

RISK FACTORS

Risks Relating to Our Operations

We are exposed to risks of health, environment and safety in our operations, which may lead to accidents, significant losses, administrative proceedings and legal liabilities.

Some of our main activities, operated by us or our partners, present risks capable of leading to accidents, such as oil spills, product leaks, fires and explosions. In particular, deepwater and ultra-deepwater activities present various risks, such as oil spills and explosions in drilling or production units. These events may occur due to technical failures, human errors or natural events, among other factors. The occurrence of one of these events, or other related incidents, may result in various damages such as death, serious environmental damage and related expenses (including, for example, cleaning and repairing expenses), may have an impact on the health of our workforce or on communities, and may cause environmental or property damage, loss of production, financial losses and, in certain circumstances, judicial liability in civil, labor, criminal and administrative lawsuits. As a consequence, we may incur expenses to repair or remediate damages caused. Further, we may face difficulties in obtaining or maintaining operating licenses and may suffer damages to our reputation.

Our insurance policies do not cover all types of risks and liabilities associated with our activities. There can be no guarantee that incidents will not occur in the future, that there will be insurance to cover the damages or that we will not be held responsible for these events, all of which may negatively impact our results. See Item 4. "Information on the Company—Health, Safety and Environmental Initiatives" and "—Insurance", as well as Note 33.7 to our audited consolidated financial statements for further information.

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. We are susceptible to the risks of performance, product quality and financial condition of our key suppliers, vendors and service providers. 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.

In connection with the Lava Jato investigation, we temporarily suspended the ability of a number of companies to participate as suppliers and contractors in future bids for new contracts and services with us, a number of whom have historically acted as key suppliers, vendors and service providers for our major projects. There can be no assurance that all of these companies will be permitted to participate in our future 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, and we are also susceptible to the risk that future circumstances will require us to impose further suspensions, which could affect the successful and timely delivery of our future projects, and consequently our results of operations and financial condition. See Note 3 to our audited consolidated financial statements for further information about the Lava Jato investigation.

We are also subject to Brazilian local content requirements arising out of our concession agreements, the Assignment Agreement and the Libra Production Sharing Agreement. For further information on local content requirement, see Item 10. "Additional Information—Material Contracts—Brazilian Content." 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, due to the Lava Jato investigations, 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.

In addition, there are risks relating to our ability to contract efficiently enough to meet our needs, in light of the significant change promulgated by a recently issued law (Law No. 13,303/2016). The new law contains new guidelines, rules and procedures for bidding, which will have broad and systemic impacts. We have until June 30, 2018 to comply with the new legislation, with respect to bids and contracts, as well as governance.

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 disputes. 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", Item 4. "Information of the Company—Insurance" and Note 33.7 to our audited consolidated financial statements. 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.

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. 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. For further information on this program, see Item 6. "Directors, Senior Management and Employees—Employees and Labor Relations—Voluntary Separation Incentive Program—PIDV." If the voluntary separation incentive program is successfully implemented, and we are unable to timely replace the key skilled personnel that decide to enroll in such program, there could be an adverse effect on our results of operations and our business. 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.

The mobilization and demobilization of our employees as a result of our partnership and divestment program may adversely affect the results of our business and operations.

Our 2017-2021 Plan includes, among other initiatives, a divestment program that contemplates partnerships and the sale of approximately US\$21 billion in assets during the period 2017-2018, with the goal of improving our short-term liquidity position and allowing us to deleverage. For further information on our divestments, see Item 4. "Information on the Company - Overview of the Group." Many of the assets that we have sold, or expect to sell, utilize our employees, that could be relocated to other areas and projects and we may have to train these employees to perform other tasks. Potential difficulties could arise from the need to relocate portions of our employees related to these assets and may generate additional costs, judicial inquiries related to labor lawsuits, strikes and may negatively impact our reputation.

Failures in our information technology systems, information security (cybersecurity) systems and telecommunications systems and services can adversely impact our operations and reputation.

Our operations are heavily dependent on information technology and telecommunication systems and services. Interruptions in these systems, caused by obsolescence, technical failures or intentional acts, can disrupt or even paralyze our business and adversely impact our operations and reputation. In addition, security failures related to sensitive information due to intentional or unintentional actions, such as cyberterrorism, or internal actions, including negligence or misconduct of our employees, may have a negative impact on our reputation, our relationship with external entities (government, regulators, partners and suppliers, among others), our strategic positioning with relation to our competitors, and our results, due to the leakage of information or unauthorized use of such information.

Financial Risks

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.

We have incurred a substantial amount of debt in order to finance the capital expenditures needed to meet our long-term objectives, 65% of which (principal), or US\$75 billion, will mature in the next five years. For more information about our debt, see Item 5. "Operating and Financial Review and Prospects-Liquidity and Capital Resources." Since our operating cash flow may be insufficient to finance both our planned investments and the principal and interest obligations under the terms of our debt, any difficulty in raising significant amounts of debt capital in the future may impact our results of operations and the ability to fulfill our business plan.

We lost our Moody's, S&P and Fitch investment grade ratings for all of our credit ratings between 2015 and 2016. In May 2016, Fitch revised our corporate debt rating from BB+ to BB, with negative outlook. This review followed the change in the sovereign rating of Brazil, announced on May 5, 2016. In October 2016, Moody's upgraded our rating from B3 to B2, and changed the outlook from negative to stable. In April 2017, Moody's upgraded our rating again from B2 to B1 and changed the outlook from stable to positive.

However, our Moody's, S&P and Fitch ratings have fluctuated substantially over the past two years, as a result of concerns expressed by the rating agencies 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, due to a less liquid market for our debt and equity securities, or may impact our cost of financing, also making it more difficult or costly to refinance maturing obligations. The impact on our ability to obtain financing and the cost of financing may adversely affect our results of operations and financial condition.

In addition, despite the fact that the Brazilian federal government (as our controlling shareholder) is not responsible or liable for any of our liabilities, any further lowering of the Brazilian federal government's credit ratings may have additional adverse consequences on our ability to obtain financing or the cost of our 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, 2016, approximately 79.5% of our financial debt was denominated in currencies other than the real (71.9% 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. See Item 5. "Operating and Financial Review and Prospects—Inflation and Exchange Rate Variation—Exchange Rate Variation" for further information.

Foreign exchange variations may have an immediate impact on our reported income, except for a portion of our obligations denominated in U.S. dollars that are designated as hedging instruments in cash flow hedging relationships. According to our cash flow hedge accounting policy, hedging relationships are designated for the existing natural hedge between our U.S. dollar denominated future exports that are considered to be highly probable (hedged item) and U.S. dollar denominated financial debt (hedging instruments). See Item 5. "Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates" for further information.

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 a substantial amount of debt maturing during the next five years, a portion of which may be refinanced by issuing new debt. To the extent we refinance our maturing obligations with newly contracted debt, we may incur additional interest expense.

As of December 31, 2016, approximately 54.2% 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 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. For further information on Petros and AMS, see Item 6. "Directors, Senior Management and Employees—Employees and Labor Relations—Pension and Health Care Plan" and Item 5. "Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates—Pension and other post-retirement benefits."

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, in which case extraordinary contributions from us, as sponsor, and our employees, may be required.

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.

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 example, as of December 31, 2016, certain subsidiaries of Centrais Elétricas Brasileiras S.A. – Eletrobras owed us approximately US\$4.9 million under energy supply agreements. In 2016 and 2015, we recognized an allowance for impairment of trade receivables from the isolated electricity sector in the Northern region of Brazil amounting to approximately US\$0.3 billion and US\$0.8 billion, respectively, mostly to cover certain trade receivables due by Eletrobras’s subsidiaries. For further information on our trade receivable in the electricity sector, 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. This 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.

We may have difficulty fulfilling cash call requests by our partners in projects where we are not the operators.

We enter into partnerships in the course of our business in all of our segments, particularly in the upstream segment. In some of these partnerships, we are not the operator, and therefore, we have limited control over certain business decisions, including those related to cash calls. In the future, we could be asked to provide resources in connection with unplanned cash calls. These cash calls can negatively impact our short-term financial planning and may result in the increase of our capital costs in order to allocate additional financial resources to pay for these cash applications.

Compliance, Legal and Regulatory Risks

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

In the past, some of our contractors have engaged in fraudulent activities, incompatible with our ethics and compliance standards. Although we have adopted measures to identify, monitor and remediate such actions, 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.

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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. For further information on our Code of Ethics, see Item 16B. "Code of Ethics." 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."

It is difficult for us to ensure that all of our employees and contractors, totaling over 186,000, 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, 2016, 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 2016. For further information on the material weaknesses identified by our management, see Item 15. "Controls and Procedures–Management Report on Internal Control over Financial Reporting." 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, 2016. A number of our current material weaknesses in our internal control over financial reporting were identified and reported by management at December 31, 2014 and 2015. 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.

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. It is also possible that further information damaging to us and our interests will come to light in the course of the ongoing investigations of corruption by Brazilian authorities. 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. See Note 3 to our audited consolidated financial statements and Item 5. "Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates—Estimation Methodology for Determining Write-Off for Overpayments Incorrectly Capitalized" 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. For more information, see Item 5. "Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates—Write-off -for overpayments incorrectly capitalized" and note 3 to our audited consolidated financial statements.

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

We are currently 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 our 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.

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

We are subject to a number of civil proceedings relating 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 and numerous individual actions. See Item 8. “Financial Information–Legal Proceedings” and Note 30.4 to our audited consolidated financial statements for a description of the U.S. securities class action litigation and other civil proceedings. As detailed in Item 8. “Financial Information–Legal Proceedings” and Note 30.4 to our audited consolidated financial statements, our Board of Directors has approved agreements to settle several of the individual actions, and we provisioned US\$ 372 million in 2016 to reflect the settlements reached and the status of certain other individual actions. Because these actions involve highly complex issues that are subject to substantial uncertainties and depend on a number of factors, the possible loss or range of losses, if any, arising from the class action lawsuit or remaining individual actions cannot be estimated and consequently we have made no provisions with respect to these litigations. In the event that these litigations are 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 litigations could also result in restrictions on our operations and have a material adverse effect on our business. We have engaged a U.S. firm as legal counsel and intend 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. It is also possible that further information damaging to us and our interests will come to light in the course of the ongoing investigations of corruption by Brazilian authorities. 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.

Additional information regarding the Lava Jato or other investigations may be damaging to us and our interests, and may generate instability in the political environment.

On April 11, 2017, the Brazilian Supreme Court made public the content of part of the plea bargain statements by executives of Odebrecht, a construction company involved in the Lava Jato investigation. These statements allege the involvement of several politicians, political parties and some of our former executives in activities that comprise part of the Lava Jato investigation.

The unfolding of investigations related to Odebrecht and the emergence of new plea bargain statements or testimony by other individuals or companies related to the Lava Jato or other investigations, may lead to the discovery, and potential confirmation, of information that would be damaging to us and our interests, and may generate instability in the political environment. For further information, see Item 8. "Financial Information – Legal Proceedings – Lava Jato Investigation."

We may have to restate our financial statements as a result of the CVM's analysis of our hedge accounting practices.

In accordance with our risk management policy for foreign exchange risks, which states that we shall benefit from the diversification of our businesses to seek natural hedges (offsetting positions), we have been applying "cash flow hedge accounting" since May 2013, to account for the existing natural hedge between our U.S. dollar-denominated long-term debt obligations (hedging instrument) and our highly probable U.S. dollar-denominated future export revenues (hedged item). In this case, the nature of the hedged risk is the foreign currency *real* vs. U.S. dollar spot rate.

The adoption of hedge accounting is optional, and in applying it we have complied with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" and the requirements of the corresponding Brazilian accounting standard, CPC 38. According to these requirements, foreign exchange gains and losses associated with the hedging instrument (debt obligations) are recorded as gains or losses under other comprehensive income in shareholders' equity. Such gains and losses are recycled to our statement of income when the corresponding export revenue is recognized.

If future exports, for which a hedging relationship has been designated, are no longer highly probable but are still expected to occur, we revoke the designation, and the unrealized cumulative foreign exchange gains or losses remain recognized under other comprehensive income and are recycled to our statement of income when the corresponding export revenue is recognized. If future exports, for which a hedging relationship has been designated, are no longer expected to occur, any related gains or losses are immediately recycled from shareholders' equity to our statement of income.

In July 2013, the Department of Public Company Supervision ("SEP"), a technical office of the CVM, commenced an analysis in connection with our hedge accounting practices. As a result of this analysis, on March 3, 2017, SEP issued an official communication that required us to restate our financial statements for all periods since we began to apply our cash flow hedge accounting practices. We appealed to the Board of Commissioners of the CVM against the decision, and the effects of the SEP's order are currently suspended.

Depending on the outcome of our appeal, we may be required to restate our financial statements for the periods indicated, and cease or modify our cash flow hedge accounting practices going forward. The estimated impacts for the fiscal years 2016, 2015, 2014 and 2013 if we are required to restate our financial statements are set out in Item 5. Operating and Financial Review and Prospects–Critical Accounting Policies and Estimates–Cash Flow Hedge Accounting Involving our Future Exports. If we only cease our cash flow hedge accounting practice prospectively, the cumulative foreign exchange rate variation gains or losses in our shareholder's equity will be recycled to our statement of income in future periods, pursuant to the schedule set out in note 33.2 to our audited consolidated financial statements. In addition, in case we cease our cash flow hedge accounting practice, the effect of prospective exchange rate changes on our U.S. dollar-denominated long-term debt obligations would be immediately recognized as finance income or expense in our consolidated statement of income, instead of being recognized in our shareholders' equity and recycled to profit or loss when the future export revenues occur.

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For more information on our hedge accounting practices and their effect on our financial statements, see “Item 5. Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates—Cash Flow Hedge Accounting Involving our Future Exports” and notes 4.3.6, 5.8 and 33.2 and the Consolidated Statement of Comprehensive Income to our audited consolidated financial statements.

In addition, if we are required to restate our financial statements, the net loss in 2016 would reverse to net income and, as a consequence, we may be required to distribute mandatory dividends in accordance with our bylaws and subject to approval by our shareholders at a shareholders’ meeting, which could materially and adversely affect our financial position and cash flow. For more information about this impact, see Item 5. “Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates.” For more information about the dividend distribution requirements applicable to us, see Item 10. “Additional Information – Mandatory Distribution.” Any restatement of our financial statements and changes to our cash flow hedge accounting practices in future periods may have a material adverse effect on our results of operations and financial condition and may affect the market value of our securities.

Differences in interpretations and new regulatory requirements by the agencies in our industry may result in our need for increased investments, expenses and operating costs, or may cause delays in production.

Our activities are subject to regulation and supervision by regulatory agencies, including the ANP, which regulates oil and gas exploration and production activities. Issues such as local content policies, procedures for the unitization of areas, definition of reference prices for the calculation of royalties and governmental participation, among others, are under the ANP’s control.

Changes in the regulation, as well as differences of interpretation between us and the agencies that regulate our industry, may have a material adverse effect on our financial condition and results of operations. On March 30, 2017, the ANP charged the consortium BM-S-11 R\$2.6 billion with respect to the Lula field, of which Petrobras is the operator, due to the ANP’s recalculation of oil prices and the portion related to the Brazilian federal government participation. For more information, see Item 8. “Financial Information – Legal Proceedings – Other Legal Proceedings.”

Any future differences in interpretation between us and these regulatory agencies may materially impact our results of operations, since such interpretations directly affect the economic and technical premises that guide our investment decisions. In particular, there is no guarantee that ANP will agree with our request for a waiver of the Brazilian content based on (i) the lack of national production of goods and services, (ii) the higher price of products and services sold by local suppliers in relation to international suppliers, or (iii) the fact that national suppliers cannot perform timely, based on our schedule. Depending on the interpretation adopted by ANP on the facts presented by us to sustain our request of waiver, our business can be materially affected.

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 regulation that may be interpreted differently over time, or that may be interpreted differently by us and Brazilian tax authorities (including the federal, state and municipal 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 face 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.

The absence of regulation for the application of Law No. 13,365/16, which provides for the exercise of our preemptive right in ANP's auctions for the blocks under the production sharing regime, may result in legal uncertainty in the bidding process, in the structuring of consortia and in our exploration activities.

In accordance with Law No. 13,365/2016, we have the option of being the operator of, and/or holding at least a 30% interest in, the exploration areas available for public bidding under the production sharing regime. As such, it is no longer mandatory for us to be the exclusive operator of exploration and production activities under this regime, including for the Pre-salt layer. Regardless of whether we exercise our preemptive right, we will also be able to participate, at our discretion, in the bidding process to increase our interest in these activities. For more information about the production sharing regime in Brazil, see Item 4. "Information on the Company-Regulation of the Oil and Gas Industry in Brazil" and Item 10. "Additional Information - Material Contracts."

Although the modifications brought by Law No. 13,365/16 seem positive to us, it is not possible, at this time, to know precisely under which conditions and in which part of the bidding rounds the preemptive right could become enforceable. As of April 2017, the regulation of this new piece of legislation has not yet been approved by the Brazilian government, which is necessary in order to avoid uncertainties during the bidding process and to clarify that we will not be obliged to undertake the conditions of the winning proposal in every possible scenario.

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

We entered into an Assignment Agreement in 2010 with the Brazilian federal government, our controlling shareholder, to obtain oil and gas exploration and production rights for specific pre-salt areas, subject to a maximum production of five billion boe. 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. However, the Assignment Agreement includes provisions for a subsequent revision of certain of its terms, including the price we paid for the rights we acquired, maximum volume, maturity and local content percentages.

Negotiations with the Brazilian federal government to revise the Assignment Agreement began in December 2013, and are still ongoing. 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.

We do not know when this negotiation will be completed, nor can we assure that the terms of this new agreement would be favorable to us, which could negatively impact our operating and financial results. See Item 4. "Information on the Company-Exploration and Production-Santos Basin-Assignment Agreement," Item 10. "Material Contracts-Assignment Agreement-Additional Production in the Assignment Agreement Areas" and Note 12.3 to our audited consolidated financial statements for further information.

Operations with related parties may not be properly identified and handled.

Generally, transactions with related parties are part of the business of large companies. For further information on our related party transactions, see Item 7. "Major Shareholders and Related Party Transactions—Related Party Transactions." Such transactions must follow market standards and generate mutual benefit. Decision processes surrounding such transactions must be objective and documented. Further, we must comply with the rules of competition and adequate disclosure of information, in accordance with the applicable legislation and as determined by the CVM and the SEC. The possible failure of our process to identify and deal with these situations may adversely affect our economic and financial condition, as well as lead to regulatory assessments by agencies.

Differing interpretations and numerous environmental, health and safety regulations and industry standards that are becoming more stringent 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. In addition, we are subject to environmental laws that require us to incur significant costs to cover any damages 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. See Item 4. "Information on the Company—Regulation of the Oil and Gas Industry in Brazil—Environmental Regulations."

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 to comply with such laws and regulations and industry standards will increase substantially in the future. 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.

Furthermore, changes in interpretation or differing interpretations as to environmental, health and safety regulations, as well as our decision to settle any claims relating to such regulations, may have a material adverse effect on our financial condition and our results of operations.

We are subject to the granting of new environmental licenses and permits or to sanctions that may result in delays in delivering some of our projects and difficulties in reaching our crude oil and natural gas production objectives.

Our activities are subject to and depend on the granting of new environmental licenses and permits by a wide variety of federal, state and local law regulators, relating to the protection of human health, safety and the environment, both in Brazil and in other jurisdictions in which we operate. As environmental, health and safety regulations become increasingly complex, it is possible that our efforts to comply with such laws and regulations will increase substantially in the future.

We cannot ensure that the planned schedules and budgets of our projects will not be affected by internal procedures of the regulatory body or that the relevant licenses and permits will be issued in a timely manner, and this could impact our crude oil and natural gas production objectives, negatively influencing our results of operations and financial condition. For example, although the production unit P-66 is currently ready to operate at the Lula Field, in the pre-salt Santos Basin, we are waiting for the applicable operating license from the environmental federal authority (IBAMA) to be issued.

We may be required by law to guarantee the supply of products or services to defaulted counterparties.

As a company controlled by the federal government and operating throughout Brazil, we may be required by the Brazilian courts to provide products and services to clients, and public and private institutions, with the purpose of guaranteeing supplies to the domestic oil market, even in situations where these clients and institutions are in default with contractual or legal obligations. Such supply in exceptional situations may adversely affect our financial position.

Risks Relating to our Strategy

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

Our 2017-2021 Plan includes, among other initiatives, a divestment program that contemplates partnerships and the sale of US\$21 billion in assets for the period 2017-2018, with the goal of improving our short-term liquidity position (by increasing our cash balance) and allowing us to deleverage. For further information on our cash flow, see Item 5. "Operating and Financial Review and Prospects—Liquidity and Capital Resources—Sources of Funds—Our Cash Flow." However, external factors, such as the sustained decline in oil prices, exchange rate fluctuations, the deterioration of Brazilian and global economic conditions, the Brazilian political crisis and judicial decisions, among other factors, may reduce or hinder sale 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.

For the period from 2015-2016, we were unable to successfully implement all of the goals of our divestment program, due to administrative and judicial decisions. If we are unable to successfully implement our divestment program, this may negatively impact our business, results of operations and financial condition, including by potentially exposing us to short and medium-term liquidity constraints. 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. For further information, see Item 8. "Financial Information - Legal Proceedings - Legal Proceedings and Preliminary Procedure on TCU - Divestments" and note 10.4 to our audited consolidated financial statements.

Many of our projects and operations are conducted in joint arrangements or associations, which may not perform as expected, negatively impacting our results.

In our 2017-2021 Plan, we plan to establish partnerships to reduce risks in exploration and production, refining, transportation, logistics, distribution and commercialization activities. In cases where we are not the operator, we have limited influence and control over the behavior, performance and costs of operation of such joint arrangements or associations. Despite not having control, we could still be exposed to the risks associated with these operations, including reputational, litigation (where joint and several liability could apply) and government sanction risks, which could have a material adverse effect on our operations, cash flow and financial condition.

For example, our partners or members of a joint arrangement or an association may not be able to meet their financial or other obligations, threatening the viability of the relevant project. Where we are the operator of a joint arrangement, the other partner(s) could still veto or block certain decisions, which could be to our overall detriment.

The selection and development of our investment projects involve risks that may affect our originally expected results of operation.

We have numerous project opportunities in our portfolio of investments. Since most projects are characterized by a long development period, we may face changes in market conditions, such as changes in prices, consumer preferences and demand profile, exchange rates, and financing conditions of projects that may jeopardize our expected rate of return on these projects.

In addition, we face specific risks for oil and gas projects. Despite our experience in the exploration and production of oil in deepwater and ultra-deepwater and the continuous development of studies during the planning stages, the quantity and quality of oil produced in a certain field will only be fully known in the phases of deployment and operation, which may require adjustments throughout the project life cycle.

In addition, we are not immune to potential risks arising from problems in contracting goods and services and in relationships with suppliers, partners, governments and local representatives. All these factors can impact our business and results of operation.

The mobilization and demobilization of our ventures may affect the expectations and dynamics of the communities where we operate, impacting our business and reputation.

Acting with social and environmental responsibility in the communities where we carry out our activities is one of our strategic goals. However, we cannot control the changes in local dynamics and the expectations of the communities where we establish our businesses. The schedule or budget of our projects may be affected, or even hindered or rendered unviable, as a result of social impacts directly and indirectly resulting from our decisions and activities, especially those related to the mobilization and demobilization of our projects, due to lawsuits, financial impacts and consequences on our reputation.

The performance of the companies that have licensed our brand may negatively impact our image and reputation.

In our 2017-2021 Plan, we plan to carry out substantial divestitures and partnerships. A number of these transactions will involve licensing agreements of our brand for future buyers and partners. Failures, errors, accidents in the performance of such partners, and improper use of our brand, among other factors, could potentially negatively impact our image and reputation.

This risk may impact us in cases where the licensed company has a contrasting position with regards to our values of respect for life, people and the environment. As a consequence, there may be situations wherein product failures and/or accidents are not properly mitigated, making our relationship with our stakeholders difficult. We cannot ensure that there will be no impact on our relationship with local governments, which could affect the granting of new environmental licenses or sanctions, and impact on our consumers, who may stop buying our products, thus affecting our image and reputation, negatively impacting us in the business environment and challenging the implementation of our strategies and achievement of our objectives.

We have assets and investments in other countries, where the political, economic and social situation may negatively impact our business.

We operate and have businesses in several countries, particularly in the Gulf of Mexico, in the U.S., in South America, in Europe, in Asia and in Africa, in areas where there may be political, economic and social instabilities. For further information on our operations abroad, see Item 4. "Information on the Company-Exploration and Production." In such regions, external factors may adversely affect the operating results and the financial condition of our subsidiaries in these countries, including: (i) the imposition of price controls; (ii) the imposition of restrictions on hydrocarbon exports; (iii) the fluctuation of local currencies against the real; (iv) nationalization of our oil and gas reserves and our assets; (v) increases in export tax and income tax rates for oil and oil products; and (vi) unilateral (governmental) and contractual institutional changes, including controls on investments and limitations on new projects.

If one or more of the risks described above occurs, we may lose part or all of our reserves in the affected country and may also fail to achieve our strategic objectives in these countries, or in our international operations as a whole, which may negatively impact our operating results and financial resources.

The ability to develop, adapt, and access new technologies is fundamental to our competitiveness.

The oil industry is characterized by a strong technological base. Development and accessibility of, and adaptability to, technological change is essential for our competitiveness. In the event some disruptive technology is introduced into the oil industry, changing performance standards, it would be important for us to have access to this technology, which may impact our competitiveness in relation to other companies.

In addition, the availability of technologies that ensure the maintenance of our reserve rates and the viability of production in an efficient manner, as well as the development of new products and processes that respond to environmental regulations and new market trends, play a key role in maintaining our long-term competitiveness. Our pre-salt operations require continuous technological development for exploration, production and continuous cost reduction, which impact our competitiveness in the market.

Climate change could impact our operating results and strategy.

Climate change poses new challenges and opportunities for our business. More stringent environmental regulations can result in the imposition of costs associated with GHG emissions, either through environmental agency requirements relating to mitigation initiatives or through other regulatory measures such as GHG emissions taxation and market creation of limitations on GHG emissions that have the potential to increase our operating costs.

The risks associated with climate change could also manifest in difficulties accessing capital due to public image issues with investors; changes in the consumer profile, with reduced consumption of fossil fuels; and energy transitions in the world economy, such as increasing electrification in urban mobility. These factors may have a negative impact on the demand for our products and services and may jeopardize or even impair the implementation and operation of our businesses, adversely impacting our operating and financial results and limiting some of our growth opportunities.

Business Risks

We are exposed to the effects of fluctuations in the prices of oil, gas and oil products.

Most of our revenue in Brazil is from sales of crude oil products and, to a lesser extent, natural gas. International prices for oil and oil products are volatile and the prices of our products are strongly influenced by conditions and expectations of world supply and demand. Volatility and uncertainty in international prices for crude oil, oil products and natural gas will most likely continue. See Item 5. "Operating and Financial Review and Prospects-Sales Volumes and Prices" for further information on the variation of oil, oil products and gas prices. Changes in oil prices usually result in changes in the prices of oil products and natural gas.

In October 2016, our board of directors approved a new diesel and gasoline pricing policy. For further information on our current pricing policy, see Item 5. "Operating and Financial Review and Prospects-Sales Volumes and Prices." Since one of the goals of our new pricing policy is to maintain fuel prices in parity with international market trends, 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 and lead to a decision to cancel or extend our projects.

In the past, we did not always adjust our prices to reflect parity with the international market trends or reflect exchange rate volatility. Our pricing policy is adapted from time to time by our management; we cannot assure you that our pricing policy will not be changed in the future. In the event our pricing policy changes based on the decisions of the Brazilian federal government, as our controlling shareholder, we may have periods in the future during which our prices for diesel and gasoline 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"). Such change in policy could have a material adverse effect on our businesses, results of operations and financial condition.

Market fluctuations, related to political instability, acts of terrorism, armed conflict and war in various regions of the world, may have a material adverse effect on our business.

Geopolitical risk factors have recently become more prominent in the world. Events such as the United Kingdom's exit from the European Union (Brexit), the increasing tension between the U.S. and other countries, the escalation of the conflict in Syria, the terrorist attacks and political movements in Europe indicate the growing possibility that new events may occur that affect, directly or indirectly, markets related to the oil industry, which could negatively impact our business and result in substantial losses.

Developments in the oil and gas industry 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 when 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.

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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, such as deterioration of risk perception and interest rates, for such projects, among other factors, may affect the original profitability estimates of our projects. For information about the impairment of certain of our assets, see Item 5. “Operating and Financial Review and Prospects—Results of Operations—2016 compared to 2015” and Item 5. “Operating and Financial Review and Prospects—Results of Operations—2015 compared to 2014”, 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.

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.

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 deepwater and ultra-deepwaters, 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. See Item 4. “Information on the Company—Exploration and Production” and “Information on the Company—Additional Reserves and Production Information,” for further information on the capital investments required for 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 deepwater and ultra-deepwaters 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.

Also, our ability to maintain our long-term objectives for oil production partially depends on conducting major projects and operations 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 a delay in, or cancellation of, such project, which could bring regulatory sanctions to the relevant joint arrangement or partnership, an increase or dilution of our interest in such project or our withdrawal from such project, any of which could have a material adverse effect on our results of operations and financial condition. 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.

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. Reserve estimates presented are based on assumptions and interpretations, which present uncertainties and contingencies that are beyond our control. If the geological and engineering data that we use to measure our reserves are not accurate, our reserves may be significantly lower than the ones currently indicated in the volume estimates of our portfolio and reported by the certification companies. Substantial 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. For further information relating to our crude oil and natural gas estimates, see Item 4. "Information on the Company—Additional Reserves and Production Information", Item 5. "Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates", "Note 5.1 and Supplementary information on Oil and Gas Exploration and Production to our audited consolidated financial statements."

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 and other agreements. For further information, see Item 4. "Information on the Company—Regulation of the Oil and Gas Industry in Brazil—Concession Regime for Oil and Gas."

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.

Risks Relating to Brazil and 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.

Our board of directors is composed of a minimum of seven and a maximum of ten members, elected at the annual general meeting for a term of up to two years, with a maximum of three consecutive reelections permitted. The majority of nominations of candidates for our board of directors depends on appointment by the federal government, our controlling shareholder.

Elections in Brazil occur every four years, and changes in elected representatives may lead to a change of the members of our board of directors appointed by the controlling shareholder, which may further impact the management of our business strategy and guidelines.

Moreover, 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 may have 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.

Fragility in the performance of the Brazilian economy, instability in the political environment, regulatory changes and investor perception of these conditions may adversely affect the results of our operations and our financial performance and may have a material adverse effect on us.

Our activities are strongly concentrated in Brazil. 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 and local content requirements;
- 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. Although Brazilian authorities have publicly described Petrobras as a victim of the alleged illegal conduct identified during the Lava Jato 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.

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 6.29% in 2016, 10.67% in 2015 and 6.41% in 2014, as measured by the IPCA, the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), compiled by IBGE. Brazil may experience high levels of inflation in the future and 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.

Additionally, since 2011, Brazil has been experiencing an economic slowdown culminating in a Gross Domestic Product, or GDP, decrease of 3.6% in 2016. GDP growth rates were -3.8% in 2015, 0.5% in 2014, 3.0% in 2013 and 1.9% in 2012 (according to the GDP review released by IBGE). 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. Such allegations may lead to further instability, or new allegations against Brazilian government officials and others may arise in the future, which could have a material adverse effect on us. We cannot predict the outcome of any such allegations nor their effect on the Brazilian economy.

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 (Multilateral Trading Facility) 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 NYSE 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 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 our 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, will be satisfied in *reais* at the rate of exchange in effect on the date of payment, as determined by the Central Bank of Brazil.

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.

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, 2016, 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. On November 29, 2016, Law No. 13.365/2016 was enacted, which no longer requires us to be the operator in this area, but provides us with a right of first refusal to do so. It is no longer mandatory for us to be the exclusive operator. 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, consolidated structured entities 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 website 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.