PETROBRAS

Rio de Janeiro, March 22, 2013

CONTABILIDADE 0010/2013

Mr. Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Proposed Amendments to IAS 28 – Equity Method: Share of Other Net Assets Changes
Reference: Exposure Draft 2012/3

Dear Sir,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the ED 2012/3 named *Equity Method: Share of Other Net Asset Changes*. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

Petrobras is a mixed joint stock corporation controlled by the Federal Brazilian Government and we perform as an energy company in the following sectors: exploration and production, refining, oil and natural gas trade and transportation, petrochemicals, electric energy, biofuels and other renewable energy source distribution. One of the major energy companies in the world, we have a presence in 25 countries and our 2013-2017 business plan foresees investments in the order of US$236.7 billion (of which US$147.5 billion will be related to our Exploration & Production activities in Brazil).

In summary, we believe the topic covered by the Exposure Draft is relevant for financial reporting worldwide and we value the Board's efforts in addressing it. However, it is our understanding that the approach adopted may be insufficient to overcome some challenging conceptual issues that surround the discussion.

We disagree with the proposal that an investor should recognize, in the investor's equity, its share of other net asset changes since these changes cannot be seen as transactions with owners, acting in their capacity as owners. Alternatives views would be Other Comprehensive Income or Profit and Loss, however, the Board has neither clarified the conceptual basis that distinct those components nor concluded on the reasons for recycling an item to Profit or Loss.

Taking into account a practical approach, it is our opinion that an investor's share of other net asset changes should be recognized in the investor's Other Comprehensive Income, without recycling to Profit or loss when the use of the equity method is discontinued.

We hope that our recommendations help the IASB in making the decisions necessary to develop and maintain principles-based standards of high quality. If you have any questions in relation to the content of this letter please do not hesitate to contact us (contabilidade@petrobras.com.br).

Respectfully yours,

/s/ Marcos Menezes
Marcos Menezes
Chief Accountant

Question 1

The IASB proposes to amend IAS 28 so that an investor should recognise in the investor's equity its share of the changes in the net assets of the investee that are not recognised in profit or loss or OCI of the investee, and that are not distributions received. Do you agree? Why or why not?

In our opinion, other changes in the net assets of an investee, as described in the exposure draft, cannot be seen as transactions with owners acting in their capacity as owners (known as capital transactions). Therefore, we do not believe that the proposed recognition approach would comply with the main objective of a recent revision of IAS 1 (IAS 1.IN2):

> IN2 The main objective of the International Accounting Standards Board in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. With this in mind, the Board considered it useful to separate changes in equity (net assets) of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. Consequently, the Board decided that all owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity.

Ultimately, we have not been able to identify the conceptual basis that could support the proposals contained in the exposure draft. Neither have we been able to produce an alternative view based on broader concepts, because the IASB has not yet clarified why some elements compose Profit or Loss while other elements belong to Other Comprehensive Income. In this sense, for practical reasons, we believe that an investor should recognize in the investor's Other Comprehensive Income its share of the other changes in the net assets of the investee.

Recognition in Other Comprehensive Income, as an alternative approach, is supported by the Board's acknowledgement that items included in Profit or Loss do not possess any unique characteristics that allow their distinction from items that are included in Other Comprehensive Income (IAS 1.BC58):

> BC58 The Board acknowledged that the items included in profit or loss do not possess any unique characteristics that allow them to be distinguished from items that are included in other comprehensive income. However, the Board and its predecessor have required some items to be recognised outside profit or loss. The Board will deliberate in the next stage of the project how items of income and expense should be presented in the statement of comprehensive income.

Question 2

The IASB also proposes that an investor shall reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method. Do you agree? Why or why not?

As stated in paragraph BC54G of IAS 1, IFRS currently does not provide the means for addressing issues regarding reclassification (recycling) of OCI items:

> BC54G Another issue on which many respondents commented was the reclassification (recycling) of OCI items. Those respondents said that in addition to addressing the conceptual basis for the split between profit or loss and OCI the Board should set principles for which OCI items should be reclassified (recycled) to profit or loss and when they should be reclassified. The Board acknowledges that it has not set out a conceptual basis for how it determines whether an item should be presented in OCI or in profit or loss. It also agrees that it has not set out principles to determine whether items should be reclassified to profit or loss. Those matters were not within the scope of this project, which focused on presentation, and therefore the Board has not addressed them at this time. However, the Board is consulting on its future

agenda, which could lead to those matters becoming part of the work programme.

So, in a broader sense, we believe there is an urgent need for the development of conclusions on the reasons for recycling (which must include a definition for OCI items) that can be applyied in future discussions.

In a narrower sense, we disagree with the trigger proposed by the Board for recycling Other Net Asset Changes - namely, the discontinuance of the equity method. In our view, this proposal would neither reflect the economics of the transaction nor measure an entity's performance on a timely basis. We believe these objectives can only be achieved if the reclassification to Profit or Loss occurs when the investment is fully realized (e.g. through sale or transfer to a third party).

Question 3

Do you have any other comments on the proposals?

We would like to declare our disagreement with the proposal that an investor should account for other net asset changes of the investee retrospectively. Regardless the approach to be adopted, this would certainly involve considerable costs for tracing back the effects of such past changes. We also think that in most cases, the investor's total equity will somehow incorporate these changes of other net asset of the investee.