

RISK FACTORS

Risks Relating to Our Operations

We have substantial liabilities and may be exposed to significant liquidity constraints in the near and medium term, which could materially and adversely affect our financial condition and results of operations, and which has required that we modify our business plan and strategy.

We have incurred a substantial amount of debt in order to finance the capital expenditures needed to meet our long-term objectives. As our cash flow from operations in recent years has not been sufficient to fund our capital expenditures and payment of interest, principal and dividends, our debt has significantly increased since 2010. Our total debt (including accrued interest) decreased by 4% to US\$126,165 million as of December 31, 2015 from US\$132,086 million as of December 31, 2014, and increased by 10% from US\$114,236 million as of December 31, 2013. Our debt, net of cash, cash equivalents and marketable securities decreased by 5% to US\$100,328 million as of December 31, 2015 compared to US\$106,108 million as of December 31, 2014, and increased by 6% from US\$94,483 million as of December 31, 2013. 33% of our existing debt (principal), or US\$40.6 billion, will mature in the next three years. In order to develop our oil and natural gas reserves, maintain our ability to supply the Brazilian domestic market and service our debt, we will need to raise significant amounts of debt capital from a broad range of funding sources, as well as rely on the potential proceeds from assets sales under our divestment program.

To service our debt after providing for capital expenditures, we have relied upon, and may continue to rely upon, a combination of cash flows provided by our operations, divestments, additional debt facilities, and drawing down our cash and short-term financial investments balance.

We lost our Moody's, S&P and Fitch investment grade ratings for all of our credit ratings in February, September and December 2015, respectively, and have experienced further credit rating downgrades since then. Credit rating agencies continue to express concern regarding (i) liquidity pressures and our capacity to meet our principal and interest payment obligations maturing in the short- and medium-term, (ii) the total size of our debt, (iii) the increase in our indebtedness and leverage over the last few years, (iv) the significant decline in international crude oil prices, (v) the sharp devaluation of the *real* and (vi) the challenges involved in successfully implementing our divestment program.

The loss of our investment grade credit rating and any further lowering of our credit ratings has had, and may continue to have adverse consequences on our ability to obtain financing or may impact our cost of financing, also making it more difficult or costly to refinance maturing obligations. Our inability to obtain financing on favorable terms could have an adverse effect on our results of operations and financial condition. The loss of our investment grade credit rating resulted and may continue to result in a less liquid market for our debt and equity securities, because certain institutions are unable to purchase our securities, therefore reducing our investor base.

If, for any reason, we are faced with continued difficulties in accessing debt financing, this could impair our ability to timely meet our principal and interest payment obligations with our creditors, and hamper our ability to achieve our long-term objectives as our cash flow from operations is currently insufficient to fund both our debt service obligations and our planned capital expenditures. As a result of the above, we may not be able to make the capital expenditures in the amounts needed to maintain our long-term objectives, which may adversely affect our results of operations and financial condition.

If such constraints occur at a time when our cash flow from operations are less than the resources needed to fund our capital expenditures or to meet our principal and interest payments obligations, in order to provide additional liquidity to our operations, we could be forced to further reduce our planned capital expenditures and increase the numbers of assets to be sold under our divestment program. A reduction in our capital expenditure program or the sale of strategic assets under our divestment program could affect our results of operations and financial condition.

Despite the fact that the Brazilian federal government (as our controlling shareholder) is not responsible or liable for any of our liabilities – including those derived from the bonds we issue in the international capital markets – our credit rating is sensitive to any change in the Brazilian federal government credit rating. The credit rating of the Brazilian federal government has been downgraded in 2015 and 2016, and is no longer investment grade. Any further lowering of the Brazilian federal government credit ratings may have additional adverse consequences on our ability to obtain financing or our cost of financing, and consequently, on our results of operations and financial condition.

We are vulnerable to increased debt service resulting from depreciation of the real in relation to the U.S. dollar and increases in prevailing market interest rates.

As of December 31, 2015, approximately 84% of our financial debt liabilities was denominated in currencies other than the *real* (74% of which was denominated in U.S. dollars). A substantial portion of our indebtedness is, and is expected to continue to be, denominated in or indexed to the U.S. dollar and other foreign currencies. A further depreciation of the *real* against these other currencies will increase our debt service in *reais*, as the amount of *reais* necessary to pay principal and interest on foreign currency debt will increase with this depreciation. Considering the average exchange rate of each year, from 2003 to 2011, the *real* appreciated against the U.S. dollar each year (by an average of 7% per year), except for 2009 (when it depreciated by 9%). In 2015, the *real* depreciated 41.8% against the U.S. dollar, compared to depreciation of 9.1% in 2014, 10.4% in 2013 and depreciation of 16.7% in 2012. Through April 22, 2016, the *real* has rebounded, appreciating by 8.2% compared to December 31, 2015.

This foreign exchange variation will have an immediate impact on our reported income, except for a portion of our obligations denominated in U.S. dollars that are subject to our hedge accounting policy. According to our hedge accounting policy, hedge designations are made to the extent that future exports are considered to be highly probable. On December 31, 2015, the average ratio of highly probable future exports to debt instruments for which a hedging relationship has been designated in the future periods was 60%. The average ratio for the period of 2016-2019 was 80%, while for the period of 2020-2026 was 55%. Future exports may cease to be considered highly probable or even expected, which will have an impact in our future results. See Item 5. "Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates—Cash Flow Hedge Accounting Involving our Future Exports."

Following a devaluation of the *real*, some of our operating expenses, capital expenditures, investments and import costs will increase. As most of our revenues are denominated in *reais*, unless we increase the prices of our products to reflect the depreciation of the *real*, our cash generation relative to our capacity to service debt may decline.

Additionally, we have debt maturities that amount to US\$78.7 billion during the next five years, a portion of which may be refinanced by issuing new debt. The cost of any new indebtedness may be negatively affected by the recent loss of our investment grade credit rating by Moody's, S&P and Fitch and possible further downgrades. To the extent we refinance our maturing obligations with newly contracted debt, we may incur additional interest expense.

As of December 31, 2015, approximately 49% of our total indebtedness consisted of floating rate debt. We generally do not enter into derivative contracts or similar financial instruments or make other arrangements with third parties to hedge against the risk of an increase in interest rates. To the extent that such floating rates rise, we may incur additional expenses. Additionally, as we refinance our existing debt in the coming years, the mix of our indebtedness may change, specifically as it relates to the ratio of fixed to floating interest rates, the ratio of short-term to long-term debt, and the currencies in which our debt is denominated or to which it is indexed. Changes that affect the composition of our debt and cause rises in short- or long-term interest rates may increase our debt service payments, which could have an adverse effect on our results of operations and financial condition.

Our divestment program depends on external factors that could impede its successful implementation.

Our 2015-2019 Plan includes, among other initiatives, a divestment program that contemplates the sale of US\$15.1 billion in assets for the period 2015-2016, with the goal of improving our short-term liquidity position (by increasing our cash balance) and allowing us to deleverage. External factors, such as the sustained decline in oil prices, exchange rate fluctuations, the deterioration of Brazilian and global economic conditions and the Brazilian political crisis, among other factors may reduce or hinder sales opportunities for our assets or affect the price at which we can sell our assets, and may force us to alter the terms of our divestment program. As of April 22, 2016, we had sold approximately US\$700 million of assets under our divestment program for the 2015-2016 period. See Item 4. "Information on the Company-Overview of the Group" for further information about our divestment program. Additionally, our deleveraging efforts may have unintended consequences, including limiting our ability to maintain our long-term objectives and affecting our relationships with suppliers, customers and the local communities in which we operate.

If we are unable to successfully implement our divestment program, or if our deleveraging efforts lead to unintended consequences, this may have a material adverse effect on our business, results of operations and financial condition, including by potentially exposing us to significant liquidity constraints in the near and medium term. See "Risks Relating to Our Operations-We have substantial liabilities and may be exposed to significant liquidity constraints in the near and medium term, which could materially and adversely affect our financial condition and results of operations, and which has required that we modify our business plan and strategy." In addition, the sale of strategic assets under our divestment program will result in a decrease in our cash flows from operations, which could negatively impact our long-term operating growth prospects and consequently our results of operations in the medium and long-term.

Maintaining our long-term objectives for oil production depends on our ability to successfully obtain and develop oil reserves.

Our ability to maintain our long-term objectives for oil production is highly dependent upon our ability to successfully develop our existing reserves, and to obtain additional reserves. The development of the sizable reservoirs in deep and ultra-deep waters, including the pre-salt reservoirs that have been licensed and granted to us by the Brazilian federal government, has demanded and will continue to demand significant capital investments. A primary operational challenge, particularly for the pre-salt reservoirs, will be (i) securing the critical resources that are necessary to meet our production targets, (ii) allocating our resources to build the necessary equipment and deploy such equipment at considerable distances from the shore and (iii) securing a qualified labor force and offshore oil services to develop reservoirs of such size and magnitude in a timely manner. Also, our long-term objectives for oil production are dependent upon our ability to secure financing necessary to meet the capital expenditures needed for oil exploration and production. We cannot guarantee that we will have or will be able to obtain, in the time frame that we expect, sufficient resources and financing necessary to exploit the reservoirs in deep and ultra-deep waters that have been licensed and granted to us, or that may be licensed and granted to us in the future.

Our ability to obtain additional reserves depends upon exploration activities, which exposes us to the inherent risks of drilling, and may not lead to the discovery of commercially productive crude oil or natural gas reserves. Drilling wells often yields uncertain results, and numerous factors beyond our control (such as unexpected drilling conditions, equipment failures or incidents, and shortages or delays in the availability of drilling rigs and the delivery of equipment) may cause drilling operations to be curtailed, delayed or cancelled. In addition, increased competition in the oil and gas sector in Brazil and our own capital constraints may make it more difficult or costly to obtain additional acreage in bidding rounds for new concessions and to explore existing concessions. These factors could impede us from participating in further bidding rounds in the future and limit future exploration. We may not be able to maintain our long-term objectives for oil production unless we conduct successful exploration and development activities of our large reservoirs in a timely manner.

Also, our ability to maintain our long-term objectives for oil production partially rely on major projects and operations that are conducted in joint arrangements or in partnership with other oil and gas companies. If we or our partners fail or are unable to meet with respective payment obligations under applicable contractual arrangements, this may threaten the viability of a given project, and may result either in (i) a delay or cancellation of such project, which could bring regulatory sanctions to the relevant joint arrangement or partnership, (ii) an increase or dilution of our interest in such project or (iii) our withdrawal from such project, any of which could have a material adverse effect on our results of operations and financial condition.

International prices of crude oil, oil products and natural gas may affect us differently than our competitors and may cause our results to differ from our competitors in periods of higher international prices.

International prices for oil and oil products are volatile and have a significant effect on us. We may not adjust our prices for products sold in Brazil when the international prices of crude oil and oil products increase, or when the *real* depreciates in relation to the U.S. dollar, which could have a negative impact on our results of operations and financial condition.

Our pricing policy in Brazil takes into account domestic market conditions and seeks to align the price of oil and oil products with international prices over the long term, however we do not necessarily adjust our prices for diesel, gasoline and other products to reflect oil price volatility in the international markets or short-term volatility of the *real* vs. U.S. dollar exchange rate. Based on the decisions of the Brazilian federal government, as our controlling shareholder, we have had, and may continue to have, periods during which our product prices will not be at parity with international product prices (See “Risks Relating to Our Relationship with the Brazilian Federal Government—The Brazilian federal government, as our controlling shareholder, may pursue certain macroeconomic and social objectives through us that may have a material adverse effect on us.”) As a result, when we are a net importer by volume of oil and oil products to meet Brazilian demand, increases in the price of crude oil and oil products in the international markets may have a negative impact on our costs of sales and margins, since the cost to acquire such oil and oil products may exceed the price at which we are able to sell these products in Brazil. A similar effect occurs when the *real* depreciates in relation to the U.S. dollar, as we sell oil and oil products in Brazil in *reais* and international prices for crude oil and oil products are set in U.S. dollars. A depreciation of the *real* increases our cost of imported oil and oil products, without a corresponding increase in our revenues unless we are able to increase the price at which we sell products in Brazil.

The majority of our revenue is derived primarily from sales in Brazil of crude oil and oil products and, to a lesser extent, natural gas. Changes in crude oil prices typically result in changes in prices for oil products and natural gas. Historically, international prices for crude oil, oil products and natural gas have fluctuated widely as a result of many global and regional factors. Volatility and uncertainty in international prices for crude oil, oil products and natural gas may continue. For instance, on September 1, 2014, the Brent crude oil price per barrel was US\$101.37, while on May 5, 2015, the Brent crude oil price per barrel was US\$66.37, and eight months later, on January 20, 2016, the Brent crude oil price per barrel was US\$26.39. On April 22, 2016, the Brent crude oil price per barrel was US\$44.00.

Since the last quarter of 2015, we have not adjusted our prices for gasoline, diesel and other oil products, in order to avoid passing on to the domestic market short-term volatility in (i) international prices of crude oil and oil products, and (ii) the *real* vs. U.S. dollar exchange rate. Our pricing policy for this period also took into consideration domestic market conditions.

Substantial or extended declines in international crude oil prices may have a material adverse effect on our business, results of operations and financial condition, and may also affect the value of our proved reserves.

We rely on key third-party suppliers and service providers to provide us with parts, components, services and critical resources that we need to operate our business and complete our major projects, which could be adversely affected by any failure or delay by such third parties in performing their obligations or any deterioration in the financial condition of such third parties.

Our ability to maintain our long-term objectives for oil production depends upon successful delivery of major exploration and production projects. Failure to successfully deliver such major projects, or delays in doing so, could adversely affect our results of operations and financial condition.

We rely upon various key third-party suppliers, vendors and service providers to provide us with parts, components, services and critical resources, which we need to operate and expand our business. If these key suppliers, vendors and service providers critically fail to deliver, or are delayed in delivering, equipment, service or critical resources to our major projects, we may not meet our operating targets in the time frame we expected. We may ultimately need to delay or suspend one or more of our major projects, which could have an adverse effect on our results of operations and financial condition.

We are susceptible to the risks of performance, product quality and financial condition of our key suppliers, vendors and service providers. For instance, their ability to adequately and timely provide us with parts, components, services and resources critical to our major projects may be affected if they are facing financial constraints or times of general financial stress and economic downturn. As a result of the ongoing Lava Jato investigation, a number of our Brazilian contractors and suppliers have been unable to secure financing and are currently facing liquidity and bankruptcy concerns that may affect their ability to continue as our key suppliers, vendors and service providers. Although we work closely with our key suppliers, vendors and service providers to avoid supply-related problems, there can be no assurance that we will not encounter supply disruptions in the future or that we will be able to timely replace such suppliers or service providers that are not able to meet our needs, which might adversely affect a timely and successful execution of our major projects, and consequently, our results of operations and financial condition.

In 2014, we temporarily suspended the ability of 32 companies belonging to 23 corporate groups to participate as suppliers and contractors in future bids for new contracts and services with us, while we and the Brazilian authorities analyzed the involvement and participation of these companies in alleged illegal conduct in connection with the Lava Jato investigation. In 2015, this suspension was extended to two other companies. Since then, three companies have met the requirements necessary for lifting the suspension, and 31 remain suspended. See Note 3 to our audited consolidated financial statements for further information about the Lava Jato investigation. A number of these suppliers and contractors have historically acted as key suppliers, vendors and service providers for our major projects. There can be no assurance that these companies will be permitted to participate in our future major projects or that we will be able to replace such key suppliers, vendors and service providers with others that would be able to meet our needs, which could affect the successful and timely delivery of our major future projects, and consequently our results of operations and financial condition.

We are also subject to Brazilian local content requirements arising out of our concession agreements, the Assignment Agreement and the Libra Production Sharing Agreement. As a result, we are required to acquire from domestic suppliers the majority of the parts, components, services and resources critical to our major projects. This mandatory acquisition of equipment and services from a limited number of suppliers may result in (i) higher acquisition costs and (ii) delays in the delivery of equipment. Additionally, these requirements, along with the temporary suspension of many of our local suppliers described above, could cause delays in some of our major projects if we are unable to timely replace Brazilian suppliers or service providers that fail to perform their obligations under our contracts. Unless ANP exempts us from complying with local content requirements, as to which there is no assurance, we could also face delays and fines in the execution of our current major exploration and production projects.

We are exposed to the credit risks of certain of our customers and associated risks of default. Any material nonpayment or nonperformance by some of our customers could adversely affect our cash flow, results of operations and financial condition.

Some of our customers may experience financial constraints or liquidity issues that could have a significant negative effect on their creditworthiness. Severe financial issues encountered by our customers could limit our ability to collect amounts owed to us, or to enforce the performance of obligations owed to us under contractual arrangements.

For instance, as of December 31, 2015, certain subsidiaries of Centrais Elétricas Brasileiras S.A. - Eletrobras owed us approximately US\$3.4 billion under energy supply agreements. In 2015 and 2014, we recognized an allowance for impairment of trade receivables from the isolated electricity sector in the Northern region of Brazil amounting to approximately US\$1.2 billion and US\$1.9 billion, respectively, mostly to cover certain trade receivables due by Eletrobras's subsidiaries. See Note 8.4 to our audited consolidated financial statements.

In addition, many of our customers finance their activities through their cash flows from operations, the incurrence of short- and long-term debt. Declining financial results and economic conditions in Brazil, and resulting decreased cash flows, combined with a lack of debt or equity financing for our customers may affect us, since many of our customers are Brazilian, and may have significantly reduced liquidity and limited ability to make payments or perform their obligations to us. As we have not obtained any other guarantees to minimize our customers' credit risk, their financial problems could result in a decrease in our cash flows from operations and may also reduce or curtail our customers' future demand for our products and services, which may have an adverse effect on our results of operations and financial condition.

Exploration and production of oil, particularly offshore, involves risks that could have a material adverse impact on our business.

Exploration and production of oil involves risks that are increased when carried out offshore. The majority of our exploration and production activities are carried out in deep and ultra-deep waters, and the proportion of our deep water activities will remain constant or increase due to the location of our pre-salt reservoirs. Our activities, particularly offshore, present several risks, such as the risk of oil spills, explosions on platforms and in drilling operations and natural disasters. The occurrence of any of these events or other incidents could result in personal injuries, casualties, severe environmental damage with the resulting containment, clean-up and repair expenses, equipment damage and liability in civil and administrative proceedings.

The majority of the projects in which we engage in order to explore and produce oil are large, long-term projects that involve a number of different phases. Each phase of these projects is susceptible to changes in market conditions, the prices of raw materials and commodities, foreign exchange variations, potential issues with suppliers and contractors and other possible factors that could impact the viability of the project. In addition, each of these projects is inter-dependent on other projects in our system, and a delay in, or decision not to proceed with, one project could have a material impact on one or more other projects.

Our insurance policies do not cover all liabilities, and insurance may not be available for all risks. There can be no assurance that incidents will not occur in the future, that insurance will adequately cover the entire scope or extent of our losses or that we will not be found liable in connection with claims arising from these and other events.

Our crude oil and natural gas reserve estimates involve some degree of uncertainty, which could adversely affect our ability to generate income.

Our proved crude oil and natural gas reserves set forth in this annual report are the estimated quantities of crude oil, natural gas and NGLs that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made) according to applicable regulations. Our proved developed crude oil and natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. There are uncertainties in estimating quantities of proved reserves related to prevailing crude oil and natural gas prices applicable to our production, which may lead us to make revisions to our reserve estimates. In 2015, our proved crude oil and natural gas reserve estimates declined 20% compared to our 2014 estimates, mainly as a result of the decrease in oil prices during 2015. Further downward revisions in our reserve estimates could lead to lower future production, which could have an adverse effect on our results of operations and financial condition.

We do not own any of the subsoil accumulations of crude oil and natural gas in Brazil.

Under Brazilian law, the Brazilian federal government owns all subsoil accumulations of crude oil and natural gas in Brazil and the concessionaire owns the oil and gas it produces from those subsoil accumulations pursuant to applicable agreements executed with the Brazilian federal government. We possess, as a concessionaire of certain oil and natural gas fields in Brazil, the exclusive right to develop the volumes of crude oil and natural gas included in our reserves pursuant to concession agreements, the Libra Production Sharing Agreement and the Assignment Agreement awarded to us by the Brazilian federal government, and except for the profit oil owed to the Brazilian federal government under the Libra Production Sharing Agreement, we own the hydrocarbons we produce under those contractual arrangements. Access to crude oil and natural gas reserves is essential to an oil and gas company's sustained production and generation of income, and our ability to generate income would be adversely affected if the Brazilian federal government were to restrict or prevent us from exploiting these crude oil and natural gas reserves. In addition, we may be subject to fines by the ANP and our concessions, the Libra Production Sharing Agreement and the Assignment Agreement may be revoked if we do not comply with our obligations under such contractual arrangements.

The Assignment Agreement we entered into with the Brazilian federal government is a related party transaction subject to future price readjustment.

The transfer to us of oil and gas exploration and production rights related to specific pre-salt areas, subject to a maximum production of five billion boe, is governed by Law No. 12,276/2010 and by the Assignment Agreement, which is a contract between the Brazilian federal government, our controlling shareholder, and us. The negotiation of the Assignment Agreement involved significant issues, including (1) the area covered by the assignment of rights, consisting of exploratory blocks; (2) the volume, on a barrel of oil equivalent basis, that we can extract from this area; (3) the price to be paid for the assignment of rights; (4) the terms of any subsequent revision of the contract price and volume; and (5) the terms of the reallocation of volumes among the exploratory blocks assigned to us.

The Assignment Agreement includes provisions for a subsequent revision of certain of its terms, including the price we paid for the rights we acquired. We are currently undergoing negotiations with the Brazilian federal government in accordance with the terms of the Assignment Agreement based on a number of factors, including assumptions regarding the timing of our oil and gas production, operating and investment costs, and crude oil international prices. There is no formal or official date for the conclusion of the revision process. See Item 4. "Information on the Company-Exploration and Production-Santos Basin-Assignment Agreement" and Item 10. "Material contracts-Assignment Agreement" for further information.

At the time the Assignment Agreement was negotiated, the initial contract price paid by us was based on an assumed Brent oil crude price of approximately US\$80 per barrel. During the term of the Assignment Agreement, novel issues may arise in the implementation of the revision process and other provisions that could require further negotiations. Once the revision process is concluded pursuant to the terms of the Assignment Agreement, if the revised contract price is higher than the initial contract price, we will either make an additional payment to the Brazilian federal government or reduce the amount of barrels of oil equivalent subject to the Assignment Agreement.

Beginning June 2014, CNPE Resolution No. 01/2014 authorized the Brazilian federal government to directly engage Petrobras, under production sharing agreements, to produce oil, natural gas and fluid hydrocarbons in the Assignment Agreement areas at a volume exceeding the five bnboe maximum production originally agreed to under the Assignment Agreement. However, we have not initiated negotiations of the terms of these production sharing agreements and do not have an estimate of when these agreements may be executed, nor can we ensure that their terms would be favorable to us. See Item 10. "Material Contracts--Assignment Agreement-- Additional Production in the Assignment Agreement Areas" and Note 12.3 to our audited consolidated financial statements.

We are subject to numerous environmental, health and safety regulations and industry standards that are becoming more stringent and may result in increased capital and operating expenditures and decreased production.

Our activities are subject to evolving industry standards and best practices, and a wide variety of federal, state and local laws, regulations and permit requirements relating to the protection of human health, safety and the environment, both in Brazil and in other jurisdictions in which we operate. Particularly in Brazil, our oil and gas business is subject to extensive regulation by several governmental agencies, including the ANP, ANEEL, Agência Nacional de Transportes Aquaviários (Brazilian Water Transportation Agency), or ANTAQ and Agência Nacional de Transportes Terrestres (Brazilian Land Transportation Agency), or ANTT. Failure to observe or comply with these laws and regulations could result in penalties that could adversely affect our operations. In Brazil, for example, we could be exposed to administrative and criminal sanctions, including warnings, fines and closure orders for non-compliance with these environmental, health and safety regulations, which, among other things, limit or prohibit emissions or spills of toxic substances produced in connection with our operations. Waste disposal and emissions regulations may also require us to clean up or retrofit our facilities at significant costs and could result in substantial liabilities. The Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis (Brazilian Institute of the Environment and Renewable Natural Resources), or IBAMA, the various Brazilian state environmental agencies and the ANP, among others, routinely inspect our facilities, and may impose fines, restrictions on operations, or other sanctions in connection with their inspections, including unexpected, temporary shutdowns and delays resulting in decreased production. In addition, we are subject to environmental laws that require us to incur significant costs to cover damage that a project may cause to the environment. These additional costs may have a negative impact on the profitability of the projects we intend to implement or may make such projects economically unfeasible.

As environmental, health and safety regulations become more stringent with evolving industry standards, and as new laws and regulations relating to climate change, including carbon controls, become applicable to us, it is possible that our capital expenditures and investments for compliance with such laws and regulations and industry standards will increase substantially in the future. In addition, if compliance with such laws, regulations and industry standards results in significant unplanned shutdowns, there could be a material adverse effect on our production. We also cannot guarantee that we will be able to maintain or renew our licenses and permits if they are revoked or if the applicable environmental authorities oppose or delay their issuance or renewal. Increased expenditures to comply with environmental, health and safety regulations to mitigate the environmental impact of our operations or to restore the biological and geological characteristics of the areas in which we operate may result in reductions in other strategic investments. Any substantial increase in expenditures for compliance with environmental, health or safety regulations or reduction in strategic investments and significant decreases in our production from unplanned shutdowns may have a material adverse effect on our results of operations and financial condition.

We may incur losses and spend time and financial resources defending pending litigations and arbitrations.

We are currently a party to numerous legal proceedings relating to civil, administrative, tax, labor, environmental and corporate claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. See Item 8. "Financial Information—Legal Proceedings" and Note 30 to our audited consolidated financial statements included in this annual report for a description of the legal proceedings to which we are subject. In the event that claims involving a material amount and for which we have no provisions were to be decided against us, or in the event that the losses estimated turn out to be significantly higher than the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on results of operations and financial condition. We may also be subject to litigation and administrative proceedings in connection with our concessions and other government authorizations, which could result in the revocation of such concessions and government authorizations. In addition, our management may be required to direct its time and attention to defending these claims, which could prevent them from focusing on our core business. Depending on the outcome, litigation could result in restrictions on our operations and have a material adverse effect on some of our businesses.

Differing interpretations of tax regulations or changes in tax policies could have an adverse effect on our financial condition and results of operations.

We are subject to tax rules and regulations that may be interpreted differently over time, or that may be interpreted differently by us and Brazilian tax authorities, both of which could have a financial impact on our business. For example, in the second and third quarters of 2015, we recognized material charges related to settlements of certain tax liabilities. Although unanticipated, these charges relate to the settlement of disputes relating to tax regulations that allowed for certain tax contingencies to be settled at a reduced value. In some cases, when we have exhausted all administrative appeals relating to a tax contingency, further appeals must be made in the judicial courts, which may require that, in order to appeal, we provide collateral to judicial courts, such as the deposit of amounts equal to the potential tax liability in addition to accrued interest and penalties. In certain of these cases, settlement of the matter may be a more favorable option for us.

In the future, we may be faced with similar situations in which our interpretation of a tax regulation may differ from that of tax authorities, or tax authorities may dispute our interpretation and we may eventually take unanticipated provisions and charges. In addition, the eventual settlement of one tax dispute may have a broader impact on other tax disputes. Changes in interpretation or differing interpretations as to tax regulations, as well as our decision to settle any claims relating to such regulations, could have a material adverse effect on our financial condition and results of operations.

Changes in tax policies may also have an adverse effect on us. The Brazilian federal, state and municipal governments have in the past changed tax policies in manners that affect the oil and gas industry, and they may do so again in the future. These changes may include, among other things, the creation or the increase in tax rates affecting oil and gas companies. For instance, the State of Rio de Janeiro has recently enacted laws that impose domestic value-added taxes and inspection taxes over oil and gas production within the State of Rio de Janeiro. Although challenges to the constitutionality of such laws have been filed before the Brazilian Supreme Court, we cannot predict whether such challenges will prevail.

We may face additional civil proceedings related to the Lava Jato investigation.

We are subject to a number of civil proceedings related to the Lava Jato investigation, including a putative securities class action lawsuit against us consolidated in the United States District Court for the Southern District of New York ("SDNY") on February 17, 2015. See Item 8. "Financial Information—Legal Proceedings" and Note 30.4 to our audited consolidated financial statements contained therein for a description of the U.S. securities class action litigation. In addition to the Consolidated Securities Class Action, to date, 29 lawsuits have been filed by individual investors before the same judge in the SDNY (two of which have been stayed), and one has been filed in the United States District Court for the Eastern District of Pennsylvania, consisting of allegations similar to those in the Consolidated Securities Class Action. The plaintiffs have not specified an amount of alleged damages in the actions. Because these actions are in their early stages, the possible loss or range of losses, if any, arising from the litigation cannot be estimated and consequently we have made no provisions with respect to this litigation. In the event that this litigation is decided against us, or we enter into an agreement to settle such matters, we may be required to pay substantial amounts. Depending on the outcome, such litigation could also result in restrictions on our operations and have a material adverse effect on our business. Petrobras has engaged a U.S. firm as legal counsel and intends to defend vigorously against the allegations made in the context of these actions. In addition, EIG Management Company filed a complaint against us on February 23, 2016 in connection with their investment in Sete Brasil Participações, S.A., or Sete Brasil. It is possible that additional complaints or claims might be filed in the United States, Brazil or elsewhere against us relating to the Lava Jato investigation in the future. Our management may be required to direct its time and attention to defending these claims, which could prevent them from focusing on our core business.

We are not insured against business interruption for our Brazilian operations, and most of our assets are not insured against war or sabotage.

We generally do not maintain insurance coverage for business interruptions of any nature for our Brazilian operations, including business interruptions caused by labor action. If, for instance, our workers or those of our key third-party suppliers, vendors and service providers were to strike, the resulting work stoppages could have an adverse effect on us. In addition, we do not insure most of our assets against war or sabotage. See "—Risks Relating to Our Operations—Strikes, work stoppages or labor unrest by our employees or by the employees of our suppliers or contractors could adversely affect our results of operations and our business." Therefore, an attack or an operational incident causing an interruption of our business could have a material adverse effect on our results of operations and financial condition.

Developments in the oil and gas industry (such as the recent significant decline in international crude oil and gas prices) and other factors have resulted, and may result, in substantial write-downs of the carrying amount of certain of our assets, which could adversely affect our results of operations and financial condition.

We evaluate on an annual basis, or more frequently where the circumstances require, the carrying amount of our assets for possible impairment. Our impairment tests are performed by a comparison of the carrying amount of an individual asset or a cash-generating unit with its recoverable amount. Whenever the recoverable amount of an individual asset or cash-generating unit is less than its carrying amount, an impairment loss is recognized to reduce the carrying amount to the recoverable amount.

Changes in the economic, regulatory, business or political environment in Brazil or other markets where we operate, such as the recent significant decline in international crude oil and gas prices, the devaluation of the *real* and lower projected economic growth in Brazil, as well as changes in financing conditions for such projects, among other factors, may affect the original profitability estimates of our projects and result in (i) projects being delayed or cancelled and (ii) the recognition of impairment charges in certain of our assets. For example, in 2015 and 2014, we recognized impairment charges of US\$12,299 million and US\$16,823 million, respectively, for certain of our property, plant and equipment, intangible assets and assets classified as held for sale. See Item 5. "Operating and Financial Review and Prospects—Results of Operations—2015 compared to 2014" and Item 5. "Operating and Financial Review and Prospects—Results of Operations—2014 compared to 2013", Item 5. "Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates" and Notes 5.2 and 14 to our audited consolidated financial statements for further information about the impairment of certain of our assets.

Future developments in the economic environment, in the oil and gas industry and other factors could result in further substantial impairment charges, adversely affecting our operating results and financial condition.

Our commitment to meet the obligations of our pension plan ("Petros") and health care benefits ("AMS") may be higher than what is currently anticipated, and we may be required to make additional contributions of resources to Petros.

The criteria used for determining commitments relating to pension and health care plan benefits are based on actuarial and financial estimates and assumptions with respect to (i) the calculation of projected short-term and long-term cash flows and (ii) the application of internal and external regulatory rules. Therefore, there are uncertainties inherent in the use of estimates that may result in differences between the predicted value and the actual realized value.

In addition, the financial assets held by Petros to cover pension obligations are subject to risks inherent to investment management and such assets may not generate the necessary returns to cover the relevant liabilities. Further, Petros may be required to assume the payment of additional obligations arising from court decisions unfavorable to the plan. With respect to the results of Petros, under current Brazilian law, in the event of actuarial deficits in specific circumstances, an equalization plan may be necessary and, therefore, extraordinary contributions from us, as sponsor, and our employees, may be required. An eventual equalization plan for Petros that would require contributions from us may have a material adverse effect on our results of operations and financial condition.

With respect to AMS, the projected cash flows, as well as payments and actuarial liabilities, may also be impacted by (i) substantial increases in medical costs, (ii) additional demands for better benefits and (iii) the difficulty of adjusting the contributions of participants proportionally to medical cost increases.

These risks may result in an increase in our liabilities and adversely affect our results of operations and our business. See Note 22 to our audited consolidated financial statements for further information about our employee benefits, including pension and health care plans.

Strikes, work stoppages or labor unrest by our employees or by the employees of our suppliers or contractors, as well as potential shortages of skilled personnel, could adversely affect our results of operations and our business.

Approximately 45% of our employees are represented by labor unions. Disagreements on issues involving divestments or changes in our business strategy, reductions in our personnel, as well as potential employee contributions to a Petros shortfall, could lead to labor unrest. In 2015, oil workers unions organized a series of protests, culminating in a strike lasting 27 days, which impacted our production levels in November 2015. This strike took place during negotiations over the social clauses of the collective bargaining agreement for 2015-2017. We cannot ensure that such strikes affecting our production levels will not occur during future negotiations. Strikes, work stoppages or other forms of labor unrest at any of our major suppliers, contractors or their facilities could impair our ability to complete major projects and impact our ability to achieve our long-term objectives.

In addition, we could experience potential shortages of skilled personnel. We recently announced a new voluntary separation incentive program open to all of our employees, and we estimate that approximately 12,000 employees will enroll in such program. If this voluntary separation incentive program is successfully implemented, and we are unable to timely replace key skilled personnel that decide to enroll in such program, this could adversely affect our results of operations and our business. See Item 6. "Directors, Senior Management and Employees—Employees and Labor Relations—Voluntary Separation Incentive Program—PIDV." Our success also depends on our ability to continue to successfully train and qualify our personnel so they can assume qualified senior positions in the future. We cannot assure you that we will be able to properly train, qualify or retain senior management personnel, or do so without costs or delays, nor can we assure you that we will be able to find new qualified senior managers, should the need arise. Any such failure could adversely affect our results of operations and our business.

Compliance and Control Risks

We are exposed to behaviors incompatible with our ethics and compliance standards, and failure to timely detect or remedy any such behavior may have a material adverse effect on our results of operations and financial condition.

Our business, including relationships with third parties, is guided by ethical principles. We have adopted a Code of Ethics, a Conduct Guide and a number of internal policies designed to guide our management, employees and contractors and reinforce our principles and rules for ethical behavior and professional conduct. We offer an external whistleblower channel overseen by our General Ombudsman Office for employees, contractors and other third parties. See Item 6. "Directors, Senior Management and Employees—Ombudsman."

We are subject to the risk that our employees, contractors or any person doing business with us may engage in fraudulent activity, corruption or bribery, circumvent or override our internal controls and procedures or misappropriate or manipulate our assets for their personal or business advantage to our detriment. This risk is heightened by the fact that we have a large number of complex, valuable contracts with local and foreign suppliers, as well as the geographic distribution of our operations and the wide variety of counterparties involved in our business. We have in place a number of systems for identifying, monitoring and mitigating these risks, but our systems may not be effective.

It is difficult for us to ensure that all of our employees and contractors, totaling over 236,000, will comply with our ethical principles. Any failure – real or perceived – to follow these principles or to comply with applicable governance or regulatory obligations could harm our reputation, limit our ability to obtain financing and otherwise have a material adverse effect on our results of operations and financial condition.

Our management has identified material weaknesses in our internal control over financial reporting, and has concluded that our internal control over financial reporting was not effective at December 31, 2015, which may have a material adverse result on our results of operation and financial condition.

Our management identified a number of material weaknesses in our internal control over financial reporting in 2015, related to (i) management override of controls, (ii) controls related to property, plant and equipment (including deficiencies related to the review of changes in certain groupings of exploration and production assets as cash generating units and their compliance with IFRS, reclassification of certain assets for projects under construction to operating assets and the timely write-off of projects, need to write down payments advanced to contractors and suppliers that will not result in future economic benefits and recognition of termination costs of our contracts), (iii) the review and approval of manual journal entries, (iv) system access management and segregation of duties in business and information technology process, (v) provisions and contingent liabilities for legal proceedings and (vi) the calculation of actuarial liabilities. As a result, due to the identified material weaknesses, our management concluded that our internal control over financial reporting was not effective at December 31, 2015. A number of our current material weaknesses in our internal control over financial reporting were identified and reported by management at December 31, 2014. Although we have developed and implemented several measures to remedy these material weaknesses, we cannot be certain that there will be no other material weaknesses in our internal control over financial reporting in the future. For more information about these matters, see Item 15. "Controls and Procedures—Management's Report on Internal Control over Financial Reporting."

If our efforts to remediate the material weaknesses are not successful, we may be unable to report our results of operations for future periods accurately and in a timely manner and make our required filings with government authorities, including the SEC. There is also a risk that there could be accounting errors in our financial reporting, and we cannot be certain that in the future additional material weaknesses will not exist or otherwise be discovered. Any of these occurrences could adversely affect our business and operating results and could generate negative market reactions, potentially leading to a decline in the price of our shares, ADSs and debt securities.

Ongoing SEC and DoJ investigations regarding the possibility of non-compliance with the U.S. Foreign Corrupt Practices Act could adversely affect us. Violations of this or other laws may require us to pay fines and expose us and our employees to criminal sanctions and civil suits.

In November 2014, we received a subpoena from the SEC requesting certain documents and information about us relating to, among other things, the Lava Jato investigation and any allegations regarding a violation of the U.S. Foreign Corrupt Practices Act. The DoJ is conducting a similar inquiry, and we are voluntarily cooperating with both investigations. The internal investigation and related government inquiries concerning these matters remain ongoing, and it is still not possible to estimate the duration, scope or results of the internal investigation or related inquiries by relevant authorities. While we are cooperating fully with both investigations, adverse developments in connection with these investigations, including any expansion of the scope of the investigations, could negatively impact us and could divert the efforts and attention of our management team from our ordinary business operations. In connection with any SEC or DoJ investigation or any other investigation carried out by any other authority, there can be no assurance that we will not be required to pay penalties or provide other financial relief, or consent to injunctions or orders on future conduct or suffer other penalties, any of which could have a material adverse effect on us. See "Item 8. -Financial Information—Legal Proceedings."

Our methodology to estimate the overpayments incorrectly capitalized, uncovered in the context of the Lava Jato investigation, involves some degree of uncertainty. If substantive additional information comes to light in the future that would make our estimate for the overstatements of our assets appear, in retrospect, to have been materially underestimated or overestimated, this could require a restatement of our financial statements and may have a material adverse effect on our results of operations and financial condition and affect the market value of our securities.

As a result of the findings of the Lava Jato investigation, in the third quarter of 2014, we wrote off US\$2,527 million of capitalized costs representing amounts that Petrobras overpaid for the acquisition of property, plant and equipment in prior years.

Beginning in 2014, and over the course of 2015, the Brazilian Federal Prosecutor's Office focused part of its investigation on irregularities involving our contractors and suppliers and uncovered a broad payment scheme that involved a wide range of participants, including former Petrobras personnel. Based on the information available to us, the payment scheme involved a group of companies that, between 2004 and April 2012, colluded to obtain contracts with us, overcharging us under those contracts and using the overpayment received under the contracts to fund improper payments to political parties, elected officials or other public officials, individual contractor personnel, former Petrobras personnel and other individuals involved in the payment scheme. In addition to the payment scheme, the investigations identified several specific instances of other contractors and suppliers that allegedly overcharged Petrobras and used the overpayment received from their contracts with us to fund improper payments, unrelated to the payment scheme, to certain former Petrobras personnel. See Note 3 to our audited consolidated financial statements for further information about the Lava Jato investigation, the overpayments charged by certain contractors and suppliers to Petrobras and our methodology to estimate the overstatement of our assets.

We concluded that a portion of our costs incurred to build property, plant and equipment that resulted from contractors and suppliers in the cartel overcharging us to make improper payments should not have been capitalized in our historical costs of property, plant and equipment. As it is impracticable to identify the specific periods and amounts for the overpayments made by us, we considered all the available information to determine the impact of the overpayments charged to us. As a result, to account for these overpayments, we developed a methodology to estimate the aggregate amount that we overpaid under the payment scheme, in order to determine the amount of the write-off representing the overstatement of our assets resulting from overpayments used to fund improper payments.

The Lava Jato investigation is still ongoing and it could be a significant amount of time before the Brazilian federal prosecutors conclude their investigation. As a result of this investigation, substantive additional information might come to light in the future that would make our estimate for overpayments appear, in retrospect, to have been materially low or high, which may require us to restate our financial statements to further adjust the write-offs representing the overstatement of our assets recognized in our interim consolidated financial statements for the nine-month period ended September 30, 2014.

We believe that we have used the most appropriate methodology and assumptions to determine the amounts of overpayments incorrectly capitalized based on the information available to us, but our estimation methodology involves some degree of uncertainty. There can be no assurance that the write-offs representing the overstatement of our assets, determined using our estimation methodology, and recognized in our interim consolidated financial statements for the nine-month period ended September 30, 2014, are not underestimated or overestimated. In the event that we are required to write-off additional historical costs from our property, plant and equipment or to reverse write-offs previously recognized in our financial statements, this might impact the total value of our assets and we may be subject to negative publicity, credit rating downgrades, or other negative material events, which may have a material adverse effect on our results of operations and financial condition and affect the market value of our securities.

Risks Relating to Our Relationship with the Brazilian Federal Government

The Brazilian federal government, as our controlling shareholder, may pursue certain macroeconomic and social objectives through us that may have a material adverse effect on us.

As our controlling shareholder, the Brazilian federal government may pursue certain of its macroeconomic and social objectives through us. Brazilian law requires that the Brazilian federal government own a majority of our voting stock, and so long as it does, the Brazilian federal government will have the power to elect a majority of the members of our board of directors and, through them, a majority of the executive officers who are responsible for our day-to-day management. As a result, we may engage in activities that give preference to the objectives of the Brazilian federal government rather than to our own economic and business objectives.

Accordingly, we may make investments, incur costs and engage in sales with parties or on terms that may have an adverse effect on our results of operations and financial condition. In particular, we continue to assist the Brazilian federal government in ensuring that the supply and pricing of crude oil and oil products in Brazil meets Brazilian consumption requirements. Prior to January 2002, prices for crude oil and oil products were regulated by the Brazilian federal government, occasionally set below prices prevailing in the world oil markets. We cannot assure you that price controls will not be reinstated in Brazil.

Our investment budget is subject to approval by the Brazilian federal government, and failure to obtain approval of our planned investments could adversely affect our results of operations and financial condition.

The Brazilian federal government maintains control over our investment budget and establishes limits on our investments and long-term debt. As a state-controlled entity, we must submit our proposed annual budgets to the MPBM and the MME. Following review by these governmental authorities, the Brazilian Congress must approve our budget. Our approved budget may reduce or alter our proposed investments and incurrence of new debt, and we may be unable to obtain financing that does not require Brazilian federal government approval. As a result, we may not be able to make all the investments we envision, including those we have agreed to make to expand and develop our crude oil and natural gas fields, which may adversely affect our results of operations and financial condition.

Risks Relating to Brazil

Brazilian political and economic conditions and investor perception of these conditions have a direct impact on our business and our access to capital, and may have a material adverse effect on us.

The Brazilian federal government's economic policies may have important effects on Brazilian companies, including us, and on market conditions and prices of Brazilian securities. Our financial condition and results of operations may be adversely affected by the following factors and the Brazilian federal government's response to these factors:

- exchange rate movements and volatility;
- inflation;
- financing of government fiscal deficits;
- price instability;
- interest rates;
- liquidity of domestic capital and lending markets;

- tax policy;
- regulatory policy for the oil and gas industry, including pricing policy;
- allegations of corruption against political parties, elected officials or other public officials, including allegations made in relation to the Lava Jato investigation; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement changes in policy or regulations that may affect any of the factors mentioned above or other factors in the future may lead to economic uncertainty in Brazil and increase the volatility of the Brazilian securities market and securities issued abroad by Brazilian companies, which may have a material adverse effect on our results of operations and financial condition.

Historically, the country's political scenario has influenced the performance of the Brazilian economy and political crises have affected the confidence of investors and the general public, which resulted in economic downturn and heightened volatility in the securities issued abroad by Brazilian companies. Currently, Brazilian markets are experiencing heightened volatility attributable to (i) Brazil's loss of its investment-grade credit rating, (ii) political uncertainty and instability (as result of, among other factors, the ongoing impeachment proceeding against the President of Brazil) and (iii) the uncertainties derived from the ongoing Lava Jato investigation and its impacts on the Brazilian economy and political environment. Although Brazilian authorities have publicly described Petrobras as a victim of the alleged illegal conduct identified during the Lava Jato investigation, at this stage of the investigation, any developments in the Lava Jato investigation (foreseeable and unforeseeable) could have a material adverse effect on the Brazilian economy and on our results of operations and financial condition.

Additionally, since 2011, Brazil has been experiencing an economic slowdown culminating in a Gross Domestic Product, or GDP, decrease of 3.8% in 2015. GDP growth rates were, 0.1% in 2014, 2.7% in 2013, 1.8% in 2012 and 3.9% in 2011. Our results of operations and financial condition have been, and will continue to be, affected by the growth rate of GDP in Brazil because a substantial portion of our oil products are sold in Brazil. We cannot ensure that GDP will increase or remain stable in the future. Future developments in the Brazilian economy may affect Brazil's growth rates and, consequently, the consumption of our oil products. As a result, these developments could impair our results of operations and financial condition.

Allegations of political corruption against the Brazilian federal government and the Brazilian legislative branch could create economic and political instability.

In the past, members of the Brazilian federal government and the Brazilian legislative branch have faced allegations of political corruption. As a result, a number of politicians, including senior federal officials and congressmen, resigned or have been arrested. Currently, elected officials and other public officials in Brazil are being investigated for allegations of unethical and illegal conduct identified during the Lava Jato investigation being conducted by the Office of the Brazilian Federal Prosecutor. The potential outcome of these investigations is unknown, but they have already had an adverse impact on the image and reputation of the implicated companies (including Petrobras), in addition to the adverse impact on general market perception of the Brazilian economy. These proceedings, their conclusions or further allegations of illicit conduct could have additional adverse effects on the Brazilian economy. We cannot predict whether such allegations will lead to further instability or whether new allegations against Brazilian government officials will arise in the future. In addition, we cannot predict the outcome of any such allegations nor their effect on the Brazilian economy.

Inflation, and the Brazilian government's measures to combat inflation, may contribute significantly to economic uncertainty in Brazil, and may have a material adverse effect on us.

Brazil has historically experienced high rates of inflation, particularly prior to 1995. Inflation, as well as government efforts to combat inflation, had significant negative effects on the Brazilian economy. More recently, inflation rates were 10.67% in 2015, 6.41% in 2014 and 5.91% in 2013, as measured by the IPCA, the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), compiled by IBGE (Brazilian Institute of Geography and Statistics).

Brazil may experience high levels of inflation in the future. The Brazilian government may introduce policies to reduce inflationary pressures, which could have the effect of reducing the overall performance of the Brazilian economy. Some of these policies may have an effect on our ability to access foreign capital or reduce our ability to execute our future business and management plans, particularly for those projects that rely on foreign partners.

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high real interest rates. These policies have contributed to limiting the size and attractiveness of the local debt markets, requiring borrowers like us to seek foreign currency funding in the international capital markets. To the extent that there is economic uncertainty in Brazil, which weakens our ability to obtain external financing on favorable terms, the local Brazilian market may be insufficient to meet our financing needs, which in turn may have a material adverse effect on us.

Risks Relating to Our Equity and Debt Securities

The size, volatility, liquidity or regulation of the Brazilian securities markets may curb the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs.

Petrobras shares are among the most liquid traded on the São Paulo Stock Exchange, or BM&FBOVESPA, but overall, the Brazilian securities markets are smaller, more volatile and less liquid than the major securities markets in the United States and other jurisdictions, and may be regulated differently from the way in which U.S. investors are accustomed. Factors that may specifically affect the Brazilian equity markets may limit the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs at the price and time they desire.

The market for PGF's debt securities may not be liquid.

Some of PGF's notes are not listed on any securities exchange and are not quoted through an automated quotation system. Most of PGF's notes are currently listed both on the New York Stock Exchange and the Luxembourg Stock Exchange and trade on the NYSE Euronext and Euro MTF market, respectively, although most trading in PGF's notes occurs over-the-counter. PGF can issue new notes that can be listed in markets other than the New York Stock Exchange and the Luxembourg Stock Exchange and traded in markets other than the NYSE Euronext and the Euro MTF market. We can make no assurance as to the liquidity of or trading markets for PGF's notes. We cannot guarantee that the holders of PGF's notes will be able to sell their notes in the future. If a market for PGF's notes does not develop, holders of PGF's notes may not be able to resell the notes for an extended period of time, if at all.

Holders of our ADSs may be unable to exercise preemptive rights with respect to the common or preferred shares underlying the ADSs.

Holders of ADSs who are residents of the United States may not be able to exercise the preemptive rights relating to the common or preferred shares underlying our ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the common or preferred shares relating to these preemptive rights, and therefore we may not file any such registration statement. If a registration statement is not filed and an exemption from registration does not exist, The Bank of New York Mellon, as depositary, will attempt to sell the preemptive rights, and holders of ADSs will be entitled to receive the proceeds of the sale. However, the preemptive rights will expire if the depositary cannot sell them. For a more complete description of preemptive rights with respect to the common or preferred shares, see Item 10. "Additional Information—Memorandum and Articles of Incorporation—Preemptive Rights."

If holders of our ADSs exchange their ADSs for common or preferred shares, they risk losing the ability to timely remit foreign currency abroad and forfeiting Brazilian tax advantages.

The Brazilian custodian for our common or preferred shares underlying our ADSs must obtain a certificate of registration from the Central Bank of Brazil to be entitled to remit U.S. dollars abroad for payments of dividends and other distributions relating to our preferred and common shares or upon the disposition of the common or preferred shares. Such remittances under an ADR program are subject to a specific tax treatment in Brazil that may be more favorable to a foreign investor if compared to remitting gains originated from securities directly acquired by the investor in the Brazilian regulated stock markets. Therefore, an investor who opts to exchange ADSs for the underlying common or preferred share may be subject to less favorable tax treatment on gains with respect to these investments.

The conversion of ADSs directly into ownership of the underlying common or preferred shares is governed by CMN Resolution No. 4,373 and foreign investors who intend to do so are required to appoint a representative in Brazil for the purposes of Annex I of CMN Resolution No. 4,373, who will be in charge for keeping and updating the investors' certificates of registrations with the Central Bank of Brazil, which entitles registered foreign investors to buy and sell directly on the BM&FBOVESPA. Such arrangements may require additional expenses from the foreign investor. Moreover, if such representatives fail to obtain or update the relevant certificates of registration, investors may incur in additional expenses or be subject to operational delays which could affect their ability to receive dividends or distributions relating to the common or preferred shares or the return of their capital in a timely manner.

The custodian's certificate of registration or any foreign capital registration directly obtained by such holders may be affected by future legislative or regulatory changes, and we cannot assure such holders that additional restrictions applicable to them, the disposition of the underlying common or preferred shares, or the repatriation of the proceeds from the process will not be imposed in the future.

Holders of our ADSs may face difficulties in protecting their interests.

Our corporate affairs are governed by our bylaws and Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or elsewhere outside Brazil. In addition, the rights of an ADS holder, which are derivative of the rights of holders of our common or preferred shares, as the case may be, to protect their interests against actions by our board of directors are different under Brazilian Corporate Law than under the laws of other jurisdictions. Rules against insider trading and self-dealing and the preservation of shareholder interests may also be different in Brazil than in the United States. In addition, the structure of a class action in Brazil is different from that in the US, and under Brazilian law, shareholders in Brazilian companies do not have standing to bring a class action, and under Petrobras's by-laws must, generally with respect to disputes concerning rules regarding the operation of the capital markets, arbitrate any such disputes. See Item 10. "Additional Information—Memorandum and Articles of Incorporation—Dispute Resolution."

We are a state-controlled company organized under the laws of Brazil, and all of our directors and officers reside in Brazil. Substantially all of our assets and those of our directors and officers are located in Brazil. As a result, it may not be possible for holders of ADSs to effect service of process upon us or our directors and officers within the United States or other jurisdictions outside Brazil or to enforce against us or our directors and officers judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain requirements are met, holders of ADSs may face greater difficulties in protecting their interest in actions against us or our directors and officers than would shareholders of a corporation incorporated in a state or other jurisdiction of the United States.

Holders of our ADSs do not have the same voting rights as our shareholders. In addition, holders of ADSs representing preferred shares do not have voting rights.

Holders of our ADSs do not have the same voting rights as holders of our shares. Holders of our ADSs are entitled to the contractual rights set forth for their benefit under the deposit agreements. ADS holders exercise voting rights by providing instructions to the depository, as opposed to attending shareholders meetings or voting by other means available to shareholders. In practice, the ability of a holder of ADSs to instruct the depository as to voting will depend on the timing and procedures for providing instructions to the depository, either directly or through the holder's custodian and clearing system.

In addition, a portion of our ADSs represents our preferred shares. Under Brazilian law and our bylaws, holders of preferred shares do not have the right to vote in shareholders' meetings. This means, among other things, that holders of ADSs representing preferred shares are not entitled to vote on important corporate transactions or decisions. See Item 10. "Additional Information—Memorandum and Articles of Incorporation—Voting Rights."

We would be required to pay judgments of Brazilian courts enforcing our obligations under the guaranty relating to PGF's notes only in reais.

If proceedings were brought in Brazil seeking to enforce our obligations in respect of the guaranty relating to PGF's notes, we would be required to discharge our obligations only in *reais*. Under Brazilian exchange controls, an obligation to pay amounts denominated in a currency other than *reais*, which is payable in Brazil pursuant to a decision of a Brazilian court, may be satisfied in *reais* at the rate of exchange, as determined by the Central Bank of Brazil, in effect on the date of payment.

A finding that we are subject to U.S. bankruptcy laws and that the guaranty executed by us was a fraudulent conveyance could result in PGF noteholders losing their legal claim against us.

PGF's obligation to make payments on the PGF notes is supported by our obligation under the corresponding guaranty. We have been advised by our external U.S. counsel that the guaranty is valid and enforceable in accordance with the laws of the State of New York and the United States. In addition, we have been advised by our general counsel that the laws of Brazil do not prevent the guaranty from being valid, binding and enforceable against us in accordance with its terms. In the event that U.S. federal fraudulent conveyance or similar laws are applied to the guaranty, and we, at the time we entered into the relevant guaranty:

- were or are insolvent or rendered insolvent by reason of our entry into such guaranty;
- were or are engaged in business or transactions for which the assets remaining with us constituted unreasonably small capital;
or
- intended to incur or incurred, or believed or believe that we would incur, debts beyond our ability to pay such debts as they mature; and
- in each case, intended to receive or received less than reasonably equivalent value or fair consideration therefor,

then our obligations under the guaranty could be avoided, or claims with respect to that agreement could be subordinated to the claims of other creditors. Among other things, a legal challenge to the guaranty on fraudulent conveyance grounds may focus on the benefits, if any, realized by us as a result of the issuance of the PGF notes. To the extent that the guaranty is held to be a fraudulent conveyance or unenforceable for any other reason, the holders of the PGF notes would not have a claim against us under the relevant guaranty and would solely have a claim against PGF. We cannot ensure that, after providing for all prior claims, there will be sufficient assets to satisfy the claims of the PGF noteholders relating to any avoided portion of the guaranty.

Holders resident in the European Union may not receive payment of gross-up amounts for withholding pursuant to the European Council Directive 2014/107 on the taxation of savings income.

Austria has opted out of certain exchange of information provisions of the European Council Directive 2003/48/EC on the taxation of savings income (which opt out has been confirmed by current applicable European Council Directive 2014/107 (the Directive) after repeal of Directive 2003/48/EC) and is instead, during a transitional period, applying a withholding tax on payments of interest, at a rate of up to 35%, made by a paying agent within Austria to, or collected by such a paying agent for, an individual beneficial owner resident in other member states of the European Union (EU Member States) or to certain limited types of entities established in other Member States unless the beneficial owner of the interest payments opts for exchange of information as required under the Directive. Neither we nor the paying agent (nor any other person) would be required to pay additional amounts in respect of the notes as a result of the imposition of such withholding tax by Austria. For more information, see Item 10. "Additional Information—Taxation Relating to PGF's Notes—European Union Council Directive 2014/107." An investor should consult a tax adviser to determine the tax consequences of holding PGF's notes for such investor.

Item 4. Information on the Company

History and Development

Petróleo Brasileiro S.A.—Petrobras was incorporated in 1953 as the exclusive agent to conduct the Brazilian federal government’s hydrocarbon activities. We began operations in 1954 and since then have been carrying out crude oil and natural gas production and refining activities in Brazil on behalf of the government. As of December 31, 2015, the Brazilian federal government owned 28.67% of our outstanding capital stock and 50.26% of our voting shares. See Item 7. “Major Shareholders and Related Party Transactions—Major Shareholders.” Our common and preferred shares have been traded on the BM&FBOVESPA since 1968 and on the NYSE in the form of ADSs since 2000.

We lost our exclusive right to carry out oil and gas activities in Brazil when the Brazilian Congress amended the Brazilian Constitution, and subsequently passed Law No. 9,478/1997 in 1997. Enacted as part of a comprehensive reform of the oil and gas regulatory system, this law authorized the Brazilian federal government to contract with any state or privately-owned company to carry out all activities related to oil, natural gas and their respective products. This new law established a concession-based regulatory framework, ended our exclusive right to carry out oil and gas activities, and allowed open competition in all aspects of the oil and gas industry in Brazil. The law also created an independent regulatory agency, the ANP, to regulate the oil, natural gas and renewable fuel industry in Brazil and to create a competitive environment in the oil and gas sector. See Item 4. “Information on the Company—Regulation of the Oil and Gas Industry in Brazil—Price Regulation.”

Following the discovery of large pre-salt reservoirs offshore Brazil, Congress passed in 2010 additional laws intended to regulate exploration and production activities in the pre-salt area, as well as other potentially strategic areas not already under concession. Under these new laws, we acquired from the Brazilian federal government through an Assignment Agreement the right to explore and produce up to five bnboe of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas. Additionally, on December 2, 2013, based on these laws enacted in 2010, we executed our first agreement with the Brazilian federal government under a production sharing regime for the Libra field. Under the law governing production sharing regime for the pre-salt area, we are currently required to be operator, with a minimum 30% participation. See Item 4. “Information on the Company—Regulation of the Oil and Gas Industry in Brazil”, Item 10. “Additional Information—Material Contracts—Assignment Agreement” and Item 10. “Additional Information—Material Contracts—Production Sharing Agreement.”

We operate through subsidiaries, joint ventures, joint operations and associated companies established in Brazil and many other countries. Our principal executive office is located at Avenida República do Chile 65, 20031-912 Rio de Janeiro, RJ, Brazil, our telephone number is (55-21) 3224-4477 and our web-site is www.petrobras.com.br. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this annual report.

Overview of the Group

We are one of the world’s largest integrated oil and gas companies, operating principally in Brazil where we are the dominant participant. As a result of our legacy as Brazil’s former sole producer and supplier of crude oil and oil products and our strong and continuous commitment to find and develop oil fields in Brazil, we have a large base of proved reserves and operate and produce most of Brazil’s oil and gas production. In 2015, our average domestic daily oil production was 2,128 mbbl/d, which represents more than 90% of Brazil’s total oil production. Most of our domestic proved reserves are located in the adjacent offshore Campos and Santos Basins in southeast Brazil. Their proximity allows us to optimize our infrastructure and limit our costs of development and production for our new discoveries. Additionally, we have developed special expertise in deep water exploration and production from 47 years of developing Brazil’s offshore basins. We are applying the technical expertise we gained through developing the Campos Basin to the Santos Basin, which is expected to be the principal source of our future growth in proved reserves and oil production.