down on 2012, resulting in an international reserves-to-production ratio of 9.8 years and a reserve replacement ratio of -97%. The reduction was mainly due to the sale of 50% of our African assets through the constitution of a joint venture to explore, oil, condensate and natural gas production, as well as the sale of the fields in the U.S. part of the Gulf of Mexico, totaling 111 million boe.

We have also sold 166 million boe of proven reserves in Peru and Colombia. However, these reserves are still booked as its own until the transactions are approved by the competent bodies.

Business Development

The Americas

In addition to Brazil, we are present in 10 countries in the Americas: Argentina, Bolivia, Chile, Colombia, the United States, Mexico, Paraguay, Peru, Uruguay and Venezuela, where we have 876 gas stations and exploration and production assets. Production in these countries came to 88.3,000 bpd of oil and 15.5 million m³ per day of natural gas, totaling 179.3,000 boed, or 82% of total international output.

In Argentina, operations include oil and gas exploration and production, as well as a refinery with a crude processing capacity of 30,500 bpd and assets in the distribution, petrochemical and gas and power segments. In 2013, we discovered shale oil in the Rincón de Aranda concession in Neuquén province, in which we hold a 55% interest. In January 2014, we announced the sale of our 38.45% interest in Puerto Hernandez to YPF S.A. for US$40.7 million. This transaction anticipates the winding up of the concession agreement in 2016 and enables the use of resources in the short term for other projects in our business plan.

In Bolivia, natural gas production is strategic, given that it is used to complement demand in Brazil, which it reaches via the Gasbol pipeline. In Chile, we are present in the distribution market, where we have a 12.5% market share and 253 gas stations; in Paraguay, we have 166 gas stations and a market share of 19.6%.

In Uruguay, we have 88 gas stations and a 23.1% share of the fuel market. As part of the Petrobras Divestment Program (Prodesin), we entered into an agreement to sell our interests in exploratory blocks 3 and 4 in the Punta del Este Basin for US$17 million, and its 50% stake in Montevideo Gas for US$ 7.5 million. Conclusion of the transactions is subject to the usual conditions precedent, including approval by the competent Uruguayan authorities.

In Peru, it approved the outright sale of its wholly-owned subsidiary Petrobras Energia Peru to China National Petroleum Corporation - CNPC for US$2.6 billion. The deal includes 100% of Lot X, 46.16% of Lot 57 and 100% of Lote 58. The transaction is part of Prodesin and its conclusion is subject to approval by the Chinese and Peruvian governments and compliance with the procedures set forth in the respective Joint Operating Agreements.

Also as part of Prodesin we signed an agreement to sell 100% of Petrobras Colombia Limited (PEC) for US$380 million. The assets in question include interests in 11 onshore exploration and production blocks, as well as the Colombia and Alto Magdalena oil pipelines, the first of which with a transportation capacity of 14,950 bpd and the second with 9,180 bpd. Conclusion of the transaction is subject to the usual conditions precedent, including approval by the local National Hydrocarbon Agency. We will retain control of our offshore exploration blocks and a single onshore block in Colombia, where we also operate in the distribution segment with 101 gas stations.

In the United States, we are involved in exploration projects, as well as oil and gas production, mainly in the Cascade and Chinook fields, and the Pasadena Refinery, with a crude processing capacity of 100,000 bpd.

Also in the United States, we entered into an agreement, as part of Prodesin, to sell our interest in six exploratory blocks in the Gulf of Mexico, which are part of the Gila field, for US$110 million, as well as our share of another exploratory block adjacent to the Tiber field, where there were certain discoveries. We also signed farm-out (assignment of rights) contracts worth US$184 million for its 33% stake in block MC 613 (Coulomb) in the Gulf of Mexico.

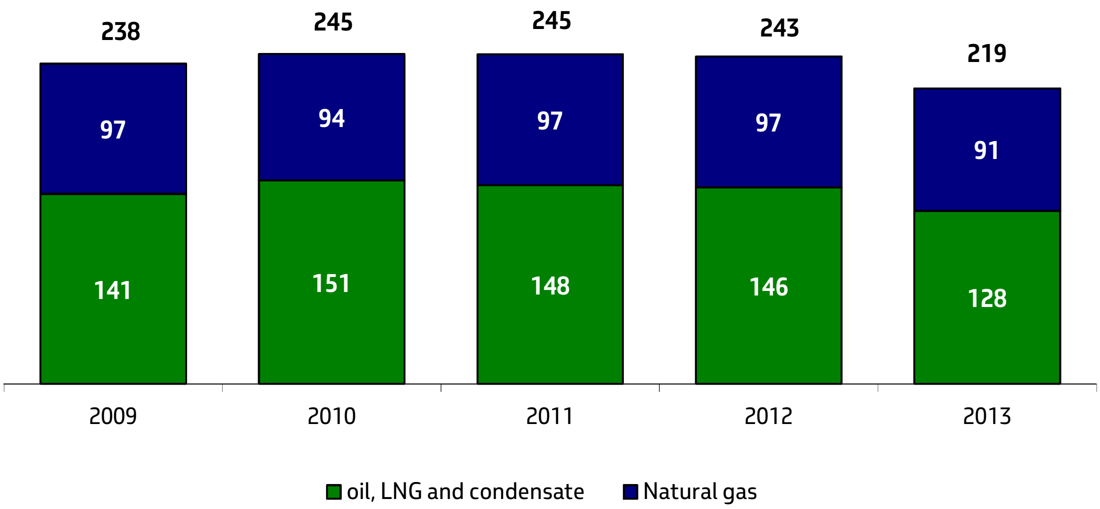
Africa

Oil production in Africa totaled 40.2,000 bpd. We also formed a 50-50 oil and gas exploration and production joint venture with Banco BTG Pactual S.A., which includes assets in Angola, Benin, Gabon, Namibia, Nigeria and Tanzania.

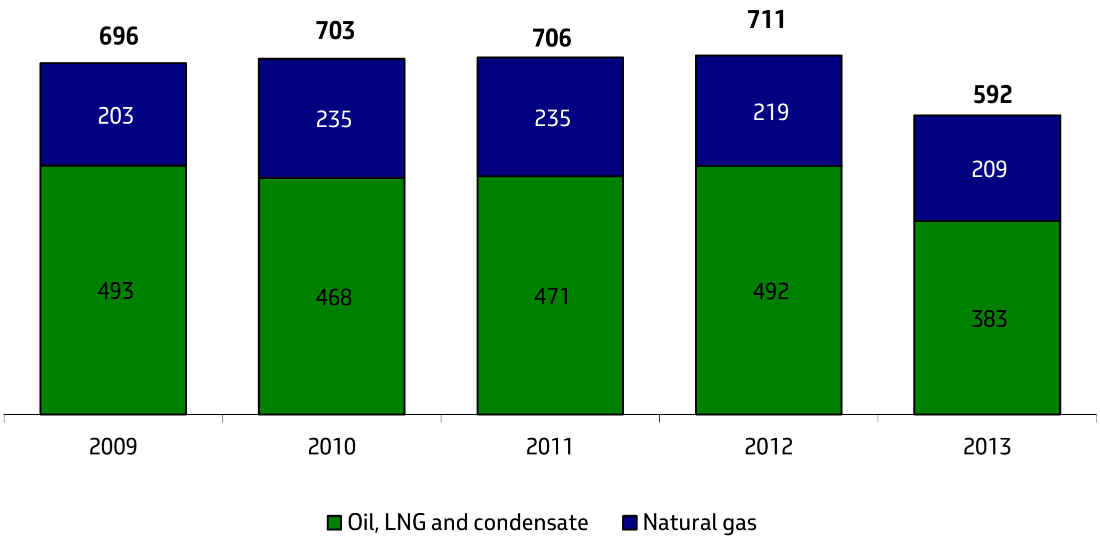
Asia

We own an oil refinery in Okinawa Island, in Japan, with a processing capacity of 100,000 bpd.

International production of oil, LNG, condensate and natural gas (thousand boed)



International proven reserves of oil, LNG, condensate and natural gas - SPE Criterion (million boe)



Investments

We invested R$104.4 billion in 2013, most of which allocated to exploration, production development and logistics infrastructure to transport oil and oil product output. In order to meet domestic market demand, we invested in the construction of refineries and the installation of units to improve fuel quality. We also invested in fertilizer and thermal power plants, taking full advantage of the natural gas chain, and in expanding ethanol and biodiesel production capacity, thereby strengthening its presence in the Brazilian biofuel market.

	R$ million				
	Fiscal Year				
	2013	%	2012	%	Δ%
Exploration & Production	59,993	58	42,97	51	40
Refining, Transportation & Marketing	30,74	29	28,86	34	7
Gas and Power	5,919	6	4,166	5	42
International	5,127	5	5,098	6	1
Distribution	1,12	1	1,307	2	-14
Biofuels	322	0	299	0	8
Corporate	1,195	1	1,437	2	-17
Total investments	**104,416**	**100**	**84,137**	**100**	**24**

Exploration and production absorbed R$60 billion, allocated to production development (R$37.5 billion), exploration (R$17.3 billion) and infrastructure (R$5.2 million). These investments were designed to develop output in the pre- and post-salt fields, maintain output in the older fields and improve logistics and technological infrastructure. Of this total, it is worth mentioning the payment of a R$6 billion bonus for the acquisition of the Libra field in the Brazil's first auction under the shared production regime.

We completed nine platforms, with a joint processing capacity of one million barrels of oil per day (bpd), 840,000 of which corresponding to the increase in our own capacity. These platforms are: FPSO Cidade de São Paulo, FPSO Cidade de Itajaí, FPSO Cidade de Paraty, FPSO P-63, semi-submersible P-55, TLWP P-61, FPSO P-58, TAD drilling rig, and FPSO P-62.

Investments in the Refining, Transportation & Marketing (RTM) area came to R$30.7 billion, most of which went to the expansion of refineries. We invested R$8.9 billion in the Abreu e Lima Refinery (PE) and R$8 billion in implanting the first phase of the Rio de Janeiro Petrochemical Complex (Comperj).

The operational start-up of other RT&M projects also deserves mention. 2013 saw the start-up of the PetroquímicaSuape's PTA (purified terephthalic acid) unit, the Ribeirão Preto-Paulínia Ethanol Transportation System was inaugurated and the increase in the transportation capacity of liquefied petroleum gas (LPG) with the operational start-up of Stage 1 of the Ilha Comprida Waterway Terminal (Pressurized LPG) and Stage 2 of the Barra do Riacho Waterway Terminal (Refrigerated LPG) took place. We also completed installation of the treatment units that will reduce the sulfur content of gasoline and diesel produced in the Paulínia (SP), Gabriel Passos (MG) and Landulpho Alves (BA) refineries.

Our transport sector subsidiary, Transpetro, took delivery of three more vessels as part of the Fleet Modernization and Expansion Program (Promef): two suezmax tankers (*Zumbi dos Palmares* and *Dragão do Mar*), and one product vessel (*José Alencar*).

Investments in the Gas and Power segment totaled R$5.9 billion. We continued building Nitrogenous Fertilizer Unit III (MS), the largest in Latin America, which will double our national urea output. We concluded construction of the third LNG Regasification Terminal, in Bahia, making domestic market gas supply more secure by adding14 million m³ to our current daily supply capacity.

Our distribution subsidiary, Petrobras Distribuidora, invested R$1.1 billion to maintain its national leadership, most of which went to the expansion of logistics capacity to support domestic market growth.

Investments in biofuels totaled R$322 million, 70% of which allocated to ethanol, in order to increase supply and expand the market share of Petrobras Biocombustível. The biodiesel segment received 30% of the funds to increase the reliability of and carry out improvements to the existing plants.

Investments in the International segment came to R$5.1 billion, the majority of which (89.6%) allocated to exploration and production.

RESEARCH & DEVELOPMENT

We invested R$2,4 billion in R&D in 2013. Our own R&D activities are coordinated by the Leoploldo Américo Miguez de Mello Research and Development Center (Cenpes), which has 1,959 employees, 1,466 of whom dedicated exclusively to R&D and 322 to basic project engineering. In terms of qualifications, 24% of researchers have a doctorate and 39% have a master's degree. We collaborate with national and foreign universities and research institutes, suppliers and other operators, the overall aim being to develop technologies that ensure compliance with the Business and Management Plan, as well as to anticipate tendencies and signs of technological change.

The main achievements in 2013 were:

- Greater precision in determining the acidity of the injection water produced in the pre-salt reservoirs through laboratory tests and numerical modeling, considering the expected fluid-rock interaction, thereby permitting the selection of more appropriate metallic materials and reducing costs. Including only the cost of well materials, savings are estimated at around US$188 million in the pre-salt development projects.

- Identification of four source rock intervals in the pre-salt area of the Santos Basin through the integrated use of geochemical, geological and geophysical data. Adoption of the high-resolution organic geochemistry method helped ensure a more precise estimate of the Santos Basin prospects, constituting a distinct competitive advantage.

- Systematization of automated drill performance monitoring, which helped push up well drilling efficiency by 12%. The system permits the benchmarking of drills and teams using the same drill and, consequently, the identification of best practices, reducing well construction times and generating estimated savings of US$60 million.

- Optimization of the turboexpander operation in the Landulfo Alves Refinery in Bahia, doubling output to 25 MW, thanks to the development of technology to measure particulate material in the unit's outlet, which should generate annual savings of around R$30 million.

- Development of 38 basic engineering and R&D projects, contributing to the Medium Distillate and Gasoline Production Program (Promega). Created in 2013, Promega has already increased gasoline and diesel production by 41,000 bpd and 81,000 bpd, respectively, reducing the necessity of importing of these products.

- Increasing the processing of atmospheric residue from heavy crude in the Presidente Bernardes Refinery, in São Paulo, by using the Spike additive in the fluidized catalytic cracking unit. Annual savings were estimated at US$19.5 million.

- Application of the new oil well electro-hydraulic disconnect tool in the Carapeba field in the Campos Basin, reducing the intervention time to replace production columns in wells with intelligent completion by 20%. This tool also allows the real-time monitoring of production data and is expected to be adopted by 145 intelligent completion wells by 2017.

More R&D details can be found in the annual Technology Report, which is available at http://www.petrobras.com.br/en/energy-and-technology/.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Health, Safety, the Environment and Energy Efficiency

In 2013, we invested R$5.7 billion in its integrated health, safety and the environment (HSE) operations and projects.

We developed initiatives to improve its HSE performance and meet the requirements of specific legislation, and incorporated safe, profitable and environmentally responsible operational practices in our units.

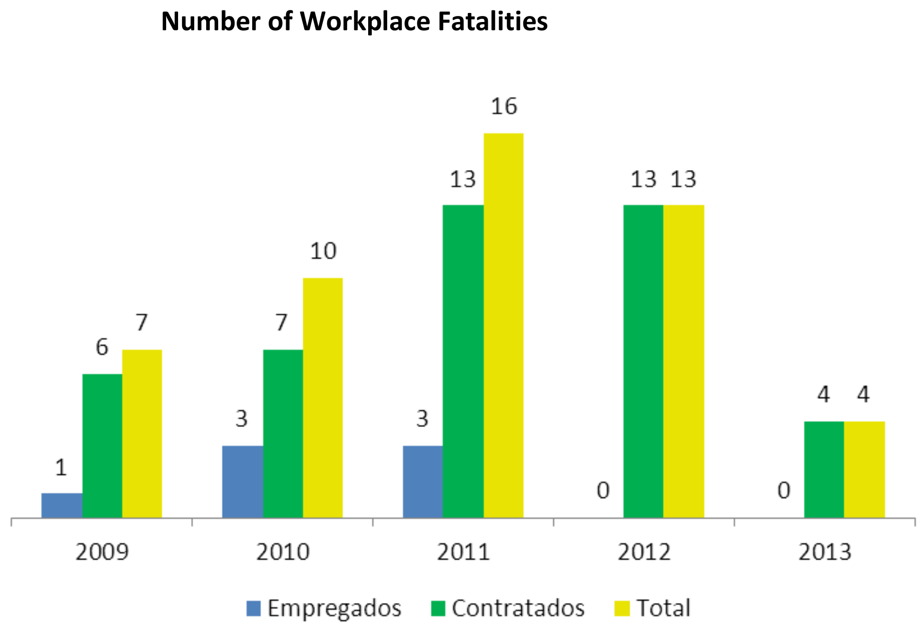
One such practice is ISO 14001 (environmental management) and OHSAS 18001 (health and safety management) certification of our' HSE management systems in its operational units in Brazil and abroad. In 2013, all the oil refined in Brazil was processed in certified units.

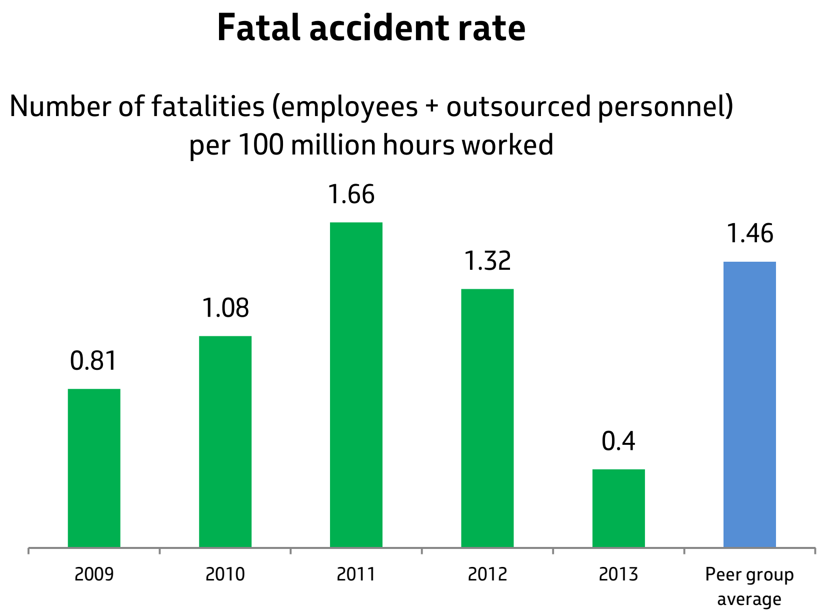
Safety

In 2013, we developed a methodology for analyzing accidents based on the identification of the typical causes of and points in common between incidents, in order to analyze accident prevention initiatives and eliminate risks. The result was a 69% reduction in fatal accidents in 2013 over 2012, despite the 3% growth in the number of man-hours worked in the same period.

The fatal accident rate (number of fatalities per 100 million man-hours worked) stood at 0.4, 70% down on the previous year, one-third of the 2012 average for leading international companies of the same size and complexity as us.

In order to prevent serious accidents, we continued to improve the safety of its processes, which included investments in staff training, the development of risk studies and the establishment of reactive and proactive indicators for each area of operations.





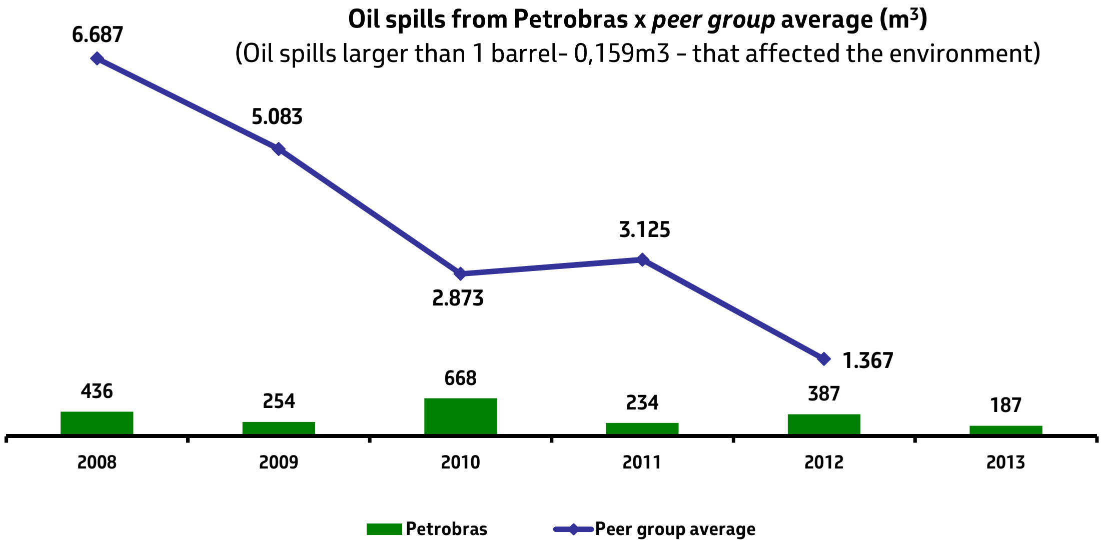
OGP - International Oil and Gas Producers Association

Oil and oil product spills

In 2013, oil and oil product spills totaled 187 m³, 52% down on 2012 and 61% less than the alert limit of 476 m³ established for the year. Spill volume remained below one m^3 per million barrels of oil produced, considered an excellent result within the context of the global oil and gas industry.

The adoption of a new spill communication, treatment and registration model permitted the daily monitoring of the incidents, their impacts and the mitigation measures.

In addition, the continuity of the Zero Spill Plan, initiated in 2012, improved the management of initiatives in the management, process and integrity areas, as well as reducing the risk of spills.



Response to spills

We maintain standards, procedures and spill response plans at corporate, local and regional levels. The material resources include 39 large-scale oil collecting vessels; 271 support vessels and vehicles; 180,000 meters of oil spill containment booms; 198,000 meters of absorbent booms; 500 oil skimmers; and 225,000 liters of chemical dispersants, among other items available in its 14 Environmental Defense Centers and advanced bases, as well as in the Emergency Response Centers, present in more than 20 cities in Brazil.

We are a member of Oil Spill Response Limited, an organization specializing in promoting and complementing resources to ensure an efficient response to oil spills on a global scale.

In 2013, there were 10 regional spill response simulations.

The Environment and Energy Efficiency:

We do everything possible to increase the eco-efficiency of our operations, pursuing the rational use of water, electricity and other inputs, as well as the effective management of atmospheric emissions and solid waste and effluent generation. The aim is to minimize the environmental impact of our operations.

We undertake systematic evaluations of the main risks and evaluations in regard to the health, safety, environmental and energy efficiency aspects of the investment projects. The results of these evaluations are periodically monitored by the HSE and Board of Directors' Audit Committees in order to verify adherence to corporate guidelines and compliance with the recommendations of the Risk Management and Mitigation Plan.

In 2013, we issued 48 HSE technical reports on the investment projects and presented 11 investment projects approved by the Executive Board to the HSE and Board of Directors' Audit Committees for the monitoring of HSEE aspects.

Water resources and effluents and biodiversity

In 2013, we reused 24 billion m^3 of water – sufficient to supply a city with a population of 600,000 for a year, thanks to rationalization and reuse initiatives, ensuring a safe source of supply. We also concluded evaluation studies of water availability in the river basins where 12 refineries are located, in order to prepare a rigorous balance of future water supply and demand in these regions, and mapped protected and vulnerable areas inside and around our installations, using a system that permits full access to environmental information available internally and from external sources.

Energy efficiency, atmospheric emissions and climate change

We put a great deal of effort into continuing to improve our energy performance and reducing the intensity of its greenhouse gas (GHG) emissions. These emissions are monitored through a wide-ranging annual inventory, which also measures sulfur and nitrogen oxides, organic hydrocarbons and particulate material. We have been recognized in Brazil 100 2013 CDP report as one of the 10 best Brazilian companies in the Transparency category.

Energy-related initiatives are mainly focused on advanced process control, the upgrading of installations, the adaptation of equipment and the standardization of projects and operational practices. One of the main results was the reduction in gas flaring in exploration and production activities, ensuring greater use of the gas associated with the oil produced.

Health

Every year, we implement various health-related programs and initiatives in our corporate areas and organizational units. We also monitor strategic health indicators and absenteeism due to illness or accident through the Percentage of Time Lost (PTL) indicator, which stood at 2.28% in 2013, lower than the established Annual Alert Limit of 2.41%.

Social Responsibility

In 2013, we assumed the challenge of ensuring that social responsibility was aligned with and an integral part of business management and decision taking processes. In order to achieve this, it divided social responsibility aspects into four dimensions (corporate culture, risk and impact management, human rights and community relations) that will be developed, throughout 2014, into long-term objectives for the corporate and business areas.

Project for Integrating Social Responsibility into Investment Projects

The main highlight, in 2013, in regard to risk and social impact management was the initial preparation of the Project for Integrating Social Responsibility into Investment Projects, the idea being to permit the identification and treatment of the possible social risks associated with the ongoing and future projects in the 2014-2018 Business and Management Plan. The project is scheduled for implementation in 2015.

Social Investments

We invested R$519,5 million in 830 social, environmental and sports education projects in 2013.

We also launched the Petrobras Social and Environmental Program, which envisages investments of R$1.5 billion in social, environmental and socio-sporting projects between 2014 and 2018. The new program, which draws on the experience of the previous cycle of the Petrobras Development & Citizenship and Environmental Programs, was based on the global guidelines defined by the UN's Global Compact, as well as the principles of the international ISO 26000 standard.

The sponsorship of future projects will be allocated to seven areas of activity: inclusive and sustainable production, biodiversity and sociodiversity, children's and teenagers' rights, forests and climate change, education, water, and sport. The initiatives will also cover gender and racial equality and the inclusion of people with special needs.

A total of R$51 million will be allocated, over two years, to social projects involving the communities surrounding our installations in more than 15 Brazilian states. These investments are part of expansion of the Petrobras Community Integration Program

Dow Jones Sustainability World and Dow Jones Sustainability Emerging Markets Indexes

We were included in the Dow Jones Sustainability World Index for the eighth consecutive year, obtaining the maximum rating in the Emissions into the Environment category, which includes oil and oil product spills and gas flaring emissions, and (for the seventh time) in the Transparency category. We were also highlighted in the Social Impact on Communities, Policies and Systems for Environmental Management, and Risk and Crisis Management criteria.

It was also reincluded in the Dow Jones Sustainability Emerging Markets Index, which contains 81 companies from 20 developing countries. Our inclusion in these indices reflects our constant efforts to align growth with sustainable development, mitigating the environmental impact of its activities.

More details on social and environmental responsibility can be found in the annual Sustainability Report, which is available at http://www.petrobras.com.br.

MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Financing

Corporate Financing

Banks, investors and official credit agencies (Export Credit Agencies – ECAs) once again recognized the quality of our credit, which resulted in favorable financing conditions for our activities in terms of cost and maturities. We were therefore able to maintain the required degree of liquidity and execute our investment plan.

We recorded our highest ever funding total in 2013, both from the capital market (US$11.2 billion) and banks (US$19.6 billion). Financing from ECAs US$1.6 billion. In total we raised US$32.5 billion.

Financing suppliers and clients

The Progredir (Progress) program, an important fomenting tool for our supply chain, is designed to facilitate rapid access to working capital by firms supplying us products and services, as well as their own suppliers, at lower than market rates.

In 2013, 320 companies took out 657 loans totaling R$2.7 billion through Progredir. In addition to facilitating funding, the program is guaranteed by the flow of receivables from the supply contracts. Progredir financing to date totals R$7.7 billion and has benefited 597 companies.

The program also allows suppliers to get advances on deliveries through the same portal used to obtain the financing, a facility made use of by 298 companies to date, involving advances on 4,789 bills totaling R$2 billion.

Suppliers can also anticipate their receivables with funding from the capital market, assigning contracts, requests or bills to Receivables Backed Investment Funds (FIDCs), financial instruments that advance funding to firms that have some sort of commercial obligation with us.

The FIDCs disbursed more than R$574.7 million to our suppliers in 2013, through 2428 operations involving 294 companies, and R$4.46 billion since 2010, through 4111 operations benefiting 443 companies.

Since 2011, there has been a structured FIDC in place for sales to Braskem, with assets of R$1.5 billion, which is used to streamline our cash flow by reducing the reception time of product sales to customers.

Risk management

Market risks

We are exposed to several risks, especially those resulting from variations in oil and oil product prices, and exchange or interest rates, which can adversely affect the value of its financial assets and liabilities, as well as its future earnings and cash flow.

We adopt an integrated risk management strategy, which does not focus on individual risks (of particular operations or business units), but takes a broader and more consolidated approach, exemplified by structured actions, created by competent capital and debt management, to the detriment of derivative financial instruments.

Insurance

We take out insurance policies in order to transfer to the insurance market risks that could generate substantial losses, as well as those risks for which insurance is mandatory due to legal or contractual provisions. We are capable of absorbing a large share of its risks and, as a result, take out policies with deductibles of up to US$20 million for operational and oil risks. Platforms, refineries and other facilities are covered by operational and petroleum risk policies, while cargo handling is covered by transportation policies, and vessels by hull and machinery insurance. Civil liability and environmental pollution are also covered by specific policies. However, most of the pipeline network in Brazil and the risks related to well control and lost earnings (in case of accidents) are not insured.

Projects and facilities under construction, with probable maximum damages of more than US$80 million, are covered against onshore and offshore engineering risks by insurance taken out by ourselves. The total amount paid in insurance premiums to cover the risks associated with new projects, whose investments are envisaged in the 2014-2018 BMP, is expected to increase substantially. In order to meet this demand, we maintain two umbrella insurance policies that cover engineering risks.

For insurance purposes, assets are evaluated at their replacement cost. The maximum indemnification limit of the operational risk policy is US$1.4 billion. In the case of the petroleum risk policy, the limit is US$2 billion, corresponding to the highest replacement cost for our platforms. In 2013, the final premium for the our main policies (operational and petroleum risks) totaled US$ 95 million, over a term of 18 months, with a secured asset value of US$159 billion.

Credit

Our policy for granting and reviewing customer credit complies with Sarbanes-Oxley (SOX) guidelines. After analysis, credit limits are approved by the Credit Commissions or higher instances.

The control of credit utilization in Brazil and abroad is centralized and the credit control and granting processes are constantly being improved, supporting the increasingly sustainable sales performance. This allows us to build closer relations with its customers and increase the use of credit as a commercial instrument.

Human resources

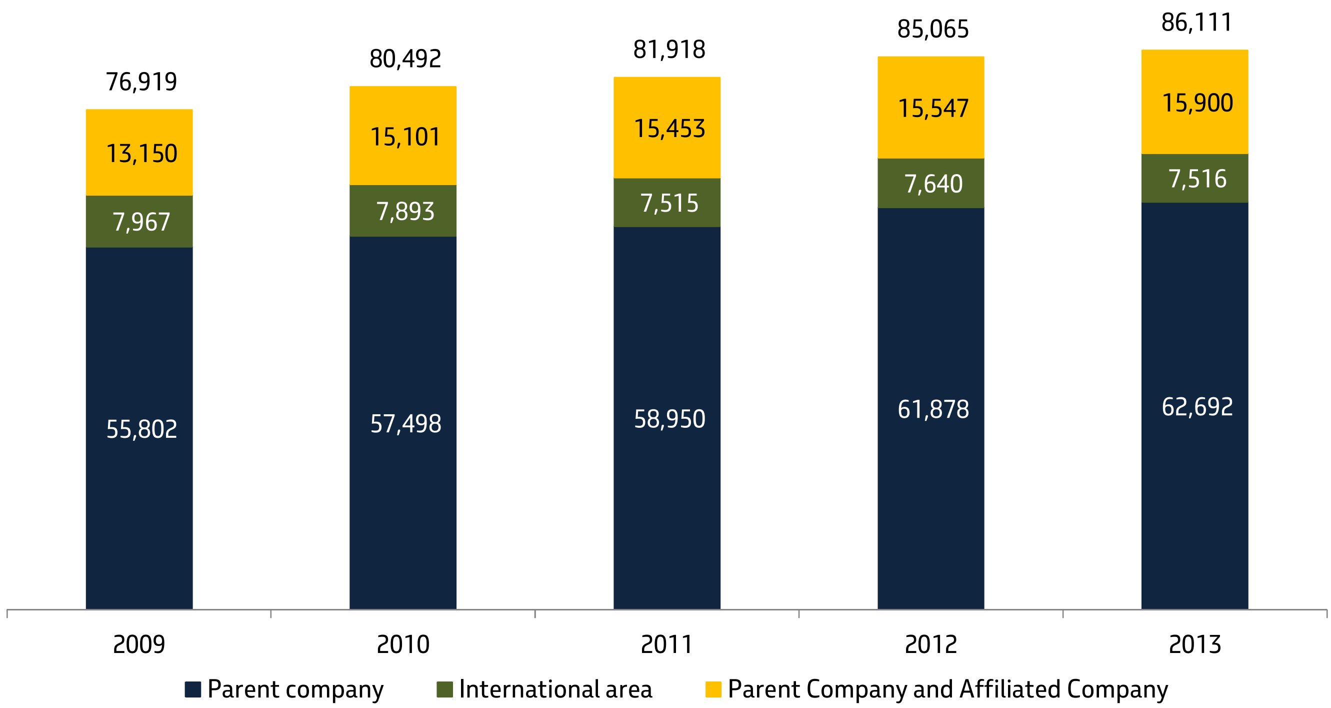
The Business and Management Plan also creates challenges for the Human Resources area. It is vital to ensure we are equipped with the necessary talent in regard to skill and numbers in order to meet our objectives and, at the same time, ensure the satisfaction, commitment and productivity of its employees. In 2013, the area established a series of strategic projects to guide activities over the next four years, divided into five areas: workforce planning, structured employee development, mobility, knowledge management, and management development and succession.

We were once again recognized for the excellence of our human resources management, being elected, for the sixth consecutive year, one of the most desired companies to work for, according to a survey by the consulting firm Aon Hewitt. We also retained our top position in the "Empresa dos Sonhos dos Jovens" (Young People's Dream Company) survey conducted by Cia. de Talentos.

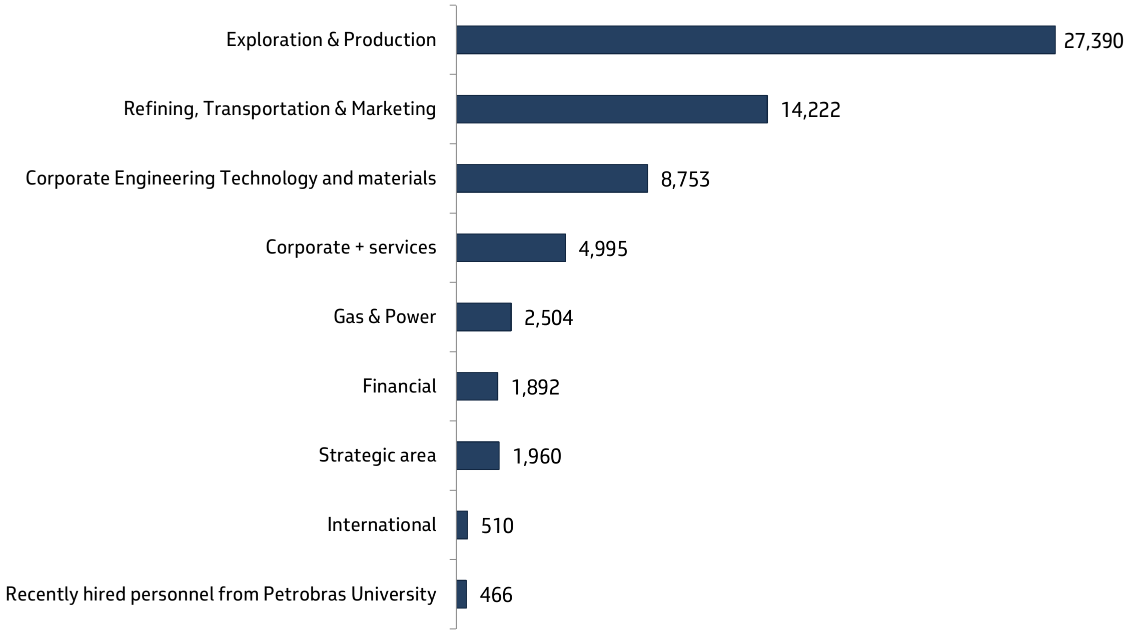
Workforce growth

The Petrobras System closed 2013 with 86,111 employees, 1.2% up on 2012. The parent company alone hired 1,674 employees during the year.

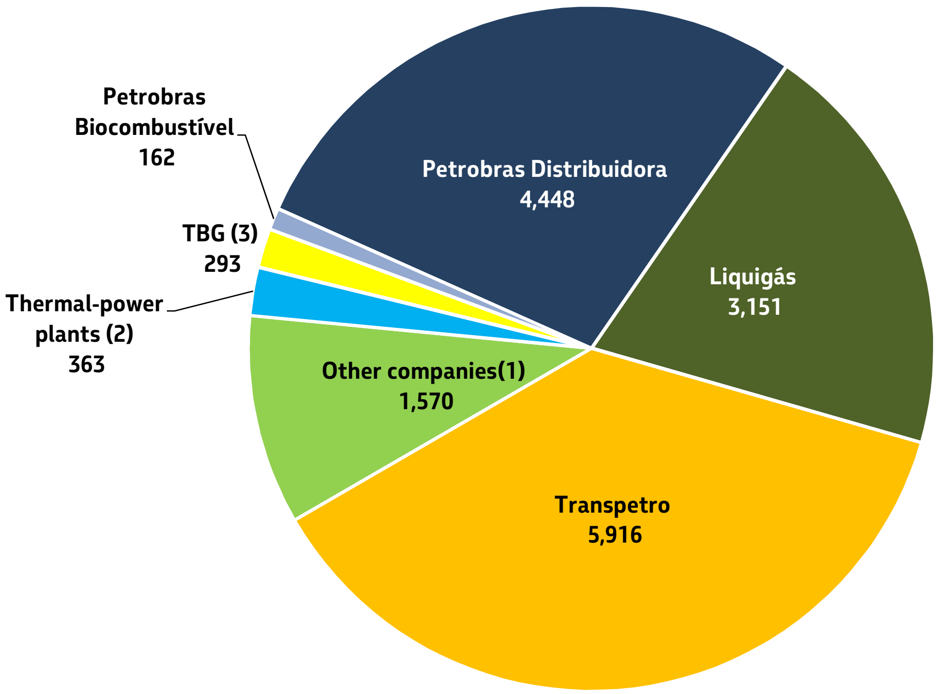
Personnel - Petrobras system



Personnel by department - parent company



Personnel - subsidiaries

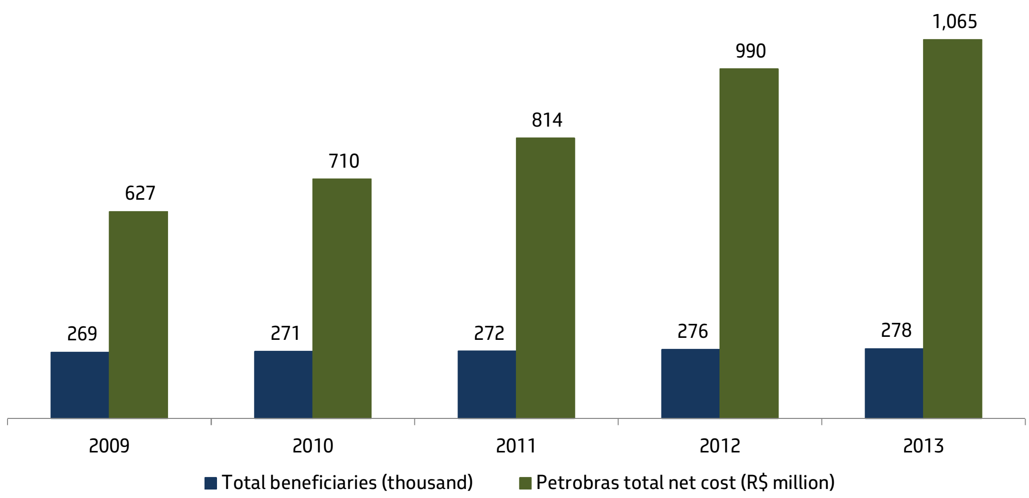


(1) Companhia Petroquímica de Pernambuco, Araucária Nitrogenados, Companhia Integrada Têxtil de Pernambuco - CITEPE, Stratura S/A, INNOVA, Breitener Energia, Breitener Jaraqui, Breitener Tambaqui, Gaspetro e Gas Brasiliano; (2) Termelétricas: Termoaçu S.A, Sociedade Fluminense de Energia Ltda, Termomacaé Ltda, Termobahia Ltda., Termoceará Ltda, Arembepe Energia S.A, Energética Camaçari Muricy S.A.; (3) Transportadora Brasileira Gasoduto Brasil-Bolívia S.A.

Benefits

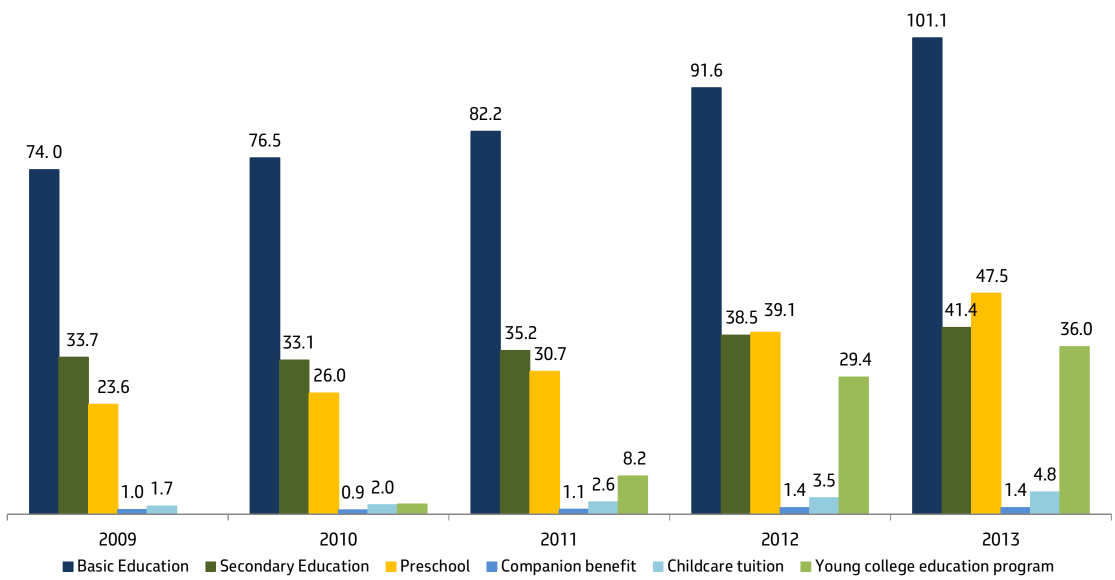
In 2013, the Multidisciplinary Healthcare Plan (AMS) covered 278,000 beneficiaries in approximately 21,000 service units. Expenses with medical consultations, tests and hospitalization totaled R$1,065 million.

Multidisciplinary Healthcare Plan (AMS) - Beneficiaries x Net Cost (Petrobras)



We spent R$232 million on educational benefits, involving 25,656 employees and 35,858 dependents.

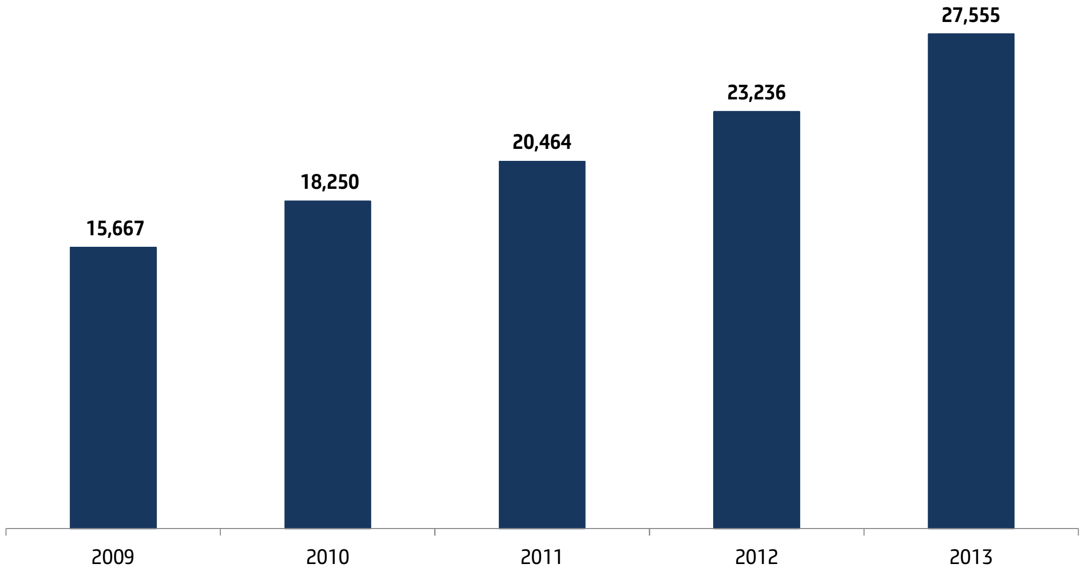
Evolution of tuition costs by modality (R$ million)



Personnel Expenditure

Comprising wages, profit sharing, benefits, the retirement and pension plan, the health plan and the Workers' Severance Pay Fund (FGTS), personnel expenditure (parent company) totaled R$ R$ 22,095 billion in 2013, 18.72% up on the previous year, chiefly due to the wage increase (real rise of up to 2.33%), the expansion of the workforce and the further increase in the payroll, due to time-of-service increases and promotions. In the Petrobras System as a whole, personnel expenditure totaled R$27,555 billion.

Personnel expenditure - Petrobras system (R$ million)



Human resources development

In 2013, we invested R$225 million in professional development, averaging 84.5 hours per employee. Activities included continuous education programs in Brazil and abroad and training courses for newly-hired staff, in which there were 240,000 participations.

Employee Internal Transfer Program - Mobiliza

Implemented in 2013, Mobiliza promotes internal transfers in order to reconcile the needs of the organization with the interest of the employees, ensuring that personnel requirements are met with speed and flexibility.

Corporate Governance

We strive to constantly improve our corporate governance practices and management instruments. As a publicly-held company, we are subject to the regulations of the Brazilian Securities and Exchange Commission (CVM) and the Securities, Commodities and Futures Exchange (BM&FBovespa). In the international markets, we comply with the regulations of the SEC and NYSE in the United States, the Madrid Stock Exchange (Latibex) in Spain, and the Argentinean Securities and Exchange Commission (CNV) and Buenos Aires Stock Exchange in Argentina.

In 2013, the Board of Directors approved a change to the corporate governance structure in regard to the activities of the Business Committee, whose internal regulations were also revised in order to include the alterations.

In addition, the scope of the former Environment Committee, which reports to the Board of Directors, was expanded to include health and safety issues. Its internal regulations were also altered and its name was changed to the Health, Safety & Environment Committee.

As a result, our corporate government structure now is consisted of the Board of Directors and its three associated advisory committees (Audit; Compensation & Succession; and Health, Safety & Environment), the Executive Board, the Fiscal Council, the Internal Audit area, an Ombudsman, and a Business Committee.

The Board of Directors approved the updating of the Corporate Governance Guidelines in order to include decisions taken by Shareholders Meetings and the Board itself, while the Executive Board approved the updating of the Competitive Conduct Code to bring it into line with the new Fair Competition Defense Law (Law 12529/2011).

The training program for executive officers of the Petrobras System companies proceeded throughout 2013, with the aim of disseminating good corporate and corporate governance practices, and educating them on the laws, regulations and guidelines applicable to their activities.

Internal controls

Pursuant to Section 404 of the Sarbanes-Oxley Act (SOX) and CVM Instruction 480/09, the Internal Control Certifications of Petrobras and Petrobras Argentina related to 2012 were concluded. The consolidated financial statements were approved by the independent auditors, with no restrictions, as in previous years.

These certifications are planned and put into operation by the Internal Controls area and include the main processes of the parent company as well as of those subsidiaries and affiliated companies considered relevant according to SOX/CVM criteria and regulations. The work is supervised by the Internal Controls and Conformity Commission and monitored by the Financial Integration Committee and the Board of Directors' Audit Committee.

The annual certification process is divided into three phases: verification of process conformity; management's self-evaluation of controls (entity-level, processes and information technology); and the independent testing of these controls by the internal auditors

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

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

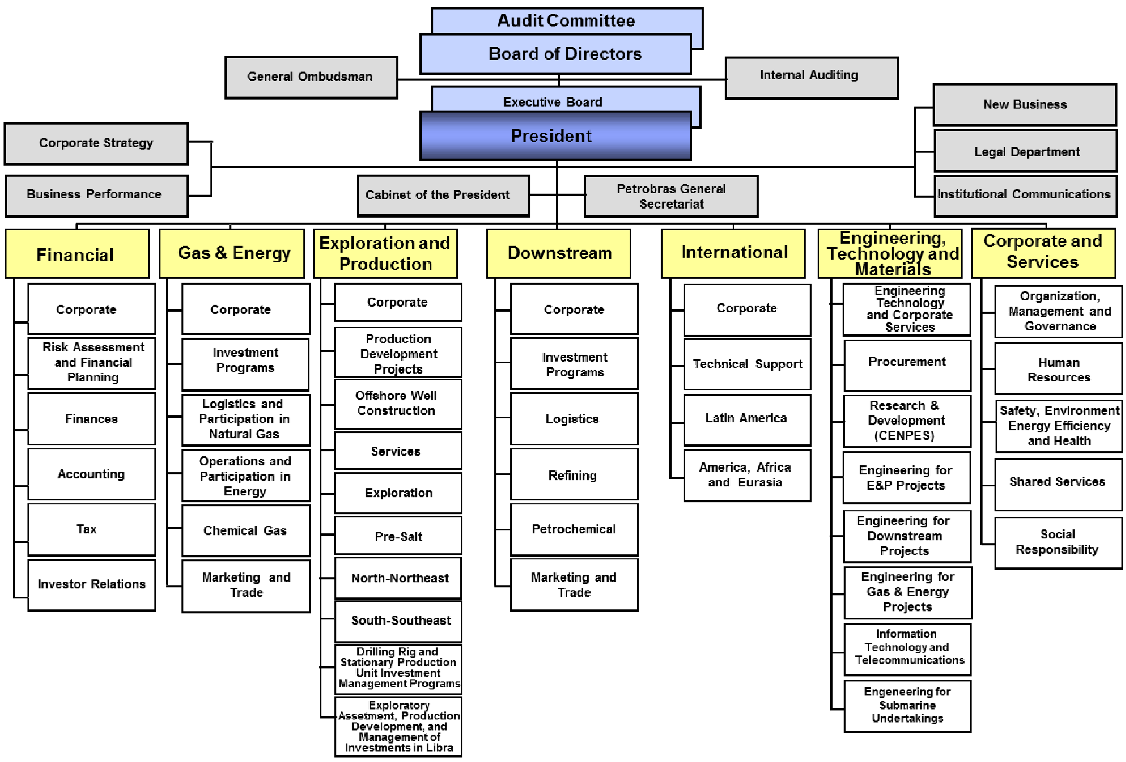
Article 29 of the Bylaws determines that the independent auditors may not provide us consulting services for the duration of their audit contract.

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

During fiscal year 2013, PricewaterhouseCoopers Auditores Independentes provided the following services for us, our subsidiaries and affiliates:

	R$ thousand
Auditing of accounts	16,827
SOX audit	1,115
Additional audit-related services	173
Tax audit fees	545
Total	18,660

Organizational Structure



Glossary

Arla 32: urea solution used in diesel vehicles to reduce emissions of pollutants.

BioQAV: jet fuel made from renewable raw material, which allows mixing with kerosene derived from petroleum (currently authorized up to 50%) without requiring operational and design changes in the turbines.
Boe/d: barrels of oil equivalent per day.
Brent: oil used as a major reference in the international oil market. Dated Brent contracts or derivatives in the financial market concern multiple contracts of purchase and sale of petroleum in the world.

C5 +: natural gas, a mixture obtained in natural gas processing.
Closure of cycle: conversion of a simple-cycle thermoelectric plant to a combined-cycle plant, which uses steam, as well as natural gas to power its turbines.

Commissioning: procedure before the beginning of the activities of an operational unit to ensure that the systems and components are installed, tested, operated and maintained in accordance with the needs and operational requirements of the owner.
Condensate: mixture of gaseous hydrocarbons in the reservoir that becomes liquid at the surface, under normal atmospheric conditions.

Degummed Soybean: a type of Soybean oil.
Delivery point: the point of custody transfer of a product among companies. **Diesel S-10:** fuel with 10 ppm (Parts per million), Euro V type (high quality and very low sulfur content) and following international specifications.
Discovery Assessment Plan (PAD): the document containing the set of operations to be performed in an area where a discovery occurred to assess its economic viability. A PAD must be submitted by the franchisee for approval by the Brazilian Oil Agency.

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

Gas Flaring: volume of natural gas burned in flares (security burners) of process units of Petrobras.
Gasoline A: fuel produced in refineries and composed of 100% oil.
Gasoline C: petrol with added anhydrous ethanol, intended for the final consumer.
Green Diesel: Renewable Diesel which can be mixed in any ratio with petroleum product without requiring changes in the engines. The production process for green diesel of Petrobras Biofuel in partnership with Galp generates a clean energy fuel similar to oil-derivative diesel.

Master Sales Agreement: non-binding agreement that contains the terms and conditions for the sale and purchase of liquefied natural gas.
Middle distillates: made from petroleum such as diesel, kerosene, naphtha and jet fuel products.

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

Re-exportation: operation in which a cargo of liquefied natural gas is imported and subsequently exported from the country.
Reserve / production ratio: measures the longevity of current proven reserves considering the constant level of production.
Reserve replacement ratio: measures the replacement of production by reserve additions, extensions, revisions of estimates or improvement of recovery.

S Curve: visual representations of physical and financial progress of investment projects indicating their evolution over time. The S curve allows comparison of the planning to the implementation of the project throughout its implementation, enabling the correction of deviations.
Second-generation Ethanol (2G): ethanol of agricultural residues, obtained by fermentation of the sugars contained in the cellulosic structure of the sugarcane bagasse. The final product is chemically identical to first-generation (corn) or advanced (cane) ethanol. The spread of this technology is to increase production of ethanol in the same hectare of land, with a large reduction of CO_2 compared to first generation biofuels.

TAD or *Tender Assisted Drilling*: rig to support well drilling.
Tight Oil: oil produced from shale or other rock with very low permeability, using methods similar to the production of shale gas, such as horizontal drilling and hydraulic fracturing techniques. The production of tight oil is considered a non-conventional type of oil production.
TLWP or *Tension-Leg Wellhead Platform*: vertically docked rig, which provides greater stability.

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

FINANCIAL ANALYSIS

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

Consolidated Economic-Financial Summary

	2013	2012	2013 x 2012 (%)
Sales revenues	304,890	281,379	8
Gross profit	71,164	70,907	–
Net income before financial results, share of profit of equity-accounted investments and income taxes	34,364	32,397	6
Net finance income (expense)	(6,202)	(3,723)	(67)
Adjusted EBITDA – R$ million [1]	62,967	53,439	18
Consolidated net income attributable to the shareholders of Petrobras	23,570	21,182	11
Basic and diluted earnings per share [2]	1.81	1.62	12
Market capitalization (Parent Company)	214,688	254,852	(16)
Gross margin (%)	23	25	(2)
Operating margin (%) [3]	11	12	(1)
Net margin (%)	8	8	–
Margem do EBITDA ajustado (%) [4]	21	19	2
Total net Assets	752,967	669,032	13
Investments, Property, Plant and Equipaments and Intangible	585,616	512,400	14
Net Debt [5]	221,563	147,817	50
Shareholders' equity	349,334	330,775	6
Net third parties capital / total net liabilities [6]	49/51	53/47	-

Main economic indicators

	2013	2012	2013 x 2012 (%)
Economic and financial indicators			
Brent crude (US$/bbl)	108.66	111.58	(3)
Average commercial selling rate for U.S. dollar	2.16	1.96	10
Period-end commercial selling rate for U.S. dollar	2.34	2.04	15
Selic interest rate - average (%)	8.19	8.54	–
Average price indicators			
Domestic basic oil products price (R$/bbl)	209.17	186.55	12
Sales price - Brazil			
. Crude oil (US$/bbl) [7]	98.19	104.60	(6)
. Natural gas (U.S. dollars/bbl)	47.43	48.45	(2)
Sales price - International			
. Crude oil (U.S. dollars/bbl)	89.86	94.37	(5)
. Natural gas (U.S. dollars/bbl)	21.08	17.99	17

[1] Our adjusted EBITDA (according to *CVM Instruction 527* of October 4, 2012) is the net income before net finance income (expense), income taxes, depreciation, depletion and amortization, share of profit of equity-accounted investments and impairment in order to provide a better information about our ability to pay debt, carry out investments and cover our working capital needs. Adjusted EBITDA is not an IFRS measure and may not be comparable with the same measure as reported by other companies.
[2] Basic and diluted earnings per share calculated based on the weighted average number of shares.
[3] Calculated based on net income before financial results, share of profit of equity-accounted investments and income taxes.
[4] Adjusted EBITDA margin equals Adjusted EBITDA divided by sales revenues.
[5] Our net debt is not computed in accordance with International Standards -IFRS and should not be considered in isolation or as a substitute for total long-term debt calculated in accordance with IFRS. Our calculation of net debt may not be comparable to the calculation of net debt by other companies. Management believes that net debt is an appropriate supplemental measure that helps investors assess our liquidity and assists management in targeting leverage improvements.
[6] Third parties capital net of cash and cash equivalents/financial investments.
7 Average between exports and the internal transfer prices from Exploration & Production to Refining, Transportation and Marketing.

Sales Volume – Mbbl/d - Consolidated

	2013	2012	2013 x 2012 (%)
Diesel	984	937	5
Gasoline	590	570	4
Fuel oil	98	84	17
Naphtha	171	165	4
LPG	231	224	3
Jet fuel	106	106	–
Others	203	199	2
Total oil products	2,383	2,285	4
Ethanol, nitrogen fertilizers, renewables and other products	91	83	10
Natural gas	409	357	15
Total domestic market	2,883	2,725	6
Exports	395	554	(29)
International sales	514	506	2
Total international market	909	1,060	(14)
Total	**3,792**	**3,785**	–

The volume of domestic sales volumes increased by 6% in 2013 compared with 2012, primarily due to:

Diesel (a 5% increase) – due to the increase in the retail sector, higher thermoelectric consumption, higher grain harvest and an increase in the Brazilian diesel light vehicle fleet;

Gasoline (a 4% increase) – due to the increase in the flex-fuel automotive fleet, driven by the higher competitive advantage relative to ethanol in most Brazilian states and to the decreased market share of our competitors. These effects were partially offset by the increase of the anhydrous ethanol content in Type C gasoline (from 20% to 25%);

Fuel oil (a 17% increase) – due to increased consumption at thermoelectric plants for electricity generation and higher demand from suppliers of natural gas to thermoelectric plants;

Natural gas (a 15% increase) – due to higher thermoelectric demand, driven by lower water reservoir levels at hydroelectric power plants.

Consolidated Results

The Company reported a consolidated net income of R$ 23,570 million in 2013, a 11% increase compared with R$ 21,182 million in 2012, mainly reflecting the following factors:

Gross Profit

Gross profit remained flat compared to 2012 , mainly due to:

- Sales revenues of R$ 304,890 million, 8% higher compared to 2012, due to:

- Higher oil product prices in the domestic market resulting from adjustments in gasoline and diesel prices, higher electricity prices and impact of foreign currency effects (10%) on oil product prices that are adjusted to reflect international prices;
- A 4% increase in domestic oil product demand, mainly of diesel (5%), gasoline (4%) and fuel oil (17%), offset by lower crude oil export volumes (43%), attributable to lower production levels and higher feedstock processed.

- Cost of sales of R$ 233,726 million, 11% higher compared to 2012, due to:

- A 4% increase in domestic sales volumes of oil products, met by higher oil product output from our refineries;
- An increase in natural gas imports volumes to meet the thermoelectric demand and higher crude oil import volumes attributable to the increase in feedstock processed in our refineries, along with the impact of foreign currency depreciation on our unit costs (10%);
- Increased crude oil production costs, attributable to the higher number of well interventions and to the production start-up of new systems, which are still not producing in full capacity.

Net Income before Financial Results, Share of Profit of Equity-Accounted Investments and Income Taxes

Net income before finance expense, share of profit of equity-accounted investments and income taxes reached R$ 34,364 million, a 6% increase compared to 2012, due to lower write-offs of dry and sub-commercial wells, gains on disposal of assets according to the PRODESIN[8], partially offset by higher employee compensation expenses arising from the 2013 and 2012 Collective Bargaining Agreement and and by higher freight expenses due to increased domestic sales volume.

Net Finance Income (Expense)

Net finance expense was R$ 6,202 million in 2013, a R$ 2,479 million increase compared to 2012, resulting from:

[8] At 2013 the In 2013 the Programme of Divestments (Prodesin) generated net gains recognition, in which the stand out the following sales: 50 %s of assets in Africa (R$ 1,906 million); blocks BS-4 Atlanta and Oliva, in the Santos basin (R$ 280 million); Coulomb block in the Gulf of Mexico (R$ 277 million), participation in the project offshore Parque das Conchas-BC-10 (R$ 1,016 million). More information about PRODESIN is available in the Consolidated Financial Statements Note 10.

- Lower finance income compared to 2012, when we benefited from the positive impact of gains on disposal of government bonds (National Treasury Notes – B Series) and interest income over judicial deposits (R$ 2,635 million);
- Higher finance expense due to higher net debt and adherence to the federal tax settlement program (REFIS) [9];
- Lower monetary and exchange variation losses (R$ 2,696 million) due to lower foreign currency exposure through the extension of our hedge accounting practice to future exports, reducing by R$ 12,691 million the impact of foreign currency effects on our financial result.

	2013	2012	2013 x 2012 (%)
Total of Monetary and Exchange Variation	**(17,009)**	**(7,494)**	
Deferred Exchange Variation registered in Shareholders' Equity	13,384	-	-
Reclassification from Shareholders' Equity to Income Statement	(693)	-	-
Monetary and Exchange Variation, Net	**(4,318)**	**(7,494)**	**(38)**

[9] At 2103 the Company opted for the adherence to the Tax recovery program (REFIS). Consolidated Financial Statements Note 31 presents additional information on joining the REFIS, which brought about the recognition of financial expenses in the amount of R$ 661 million.

Net Income by Business Segment

Petrobras is an integrated energy company, with the greater part of its oil and gas production in the Exploration & Production segment being transferred to other business segments of the Company.

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

	2013	2012	2013 x 2012 (%)
Consolidated net income/(loss) attributable to the shareholders of Petrobras			
. Exploration & Production	42,213	45,446	(7)
. Refining, Transportation and Marketing	(17,764)	(22,931)	23
. Gas & Power	1,256	1,638	(23)
. Biofuel	(254)	(218)	(17)
. Distribution	1,843	1,793	3
. International	3,648	1,305	180

Exploration & Production

Lower net income is attributable to a decrease in crude oil and NGL production (2%), due to the natural decline of fields, slightly offset by the production start-up of new systems, and due to higher depreciation costs of equipment, increased freight costs for oil platforms, higher employee compensation costs and higher well interventions and maintenance costs. These effects were partially offset by higher domestic crude oil prices (sale/transfer), lower write-offs of dry or sub-commercial wells and by gains on the disposal of the total interest in BC-10 block.

The spread between the average domestic oil price (sale/transfer) and the average Brent price increased from US$6.98/bbl in 2012 to US$10.47/bbl in 2013.

Refining, Transportation and Marketing

Net losses were lower in 2013, reflecting the diesel and gasoline price adjustments in the domestic market from June 2012 on, and the higher feedstock processed in our refineries, reducing the share of oil product imports in our sales mix, partially offset by higher crude oil acquisition/transfer costs.

Gas & Power

Net income decreased due to higher LNG and natural gas import costs to meet the thermoelectric demand, partially offset by higher thermoelectricity generation and higher average electricity prices, mainly attributable to lower water reservoir levels and increased difference settlement prices.

Biofuel

Biofuel net losses were higher, driven by lower biodiesel average sales prices (11%). This effect was partially offset by a decrease in share of losses of ethanol investments, attributable to an increase in ethanol, electricity and sugar sales volumes, as well as the higher average sales prices of ethanol and electricity.

Distribution

The increased net income was due to a 7% increase in the average trade margins and a 4% increase in sales volumes. These effects were partially offset by higher selling and administrative expenses.

International

Net income was higher due to gains on disposal of assets within the Divestment Program (PRODESIN), mainly in Africa and in the United States, and to the recognition of tax credits in the Netherlands. Lower exploration costs and write-offs of wells also had a positive impact. These effects were partially offset by lower crude oil and NGL production.

Liquidity and Capital Resources

Statement of Cash Flow Data - Consolidated

	2013	2012
Adjusted cash and cash equivalents at the beginning of period [10]	**48,497**	**52,532**
Government securities at the beginning of period	(20,869)	(16,785)
Cash and cash equivalents at the beginning of period	**27,628**	**35,747**
Net cash provided by operating activities	56,210	54,145
Net cash used in investing activities	(76,674)	(74,939)
Investments in operating segments	(98,038)	(79,832)
Sale of assets (disinvestments)	8,383	569
Investments in marketable securities	12,981	4,324
(=) Net cash flow	**(20,464)**	**(20,794)**
Net financings	33,176	17,316
Proceeds from long-term financing	83,669	48,931
Repayments	(50,493)	(31,615)
Dividends paid to shareholders	(5,776)	(6,187)
Non-controlling interest	(137)	520
Effect of exchange rate changes on cash and cash equivalents	2,745	1,026
Cash and cash equivalents at the end of period	**37,172**	**27,628**
Government securities at the end of period	9,085	20,869
Adjusted cash and cash equivalents at the end of period [10]	**46,257**	**48,497**

Net cash provided by operating activities, amounting to R$ 56,210, increased by 4% as a result of increases in diesel and gasoline prices in the domestic market during 2013 and by the 6% increase in outputs of refined products, which contributed to a reduction in oil product import volumes. These effects were partially offset by the impact of the depreciation of the Real on import costs and by the lower crude oil export volumes.

Proceeds from long-term financing, net of repayments, totalled R$ 33,176 million in 2013, an increase of R$ 15,860 million when compared to 2012. The principal sources of long-term financing were the issuance of a series of U.S. dollar bonds totalling approximately US$ 11 billion in

10 Our adjusted cash and cash equivalents include government bonds with maturities of more than 90 days. This measure is not computed in accordance with International Financial Reporting Standards – IFRS and should not be considered in isolation or as a substitute for cash and cash equivalents computed in accordance with IFRS. It may not be comparable to adjusted cash and cash equivalents of other companies, however management believes that it is an appropriate supplemental measure that helps investors assess our liquidity and assists management in targeting leverage improvements.

the capital markets in May 2013, and long-term financing from foreign and Brazilian financial institutions.

Proceeds from the sale of assets throughout 2013 totalled R$ 8,383 million. These divestments were the result of our announced Divestment Program (PRODESIN), with the majority of the proceeds coming from the disposal of 50% of our interest in operations in Africa (via the formation and partial sale of a joint venture combining our African assets) and the disposal of our interest in block BC-10, located in Brazil.

The uses of cash were primarily for investments in operating segments, which totalled R$ 98,038 million in 2013 versus R$ 79,832 million in 2012. Higher expenditures in E&P (R$ 16,547 million), including R$ 6 billion related to acquisition costs of rights over the Libra block in the pre-salt area were largely responsible for the increase.

Payment of dividends during 2013 totalled R$ 5,776 million.

As of December 31, 2013, our balance of cash and cash equivalents amounted to R$ 37,172 million (R$ 27,628 million as of December 31, 2012). Considering the reduction in our balance of government bonds with maturities of more than 90 days, our adjusted cash and cash equivalents balance decreased 5% in 2013 (R$ 46,257 million) compared to 2012 (R$ 48,497 million).

Debt

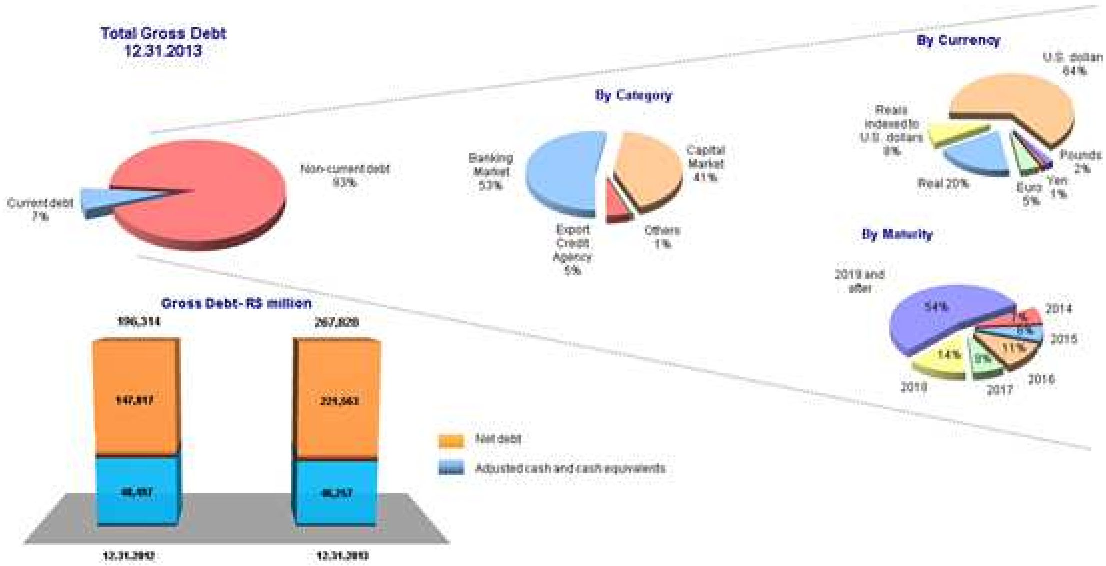
The consolidated debt, relating to loans and financing in the Brazil and abroad, has reached R$ 267,820 million, as shown below:

	12.31.2013	12.31.2012	Δ%
Current debt [11]	18,782	15,320	23
Non-current debt [12]	249,038	180,994	38
Total	267,820	196,314	36
Cash and cash equivalents	37,172	27,628	35
Government securities (maturity of more than 90 days)	9,085	20,869	(56)
Adjusted cash and cash equivalents	46,257	48,497	(5)
Net debt [13]	221,563	147,817	50
Net debt/(net debt+shareholders' equity)	39%	31%	8
Total net liabilities [14]	706,710	620,535	14
Capital structure (Net third parties capital / total net liabilities)	51%	47%	4
Net debt/Adjusted EBITDA ratio	3.52	2.77	27

	U.S.$ million		
	12.31.2013	12.31.2012	Δ%
Current debt	8,017	7,497	7
Non-current debt	106,308	88,570	20
Total	114,325	96,067	19
Net debt	94,579	72,335	31

[11] Includes Capital lease obligations (R$38 million on December 31, 2013 and R$ 37 million on December 31, 2012).
[12] Includes Capital lease obligations (R$171 million on December 31, 2013 and R$ 176 million on December 31, 2012).
[13] Our net debt is not computed in accordance with International Standards -IFRS and should not be considered in isolation or as a substitute for total long-term debt calculated in accordance with IFRS. Our calculation of net debt may not be comparable to the calculation of net debt by other companies. Management believes that net debt is an appropriate supplemental measure that helps investors assess our liquidity and assists management in targeting leverage improvements.
[14] Does not include employees' postretirement benefit plan obligations. See Note 22 of the Consolidated Financial Statements.

The net debt of the Consolidated Petrobras Group in Reais increased by 50% over December 31, 2012, due to the long-term funding and to an impact of a 14.6% depreciation of the Real relative to the U.S. dollar.



Contractual Obligations

The following table summarizes our contractual obligations and commitments pending at 12.31.2013:

	Payments due by period			
	Total	**2014**	**2015-2018**	**2019 onwards**
Contractual obligations				
Items of the financial position statement: [15]				
Debt obligations	274,915	26,048	104,676	144,191
With transfer of benefits, risks and controls of assets	209	12	44	152
Total of items of the financial position statement	**275,124**	**26,060**	**104,720**	**144,343**
Other contractual commitments				
Natural gas ship or pay	7,460	1,267	4,939	1,254
Hired services	132,140	58,888	61,051	12,201
Purchase commitment of natural gas	28,243	5,292	18,889	4,062
Without transfer of benefits, risks and controls of assets	122,027	34,396	56,664	30,967
Purchase commitments	46,334	17,645	26,370	2,319
Total other commitments	**336,204**	**117,488**	**167,913**	**50,803**
Total	**611,328**	**143,548**	**272,633**	**195,146**

Assets and Liabilities subject to Exchange Variation

The Company has assets and liabilities subject to foreign exchange variations, for which the main exposure is to the Real relative to the U.S. dollar. As from the mid-May 2013, the Company extended the use of the hedge accounting practice to hedge future exports.

This practice, which is regulated in Brazil by means of Accounting Pronouncement CPC 38 – Financial Instruments: Recognition and Measurement, allows companies to reduce impacts to their periodic results caused by exchange rate changes if they generate future cash flows in currencies other than their local currency of similar amounts but opposite directions. For Petrobras, this mechanism initially includes approximately 70% of the total net debt exposed to changes in foreign exchange rate, hedging portions of our exports for a seven-year period.

Through the extension of the hedge accounting practice, foreign exchange gains or losses from debt expressed in U.S. dollars, will only affect the Company's profit and loss when the future exports affect our income statement. Until our future exports are realized, such foreign exchange variations will be recognized in our shareholders' equity.

The balances of assets and liabilities in foreign currency of subsidiaries outside of Brazil are not included on the exposure below when transacted in a currency equivalent to their respective functional currencies. On December 31, 2013, the Company had a net liability position regarding foreign exchange exposure hence the appreciation of the Real relative to other currencies generates an exchange variation income, while the depreciation of the Real generates an exchange variation expense.

	12.31.2013	12.31.2012
Assets	16,853	17,394
Liabilities	(150,581)	(117,203)
Derivatives	741	(1,371)
Hedge Accounting	95,443	–
Total	**(37,544)**	**(101,180)**

Taxes and Production Taxes

Consolidated Taxes and Contributions

The economic contribution of Petrobras, measured through the generation of current taxes and social contributions, amounted to R$ 74,722 million.

	2013	2012	2013 x 2012 (%)
Economic Contribution - Brazil			
Domestic Value-Added Tax (ICMS)	43,383	39,412	10
CIDE	–	2,023	(100)
PIS/COFINS	15,851	15,951	(1)
Income Tax and Social Contribution	4,580	4,850	(6)
Others	4,773	3,934	21
Subtotal - Brazil	68,587	66,170	4
Economic Contribution - International	6,135	6,873	(11)
Total	**74,722**	**73,043**	2

Production Taxes

	2013	2012	2013 x 2012 (%)
Brazil			
Royalties	15,057	14,459	4
Special participation charges	15,161	15,783	(4)
Rental of areas	170	156	9
Subtotal - Brazil	30,388	30,398	–
International	913	903	1
Total	**31,301**	**31,301**	–

The stability of production taxes in Reais in Brazil was mainly due to the lower production of larger fields that pay special participation charges that offset the 8% increase in the reference price for domestic oil, that reached an average of R$/bbl 208.40 (US$/bbl 96.59) in 2013 compared to R$/bbl 192.73 (US$/bbl 98.63) in 2012.

Reconciliation of Ebitda - Consolidated

	2013	2012	2013 X 2012 (%)
Net income	23,007	20,959	10
Net finance income (expense)	6,202	3,723	67
Income taxes	5,148	6,794	(24)
Depreciation, depletion and amortization	28,467	21,766	31
EBITDA	**62,824**	**53,242**	18
Share of profit of equity-accounted investments	(1,095)	(84)	(1,204)
Impairment	1,238	281	341
Adjusted EBITDA	**62,967**	**53,439**	18

Board of Directors

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Miriam Aparecida Belchior
Francisco Roberto de Albuquerque
Mauro Gentile Rodrigues da Cunha
Jorge Gerdau Johannpeter
Márcio Pereira Zimmermann
Luciano Galvão Coutinho
Sergio Franklin Quintella
José Maria Ferreira Rangel

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CEO

Almir Guilherme Barbassa
Chief Financial and Investor Relations Officer

José Miranda Formigli Filho
Exploration and Production Officer

José Carlos Cosenza
Refining, Transportation and Marketing Officer

José Alcides Santoro Martins
Gas and Power Officer

José Eduardo de Barros Dutra
Corporate and Services Officer

José Antonio de Figueiredo
Engineering, Technology and Materials Officer

Fiscal Council

Sitting members

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César Acosta Rech
Marisete Fátima Dadald Pereira
Reginaldo Ferreira Alexandre
Walter Luis Bernardes Albertoni

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COMPANHIA LISTADA PETR4 BM&FBOVESPA

PBR Listed NYSE THE NEW YORK STOCK EXCHANGE

PBRA Listed NYSE THE NEW YORK STOCK EXCHANGE

LATIBEX

BCBA Bolsa de Comercio de Buenos Aires

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