Financial statements

HRT Participações em Petróleo S.A.

December 31, 2014
with Independent Auditor's Report on Financial Statements

HRT Participações em Petróleo S.A.

Financial statements

December 31, 2014

Contents

Independent auditors' report on financial statements 1

Audited financial statements

Balance sheets (financial position) 3
Statements of operations 5
Statements of comprehensive income 7
Statements of changes in equity 8
Cash flow statements 9
Statements of value added (supplementary information for IFRS purposes) 10
Notes to financial statements 11

Independent auditor's report on financial statements

The Shareholders, Board of Directors and Officers of
HRT Participações em Petróleo S.A.
Rio de Janeiro - RJ

We have audited the accompanying individual and consolidated financial statements of HRT Participações em Petróleo S.A. ("Company"), identified as Parent Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2014, and the related statements of operations, of comprehensive income, of changes in equity and cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation and fair presentation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of HRT Participações em Petróleo S.A. as at December 31, 2014, its individual and consolidated financial performance and its cash flows for the year then ended, in accordance with accounting the practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Emphasis of a matter

Without qualifying our opinion, we draw attention to Note 9, which indicates that the Company and its subsidiaries have significant amounts of assets held for sale, the recoverability of which depends on the success of future operations. These conditions indicate the existence of significant uncertainty that may cast significant doubt as to the realization of the investment. The financial statements do not include any adjustments that would be required if any of the investments is not realized at their expected values, which is contingent upon the success of the negotiations currently in progress. The Company's management plans with respect to these activities are described in Note 9.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2014, prepared under the Company's management responsibility, the presentation of which is required by Brazilian corporation law for publicly held companies, and as supplementary information under IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

Rio de Janeiro, March 25, 2015.

ERNST & YOUNG
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6-F-RJ



Roberto Cesar Andrade dos Santos
Contador CRC - 1RJ 093.771/O-9

HRT Participações em Petróleo S.A.

Balance sheets (financial position)
December 31, 2014 and 2013
(In thousands of reais)

		Parent company		Consolidated	
	Note	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Assets					
Current assets					
Cash and cash equivalents	6	**49**	18	**350,634**	33,582
Marketable securities	7	**87,924**	18,165	**98,312**	120,957
Accounts receivable		**36**	36	**1,835**	989
Taxes recoverable	8	**9,937**	14,222	**39,341**	42,523
Assets held for sale	9	**-**	-	**258,158**	155,540
Advances to suppliers	10	**194**	113	**42,191**	33,008
Prepaid expenses		**-**	1,148	**3,486**	3,057
Financial investments as collateral	7	**-**	-	**-**	273,001
Inventories		**-**	-	**8,784**	-
Other credits		**53**	69	**3,495**	10,593
		98,193	33,771	**806,236**	673,250
Noncurrent assets					
Deposits and guarantees	21	**4,440**	4,392	**5,026**	4,590
Related parties	24	**4,871**	8,305	**-**	-
Investments	12	**620,413**	1,491,696	**-**	-
Property, plant and equipment	13	**609**	760	**72,925**	139,124
Intangible assets	14	**65**	93	**176,951**	988,315
		630,398	1,505,246	**254,902**	1,132,029
Total assets		**728,591**	1,539,017	**1,061,138**	1,805,279

	Note	Parent company		Consolidated	
		12/31/2014	12/31/2013	12/31/2014	12/31/2013
Liabilities and shareholders' equity					
Current liabilities					
Trade accounts payable	15	**5,133**	3,602	**63,217**	63,362
Labor charges		**2,411**	8,450	**7,439**	17,669
Income and social contribution taxes	20	**4,890**	8,737	**8,518**	26,301
Income and social contribution	21	**-**	-	**8,498**	65
Loans and financing	16	**-**	-	**-**	70,380
Financial instruments		**-**	-	**-**	11,163
Related parties	24	**6,856**	180	**-**	-
Advance from partners	11	**-**	-	**32,837**	25,896
Advances for sale of fixed assets	9	**-**	-	**47,812**	-
Other liabilities		**-**	-	**-**	8,968
		19,290	20,969	**168,321**	223,804
Noncurrent liabilities					
Debentures	17	**87,568**	-	**87,568**	-
Asset retirement obligation	22	**-**	-	**138,039**	-
Provision for contingencies	32	**-**	-	**33,838**	-
Deferred income and social contribution taxes	21	**-**	63,450	**9,487**	126,877
Other liabilities		**-**	-	**2,152**	-
		87,568	63,450	**271,084**	126,877
Equity	23				
Capital		**3,821,206**	3,821,205	**3,821,206**	3,821,205
Capital reserves		**416,914**	416,914	**416,914**	416,914
Equity valuation adjustment		**361,162**	190,955	**361,162**	190,955
Accumulated losses		**(2,974,476)**	(736,606)	**(2,974,476)**	(736,606)
Loss for the year		**(1,003,073)**	(2,237,870)	**(1,003,073)**	(2,237,870)
		621,733	1,454,598	**621,733**	1,454,598
Total liabilities and equity		**728,591**	1,539,017	**1,061,138**	1,805,279

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A.

Statements of operations
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Note	Parent company		Consolidated	
		12/31/2014	12/31/2013	12/31/2014	12/31/2013
Net revenues		**-**	**-**	**486,839**	4,395
Cost of products/services		**-**	-	**(468,078)**	(2,267)
Gross profit	25	**-**	**-**	**18,761**	2,128
Operating income (expenses)					
Geology and geophysics expenses		**-**	-	**(4,977)**	(44,116)
Personnel expenses		**(5,231)**	(87,011)	**(38,633)**	(168,325)
General and administrative expenses		**(4,840)**	(5,771)	**(30,857)**	(46,528)
Expenses with third party services		**(10,879)**	(8,312)	**(55,393)**	(40,803)
Taxes and fees		**114**	(1,304)	**(3,684)**	(9,246)
Depreciation and amortization expenses		**(188)**	(194)	**(10,090)**	(25,333)
Provision for impairment		**(7,768)**	(121,821)	**(486,875)**	(1,685,486)
Dry well and discontinued block write-off		**-**	-	**(541,791)**	(591,165)
Equity pick-up	12	**(997,300)**	(2,100,554)	**-**	-
Financial expenses	26	**(665)**	(53)	**(65,573)**	(90,167)
Financial income	26	**1,482**	13,027	**81,445**	134,233
Income from the sale of interest	12	**1,502**	2,274	**1,502**	-
Gain recognized in business combination	14	**-**	-	**96,705**	-
Other operating income (expenses), net		**2,873**	-	**(12,543)**	3,646
Income before income and social contribution taxes		**(1,020,900)**	(2,309,719)	**(1,052,003)**	(2,561,162)
Income and social contribution taxes	21				
Current		**-**	-	**(13,287)**	(3,972)
Deferred		**17,827**	71,849	**66,528**	327,264
Loss from continuing operations		**(1,003,073)**	(2,237,870)	**(998,762)**	(2,237,870)
Income from discontinued operations		-	-	(4,311)	-
Loss for the year		**(1,003,073)**	**(2,237,870)**	**(1,003,073)**	**(2,237,870)**
Loss per share, basic and diluted	23.3				
Basic		***(33.718)***	*(7.534)*	***(33.718)***	*(7.534)*
Diluted		***(33.718)***	*(7.534)*	***(33.718)***	*(7.534)*

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A.

Statements of comprehensive income
December 31, 2014 and 2013
(In thousands of reais)

	Consolidated	
	12/31/2014	**12/31/2013**
Accumulated losses	**(1,003,073)**	(2,237,870)
Other comprehensive income		
Exchange variation on investments abroad, net of taxes	**171,091**	6,034
Other comprehensive income for the year, net of tax	**171,091**	6,034
Total comprehensive income for the year, net of tax	**(831,982)**	(2,231,836)
Attributable to controlling shareholders	**(831,982)**	(2,231,836)

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A

Statements of changes in shareholders' equity
December 31, 2014 and 2013
(In thousands of reais)

	Capital	Capital reserve	Equity valuation adjustment	Accumulated loss	Total
Balances at January 1, 2013	**3,817,130**	**416,914**	**161,939**	**(736,606)**	**3,659,377**
Stock options exercised	4,075	-	-	-	4,075
Exchange variation on investments abroad	-	-	6,034	-	6,034
Share-based compensation	-	-	22,982	-	22,982
Loss for the year	-	-	-	(2,237,870)	(2,237,870)
Balances at December 31, 2013	**3,821,205**	**416,914**	**190,955**	**(2,974,476)**	**1,454,598**
Balances at January 1, 2014	**3,821,205**	**416,914**	**190,955**	**(2,974,476)**	**1,454,598**
Stock options exercised	1	-	-	-	1
Exchange variation on investments abroad	-	-	171,091	-	171,091
Share-based compensation	-	-	(884)	-	(884)
Loss for the year	-	-	-	(1,003,073)	(1,003,073)
Balances at December 31, 2014	**3,821,206**	**416,914**	**361,162**	**(3,977,549)**	**621,733**

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A.

Statements of cash flows
December 31, 2014 and 2013
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Cash flows from operating activities				
Loss for the period (before tax)	**(1,020,900)**	**(2,309,719)**	**(1,052,003)**	**(2,561,162)**
Depreciation and amortization	187	194	176,338	25,333
Financial income	(1,482)	(13,027)	(81,445)	(134,233)
Financial expense	665	53	65,573	90,167
Share-based compensation	(884)	22,982	(884)	22,982
Equity pick-up	997,300	2,100,554	-	-
Loss/write-off of fixed assets	-	-	28,635	140
Provision for contingencies/losses	-	-	57,128	260
Provision for impairment	7,768	121,821	486,875	1,685,486
Gain recognized in business combination	-	-	(96,705)	-
Dry well and discontinued block write-off	-	-	541,791	591,165
	(17,346)	**(77,142)**	**125,303**	**(279,862)**
(Increase) decrease in assets				
Accounts receivable	-	-	(846)	2,388
Taxes recoverable	4,285	6,492	3,182	15,183
Prepaid expenses	1,148	(1,066)	(429)	(1,046)
Advances to suppliers	(81)	38	(21,154)	(10,112)
Inventory	-	-	(5,646)	-
Other credits	15	53	7,097	(9,204)
Increase (decrease) in liabilities				
Suppliers	1,531	2,420	(145)	(38,125)
Labor charges	(6,039)	1,752	(10,230)	(3,132)
Income and social contribution charges	(3,847)	5,511	(9,350)	9,152
Related parties	10,110	(8,125)	-	-
Advances to/from partners in oil & gas operation	-	-	6,941	25,896
Other liabilities	-	(219)	(6,555)	6,127
Net cash used in operating activities	**(10,223)**	**(70,286)**	**88,168**	**(282,735)**
Cash flows from investment activities				
(Investment in) Redemption of securities	(68,943)	313,060	75,122	825,658
Deposited in court/guarantees	(48)	(4,392)	272,565	(134,032)
Asset held for sale	-	-	7,937	-
Advance for sale of fixed assets	-	-	47,812	-
(Purchase) sale of fixed assets	(7)	110	(48,934)	15,505
(Purchase) sale of intangible assets	-	(23)	986	(483,336)
(Purchase) of Polvo assets	-	-	(132,630)	-
Capital contribution in subsidiary	(12,385)	(254,568)	-	-
Sales of shares	4,068	11,912	-	-
Net cash used in investing activities	**(77,315)**	**66,099**	**222,858**	**223,795**
Cash flows from financing activities				
Debentures	87,568	-	87,568	-
Loans	-	-	(70,380)	62,060
Derivative transactions	-	-	(11,163)	(17,255)
Capital paid-up	1	4,075	1	4,075
Net cash flow from financing activities	**87,569**	**4,075**	**6,026**	**48,880**
Exchange variation	**-**	-	**-**	6,034
Net increase (decrease) in cash and cash equivalents	**31**	**(112)**	**317,052**	**(4,026)**
Cash and cash equivalents - beginning of year	18	130	33,582	37,608
Cash and cash equivalents - end of year	49	18	350,634	33,582
Net increase in cash and cash equivalents	**31**	**(112)**	**317,052**	**(4,026)**

The accompanying notes are an integral part of these financial statements.

HRT Participações em Petróleo S.A.

Statements of value added (supplementary information for IFRS purposes)
December 31, 2014 and 2013
(In thousands of reais)

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Revenues				
Sale of products/services	**-**	-	**486,839**	4,395
Other revenues	**-**	-	**-**	-
	-	**-**	**486,839**	4,395
Supplies and services				
Third party services and other	**(10,879)**	(8,312)	**(55,393)**	(40,803)
Geology and geophysics expenses	**-**	-	**(4,977)**	(44,116)
Costs of services	**-**	-	**(254,861)**	(2,267)
Gross value added	**(10,879)**	(8,312)	**171,608**	(82,791)
Retentions				
Depreciation and amortization	**(188)**	(194)	**(176,338)**	(25,333)
Net value added	**(11,067)**	(8,506)	**(4,730)**	(108,124)
Transferred value added				
Net financial income	**816**	12,974	**15,872**	44,066
Equity pick-up	**(997,300)**	(2,100,554)	**-**	-
Deferred taxes	**17,827**	71,849	**66,528**	327,264
Dry well and discontinued block write-off	**-**	-	**(541,791)**	(591,165)
Provision for Impairment	**(7,768)**	(121,821)	**(486,875)**	(1,685,486)
Income (loss) from discontinued operations	**-**	-	**(4,311)**	-
Bargain purchase of Polvo assets	**-**	-	**96,705**	-
Rents, royalties and other	**(464)**	(3,497)	**(88,867)**	(42,882)
Value added payable	**(997,956)**	(2,149,555)	**(947,469)**	(2,056,327)
Distribution of value added				
Personnel	**5,231**	87,011	**38,633**	168,325
Taxes	**(114)**	1,304	**16,971**	13,218
Portion attributable to Group's shareholders	**(1,003,073)**	(2,237,870)	**(1,003,073)**	(2,237,870)
Distributed value added	**(997,956)**	**(2,149,555)**	**(947,469)**	**(2,056,327)**

The accompanying notes are an integral part of these financial statements.

1. Operations

HRT Participações em Petróleo S.A. (Company or HRTP) was incorporated on July 17, 2009. Its headquarters are in the city of Rio de Janeiro - RJ, Brazil and its business purposes are: (1) holding interests in other companies as partner or shareholder in Brazil or abroad, regardless of their type of business, and (2) (i) providing consulting services and research projects for environmental, oil, natural gas and mining, providing professional consulting services to companies in the areas of collection, chemical analyses (organic and inorganic) and interpreting data from geological, geochemical, geophysical surveys, and remote sensing for these data as well as consultant services for foreign trade, (ii) exploration, development and production of oil and natural gas, (iii) importing, exporting, refining, marketing and distributing oil, natural gas, fuels and petroleum products, and (iv) generating, marketing and distributing electricity.

The Company's activities are focused on exploration and production of oil and natural gas, operating in the Campos Basin off the state of Rio de Janeiro, Solimões Sedimentary Basin, State of Amazonas, and also in Namibia, the west coast of Africa.

The Company has a portfolio of 26 exploratory blocks onshore and offshore, of which 16 onshore blocks are in the Solimões Basin, for which it is the operator with a 55% stake, which is in operation transfer process to Rosneft Brasil E&P Ltda. ("Rosneft"), as discussed in note 11. Also in Brazil, the Group holds a 10% interest in two exploration blocks in onshore basins, located in the Recôncavo Basin (BA), Espírito Santo (ES) and Rio do Peixe (PB). In Namibia, HRT Africa operates 10 offshore exploration blocks in the Walvis and Orange basins, with 86% and 100% stakes. Notes 12 and 14 provide more details of operations run by the Group and its subsidiaries.

1. **Operations**--Continued

On May 6, 2013, the Company, together with its subsidiary HRT Oil & Gas Ltda. ("HRTO&G"), signed a sale and purchase agreement with BP Energy do Brazil Ltda. ("BP") to acquire a 60% stake in the Polvo Field worth US$135 million adjusted to the effects discussed in the note 14 to be effective January 1, 2013. HRT and HRTO&G signed a loan agreement with Credit Suisse to finance most of the amount for the acquisition. This loan was repaid on February 21, 2014.

The Polvo field is located in the southern portion of the Campos Basin some 100 km east of the city of Cabo Frio in the state of Rio de Janeiro. Its daily production is around 10,000 barrels with 20.3 _ API, from three producing reservoirs: Maastrichtian and Turonian age Carapebus Formation sandstones and Albian age Macae/Quissamã Member Formation carbonates.

The license covers an area of approximately 134 km^2 with several prospects for future exploration.

The Purchase and Sale Agreement also covers the acquisition of a 100% stake in BP Energy America LLC, the owner of a fixed platform, called "Polvo A", and of a 3,000 HP drilling rig, which is the equipment needed for operations in this field. The "Polvo A" platform is interconnected to "FPSO Polvo", which has capability for hydrocarbon separation, water treatment, and oil storing and offloading.

On December 18, 2013, the Assignment of Rights for participation of BP Energy do Brasil Ltda. ("BP") in the Polvo field was approved by Brazil's National Petroleum Agency (ANP) in Official Circular nº 1.397/2013/SEP.

On January 08, 2014 HRT O&G concluded the business transaction with BP, becoming the operator of Polvo field, whose partner is Maersk Energia Ltda. ("Maersk").

2. Accounting practices

2.1. Basis of presentation

The individual financial statements of the Parent company were prepared and are presented in accordance with accounting practices adopted in Brazil, which include the provisions of Brazilian Corporation Law under Law 6,404/76, with amendments to Law 11,638/07 and Law 11,941/09, as well as the accounting pronouncements, interpretations and guidelines issued by the Accounting Pronouncements Committee ("CPC"), approved by the Brazilian Securities Commission ("CVM"). Up to December 31, 2013, these practices differed from IFRS, as far as the individual financial statements are concerned, only as regards the valuation of investments in subsidiaries, associates and jointly-owned subsidiaries under the equity method, as, for IFRS purposes, they would be valued at cost or fair value.

With the issuance of IAS 27 standard (Separate Financial Statements) reviewed by the IASB in 2014, the separate financial statements in accordance with IFRS started allowing the use of the equity method for the evaluation of investments in subsidiaries, associates and jointly controlled entities. In December 2014, the CVM issued Resolution 733/2014, which approved the Technical Pronouncement Review Document No. 07 regarding the CPC Pronouncements 18, 35 and 37 issued by the Accounting Pronouncements Committee, receiving said revision of IAS 27, and allowing its adoption as for the years ended December 31, 2014. Thus, the individual financial statements of the parent company started being in accordance with IFRS as of this year.

The consolidated financial statements of the Company have been prepared based on the international accounting standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), implemented in Brazil by the Accounting Pronouncements Committee ("CPC"), and its technical interpretations ("ICPC") and guidelines ("OCPC"), approved by the Brazilian Securities Commission ("CVM").

The accounting estimates used to prepare the financial statements are based on objective and subjective factors, and on management's judgment in determining appropriate amounts for recognition in the financial statements.

2. **Accounting practices**--Continued

2.1. **Basis of Presentation**--(Continued)

Significant items subject to these estimates and assumptions that may result in adjustments for the coming fiscal year are included in the following notes:

- Note 9 – Assets held for sale;
- Note 14 – Intangible assets, primarily those relating to written-off and impaired Oil & Gas assets;
- Note 18 – Impairment;
- Note 21 – Current and deferred income and social contributions taxes;
- Note 22 – Asset retirement obligation;
- Note 23.2 – Stock options;
- Note 29 – Financial instruments;
- Note 32 – Provision for contingencies.

Settlement of transactions involving these estimates may lead to significantly different amounts in relation to those recognized in the financial statements due to the probabilistic treatment involved in making estimates. The Company reviews its estimates and assumptions at least once a year.

Reviews in relation to accounting estimates are recognized in the period in which the estimates are reviewed and in any future periods affected.

The Company's management authorized the completion of these financial statements on March 25, 2015.

2. Accounting practices--Continued

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statement of HRT and its subsidiaries as of December 31, 2014. Control is obtained where the Company is exposed or entitled to variable returns based on their involvement with the investee and has the ability to affect those returns through power exercised over the investee.

Specifically, the Company controls an investee if, and only if, it has:

- Power over the investee (i.e. existing rights that guarantee the current ability to lead the relevant activities of the investee);
- Exposure or right to variable returns based on their involvement with the investee;
- The ability to use its power over the investee to affect the results.

Generally, there is the assumption that majority voting rights results in control. In order to support this presumption and when the Group has less than the majority of voting rights or the like of an investee, the Group considers all relevant facts and circumstances when assessing if it has power over an investee, including:

- The contractual agreement with other holders of voting rights in the investee;
- Rights arising from contractual agreements;
- Group's voting rights and potential voting rights.

The group assesses whether it exercises the control of an investee or not if the facts and circumstances indicate that there are changes in one or more of the three control elements. The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ends when the Group fails to exercise the aforementioned control. Assets, liabilities and income (loss) a subsidiary acquired or sold during the year are included in the consolidated financial statements as of the date on which the Company obtains control until the date on which the Company control over the subsidiary ceases to exist.

2. **Accounting practices**--Continued

2.2. **Basis of consolidation**—Continued

The result and each component of other comprehensive income are attributed to the controlling shareholders and to the non-controlling shareholders of the Company even if this results in losses to non-controlling shareholders. When necessary, adjustments are made in the financial statements of subsidiaries to align their accounting policies with the Company's accounting policies. All assets and liabilities, income (loss), revenues, expenses and cash flows of the same group related to transactions between members of the Company are fully eliminated on consolidation.

The change in equity interest of the subsidiary, without loss of control, is accounted for as an equity transaction.

If the Company loses the control exercised over a subsidiary, the corresponding assets (including goodwill), liabilities, non-controlling interest and other equity components are written-of, while any resulting gain or loss is recorded in income (loss).

The result of translation on monetary items of the entity overseas is considered part of the net investment of the parent company in the subsidiary, once settlement is not likely to occur nor planned for the foreseeable future. Thus, the exchange difference is recognized in other comprehensive income in a specific account in shareholders' equity. When a foreign entity is sold, the exchange difference is recognized in the income statement as a gain or loss.

The consolidated financial statements of the Company include:

	Interest (%)			
	12/31/2014		12/31/2013	
	Direct	Indirect	Direct	Indirect
Parent company – HRT Participações em Petróleo S.A.				
Fully consolidated companies				
HRT O&G Exploração e Produção de Petróleo Ltda.	**100.00**	**-**	100.00	-
HRT América Inc.	**100.00**	**-**	100.00	-
IPEX - - Integrated Petroleum Expertise Company Serviços em Petróleo Ltda.	**-**	**-**	100.00	-
HRT África Petróleo S.A.	**88.68**	**11.32**	84.17	15.83
HRT Luxembourg Holding Sarl	**-**	**100.00**	-	100.00
HRT Lux Energy Sarl	**-**	**100.00**	-	100.00
HRT Netherlands BV	**-**	**100.00**	-	100.00
HRT Walvis Petroleum (Pty) Ltd.	**-**	**100.00**	-	100.00
HRT Canada Inc.	**-**	**100.00**	-	100.00
HRT Luderitz Luxembourg Holding SARL	**-**	**100.00**	-	100.00
HRT Luderitz Petroleum (Pty) Ltd.	**-**	**100.00**	-	100.00
HRT Luxembourg Sarl	**-**	**100.00**	-	100.00
Cumoxi Investments (Pty) Ltd.	**-**	**100.00**	-	100.00
Kunene Energy (Pty) Ltd.	**-**	**100.00**	-	100.00
Orange Petroleum Ltd.	**-**	**100.00**	-	100.00

2. Accounting practices--Continued

2.3. Business combinations

Business combinations are accounted for under the acquisition method. The cost of an acquisition is measured for the consideration amount transferred, valuated on fair value basis on the acquisition date, including the value of any ownership interest held by non-controlling shareholders in the acquired company, regardless of their proportion. For each business combination, the buyer must measure the non-controlling interest in the acquired business at the fair value of based on its interest in the net assets identified in the acquired business. Costs directly attributable to the acquisition should be accounted for as expense when incurred.

On acquiring a business, the Company assesses the financial assets and liabilities assumed in order to rate and to allocate them in accordance with contractual terms, economic circumstances and pertinent conditions on the acquisition date, which includes segregation by the acquired entity of built-in derivatives existing in the acquired entity's host contracts.

If a business combination takes place through stages, the fair value on the acquisition date of the equity interest previously held in the acquiree is remeasured at fair value on the dates of acquisition of the additional portions and their impacts are recognized in the income statement.

Any contingent payments to be transferred by the acquiree will be recognized at fair value on the acquisition date. Subsequent alterations to fair value of contingent consideration classified as an asset or liability must be recognized in accordance with CPC 38 in the income statement or other comprehensive income. If the contingent consideration is classified as equity, it should not be restated until it is finally settled within equity.

Initially, goodwill is initially measured as being the excess of consideration transferred in relation to net assets acquired (acquired identifiable assets, nets and assumed liabilities). If consideration is lower than fair value of net assets acquired, the difference must be recognized as gain in statement of income.

2. **Accounting practices**--Continued

2.3. **Business combinations**--Continued

After initial recognition, the goodwill is carried at cost less any accumulated loss for the impairment losses. For impairment testing purposes, goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating units of the Group that are expected to benefit by the synergies of combination, regardless of other assets or liabilities of the acquiree being allocated to those units.

When the goodwill is part of a cash generating unit and a portion of this unit is disposed of, the premium associated with the disposed portion should be included in the cost of the operation when calculating gains or losses in the disposal. The goodwill disposed under these circumstances of this operation is determined based on the proportional values of the portion disposed of, in relation to the cash-generating unit maintained.

2.4. **Investments in affiliates and joint ventures**

Affiliate means an entity on which the Group exerts significant influence. Significant influence means being able to take part in decisions on the investee's operating policies, but not exerting control or joint control over those policies.

Joint venture means a type of joint arrangement whereby parties that have joint control over the arrangement have rights to the joint venture's net assets. Joint control means a contractually agreed shared control, which exists only when decisions on pertinent activities require unanimous consent from the parties sharing control.

Considerations when determining significant influence or joint control are similar to those required to determine control in relation to subsidiaries.

The Company's investments in its affiliates and joint venture are accounted for under the equity method.

2. Accounting practices--Continued

2.4. Investments in affiliates and joint ventures--Continued

Using the equity method, an investment in an affiliate or joint venture is initially recognized at cost. An investment's book value is adjusted to recognize changes in the Group's holding in equity of the affiliate or joint venture on the acquisition date. Goodwill relating to an affiliate or joint venture is included in the investment's book value but not amortized or individually tested for impairment purposes.

The income statement reflects the Group's share in operating results of affiliates or the joint venture. Additionally, when there is change recognized directly in equity of affiliates or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses arising from transactions between the Company and an affiliate or joint venture are eliminated proportionally to its holding in the affiliate or joint venture.

The sum of the Company's interest in the results of an affiliate or joint venture is presented in the income statement, out of operating income, representing the income after taxes and non-controlling interests in the subsidiaries of the affiliate or joint venture.

Financial statements of affiliates or joint venture are prepared for the same reporting period as those of the Company When necessary, adjustments are made to ensure that accounting practices are aligned with the Company's.

After applying the equity accounting method, the Company determines whether it is necessary to recognize additional impairment on the Company's investment in its subsidiaries. On each balance sheet closing date, the Company determines whether there are objective signs that its investment in affiliates or joint venture is impaired. If so, the Group calculates impairment as the difference between the recoverable value of the affiliate or joint venture and its book value and recognizes this loss in the income statement under "Share in earnings of affiliates and joint venture".

2. **Accounting practices**--Continued

2.4. **Investments in affiliates and joint ventures**--Continued

On losing significant influence over affiliates or joint control over the joint venture, the Group measures and recognizes any investment retained at fair value. Any difference between book value of affiliates or joint venture upon loss of significant influence, and the fair value of the investment retained and proceeds from disposal are recognized in P&L.

2.5. **Current versus non-current classification**

The Group presents balance sheet assets and liabilities based on current/non-current classification.

An asset is classified as current if:

- It is expected to be realized, sold or consumed in the normal operating cycle.
- It is held primarily for trading.
- It is expected to be realized within 12 months after reporting period.
- Cash or cash equivalents, unless there are restrictions on trading, i.e. used to settle a liability, for at least 12 months after reporting period.

All other assets are classified as noncurrent.

A liability is classified as current if:

- It is expected to be settled in the normal operating cycle.
- It is held primarily for trading.
- It is expected to be realized within 12 months after reporting period.
- There is no unconditional right to defer settlement of the liability for at least 12 months after reporting period.

The Group classifies all other liabilities as non-current.

2. Accounting practices--Continued

2.6. Fair value measurement

The book values of recognized assets and liabilities that represent hedged items at fair value that may alternatively be recognized at amortized cost are adjusted to show changes in fair values attributable to the risks being hedged.

2.7 Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the company or its subsidiaries, and when they can be reliably measured. Revenue is measured at the fair value of consideration received excluding discounts, rebates and sales taxes or charges. The company assesses revenue agreements using specific criteria to determine whether it is acting as agent or principal and finally concluded that it is acting as principal in all its revenue agreements. The following specific criteria must also be fulfilled for revenue to be recognized:

Operating income (expense) is determined in conformity with the accrual basis of accounting of the year.

The following specific criteria must also be fulfilled for revenue to be recognized:

Sale of products

Revenue from the sale of oil recognized in the income statement when the significant risks and benefits of ownership of the product are transferred to the buyer, which generally occurs upon delivery, according to the terms of the sales contract. Sales revenue is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume discounts.

Services

Revenue from the IPEX subsidiary's geophysics and geology surveys is recognized to the extent that these services are provided and may be measured reliably using contractually stipulated criteria. Revenue is not recognized if there are significant uncertainties as to its realization.

2. **Accounting practices**--Continued

2.7 **Revenue recognition**--Continued

Interest income

All financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, have their financial income or expense recognized using the effective interest rate method to precisely discount expected future cash payments or receipts in the course of the estimated life of the financial instrument or a shorter period of time, if applicable, to the net book value of the financial asset or liability. Interest income is included under financial income in the income statement. Financial instruments designated as fair value through profit or loss, including financial assets held for trading and derivatives, are marked to market in each period against financial income.

2.8 **Taxes**

Income and social contribution taxes - current

Current tax assets and liabilities for the previous fiscal year and prior years are measured at the recoverable value expected to be received from tax authorities, or payable to the latter. Tax rates and tax laws used to compute amounts are those that are in effect or substantively in effect at the balance sheet date in countries in which the Group operates and generates taxable revenues.

Current income and social contribution taxes are recognized in the income statement, unless directly related to items recognized directly in equity, in which case taxes are also recognized in equity. Management periodically evaluates the fiscal position of situations in which the fiscal regulations require interpretation and establish provisions when appropriate.

Deferred taxes

Deferred taxes arise from temporary differences on the balance sheet date between tax bases for assets and liabilities and their book values. Deferred tax liabilities are recognized for all temporary tax differences except:

- When a deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination and, on the transaction date, does not affect taxable income or tax loss.

2. **Accounting practices**--Continued

2.8. **Taxes**--Continued

Deferred taxes--Continued

- On temporary tax differences related to investments in subsidiaries, and the period for reversal of temporary differences may be controlled and temporary differences will probably not be reversed in the near future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that taxable income will probably be available against which the deductible temporary differences may be realized, and credits and losses may not be used, except:

- When a deferred tax asset relating to deductible temporary difference arises from initial recognition of an asset or liability in a transaction other than a business combination and, on the transaction date, does not affect taxable income or tax loss.

- On deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that temporary differences will probably be reversed in the near future and taxable income will be available so that temporary differences may be utilized.

The book value of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be used. Deferred tax assets that have been written off are revised on each balance date and recognized to the extent that future taxable income will probably allow these deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates expected to be applicable in the year in which the asset is realized or the liability settled, based on tax rates (and tax law) that have been enacted at balance sheet date.

2. **Accounting practices**--Continued

2.8. **Taxes**--Continued

Deferred taxes--Continued

Deferred income tax related to items recognized directly in equity is also recognized in equity and not in the income statement. Deferred tax items are recognized according to the transaction that originated the deferred tax, in comprehensive income or directly in shareholders' equity.

Deferred tax assets and liabilities are shown net if there is a legal or contractual right to offset tax assets against tax liabilities and the deferred taxes are related to the same taxpayer entity and subject to the same tax authority.

2.9. Noncurrent assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups when held for distribution to shareholders of the parent company if carrying amounts are are recovered through a sale transaction rather than through continuing use. These non-current assets and disposal groups classified as held for distribution are measured at book value and at fair value less selling or distribution costs, whichever is lower. Distribution costs are incremental costs directly attributable to the distribution, net of financial costs and income tax expenses.

The criteria for items classified as held for distribution are regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate distribution in their present condition. The actions required to complete the distribution should indicate whether the occurrence of significant changes in the distribution is likely or the distribution will be withdrawn. Management must commit with the expected sell within a year as from the classification date.

The fixed assets and intangible assets are not depreciated or amortized while classified as held for distribution.

Assets and liabilities classified as held for distribution are presented separately as current items in the balance sheet.

2. **Accounting practices**--Continued

2.9. **Noncurrent assets held for sale and discontinued operations**--Continued

A disposal group qualifies as a discontinued operation if it represents a component of an entity that has been disposed of or classified as held for sale, and:

- It represents a major separate line of business or geographical area of operations;
- It is part of a single coordinated plan to dispose of a major line of business or geographical area of operations;
- It is acquired exclusively for the purpose of sale.

Discontinued operations are excluded from continuing operations, and presented as a single amount in profit or loss after tax from discontinued operations in the income statement.

Additional disclosures are presented in Note 9. All other notes to the financial statements include amounts for continuing operations, unless stated otherwise.

2. Accounting practices--Continued

2.10. Property, plant and equipment

Property, plant and equipment are recognized at cost less depreciation calculated by the straight-line method over the asset's useful life or by the units-produced method for oil and gas assets (when operating) and provision for impairment if applicable. Leasehold improvements are amortized based on the duration of rental agreement or estimated useful life of the property or building, whichever is shorter.

An item of property, plant and equipment is written-off when sold or when no future economic benefit is expected from its use or sale. Any gain or loss arising from derecognizing an asset (calculated as the difference between the asset's net sale and book values) is included in the income statement for the year in which the asset is derecognized.

The residual value and useful life of the assets and the depreciation methods are reviewed upon the closing of each year, and adjusted respectively, when appropriate.

2.11. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost and subsequently less accumulated amortization and impairment, if applicable, and include expenses relating to rights and concessions, principally the signing bonus corresponding to offers to obtain concessions for the exploration of oil and natural gas.

Expenses incurred when exploring; assessing and developing production are recognized using the successful effort method of accounting.

Costs incurred prior to obtaining concessions and expenses for geological and geophysical reports and surveys are posted against income.

Exploration and assessment expenses directly associated with a well are capitalized as exploration and assessment assets until drilling is completed and the result assessed. These costs include materials and fuels used, drill rig leases and other expenses incurred with third parties.

2. **Accounting practices**--Continued

2.11. **Intangible assets**--Continued

If commercial reserves are not found, each exploratory well's expenses will be written off against income. If reserves are found, the cost will be maintained in assets until further valuations of the commercial feasibility of hydrocarbon reserves are completed.

Exploration assets are subject to technical, commercial and financial review annually or more often in order to confirm Management's intention to develop and produce hydrocarbons in the area. When proven reserves are identified and development is permitted, the area's exploration costs are transferred to "oil and gas assets."

During the development phase, investments in construction, installation and infrastructure (such as platforms, pipelines and drilling development and delineation wells) are capitalized as "oil and gas assets."

Costs of future abandonment and decommissioning of production areas will be estimated and recognized as part of the cost of these assets against provision made for these expenses as soon as there is a legal or constructive obligation to decommission the area. This provision will be presented in fixed assets against long-term liabilities.

Estimated abandonment costs will be recognized taking into account the present value of these obligations, discounted at a risk-free interest rate. These estimates will be revised at least once a year or when there is a sign of significant changes, and the present value calculation will then be revised by adjusting values of assets and liabilities. Provisions will be updated monthly on a pro rata basis using the risk-free discount rate at which they have been discounted against a financial expense.

Oil and gas assets, including the costs of future abandonment and decommissioning areas will be depreciated using the units-produced method, based on the ratio between production of oil and gas for each field in each period and their proven developed reserves. For assets that will produce benefits for the entire economic life of the field, such as signing bonuses, support bases, gas or oil pipelines, depreciation will be calculated considering the production period and total proved reserves.

2. **Accounting practices**--Continued

2.11. **Intangible assets**--Continued

Facilities and infrastructure whose economic life is shorter than the economic life of the field's reserves will be depreciated using the straight-line method.

Management reviews net book value of assets annually to assess any events or changes in economic, operating or technological circumstances that may indicate impairment. If signs of the latter are found and their net book value exceeds recoverable amount, an impairment provision will be made to adjust net book value to recoverable amount. These losses will be classified in a specific category ("asset impairment") in the income statement.

The recoverable amount of a cash-generating unit is defined as value in use or net selling price, whichever is higher. In both cases, the estimates and assumptions used will be those deemed reasonable by management. Oil prices on the international market may fall, which may impact the economics of a given area. Management periodically monitors domestic and international indicators that may lead to assets being impaired.

When estimating an asset's value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate to reflect the weighted average cost of capital for the industry in which the cash-generating unit is operating. Net sale value is determined- when possible - based on a firm sale agreement in an arm's length transaction between informed and willing parties, adjusted for expenses attributable to sale of the asset. If there is no firm sale agreement, net sale value is based on the market price of an asset or the market price of the most recent transactions involving similar assets.

2. **Accounting practices**--Continued

2.12. Impairment of non-financial assets

Management reviews the net book value of assets annually in order to assess events or changes in economic, operating, or technological circumstances likely to point out impairment or loss of their recoverable value. If such evidence is found and the net book value surpasses the recoverable value, a provision is set for depreciation by adjusting the net book value to the recoverable amount.

The carrying amount of an asset or of a given cash-generating unit is defined as the higher of value in use and the net selling price.

In estimating the value in use of an asset, the estimated future cash flows are discounted to their present value using a discount rate before taxes that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. The net selling price is determined, whenever possible, based on a binding sale agreement in an arm's length transaction between knowing and interested parties, adjusted for expenses attributable to the sale of the asset, or when there is no binding sale agreement, it is based on the market price of an active market, or the price of the latest transaction with similar assets.

The following criteria are also applied to assess loss due to impairment of specific assets:

Goodwill paid for expected future profitability

Goodwill is tested for impairment annually (December 31) or when circumstances indicate an impairment of the carrying amount.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually at December 31, individually or at the cash-generating unit level, as appropriate, and when circumstances indicate an impairment of the carrying amount.

2. Accounting practices--Continued

2.13. Financial instruments - Initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, upon initial recognition, as financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, financial assets available for sale, or derivatives designated as effective hedging instruments, as appropriate. All financial assets are recognized at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases and sales of financial assets that require delivery of assets within a time frame set forth by regulation or convention in the marketplace (regular purchases) are recognized on the transaction date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, trade accounts receivable and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

For the purpose of subsequent measurements, financial assets are classified into four categories:

- Financial assets measured at fair value through profit or loss
- Loans and accounts receivable
- Investments held to maturity
- Investments available for sale

2. **Accounting practices**--Continued

2.13. **Financial instruments - Initial recognition and subsequent measurement** --Continued

(i) Financial assets--Continued

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated in the initial recognition, as measured at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired with the purpose of sale in the short term. This category includes derivative financial instruments entered into by the Company that do not meet the criteria for hedge accounting, as defined by CPC 38. Derivatives, including embedded derivatives that are not closely related to the host contract and must be separated, are also classified as held for trading unless they are classified as effective hedging instruments. Financial assets at fair value through profit or loss are presented in the balance sheet at fair value with the related gains or losses recognized in the income statement.

The Company designated no financial liability at fair value through loss or profit upon initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives when their economic characteristics and risks are not closely related to those of host contracts and the host contracts are not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the related gains or losses from changes in fair value recognized in the income statement. A new revision is only made when there is some change in the terms of the contract that significantly changes the cash flows that would otherwise be required.

2. Accounting practices--Continued

2.13. Financial instruments - Initial recognition and subsequent measurement --Continued

(i) Financial assets--Continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments but not quoted on an active market. After the initial measurement, such assets are carried at amortized cost using the effective interest method (effective interest rate), less loss on impairment. Amortized cost is calculated taking into account any discount or "premium" on acquisition and fees or costs incurred. The amortization of the effective interest method is posted in the financial income line in the income statement. Losses due to impairment are recognized as financial expenses in the statements.

Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has expressed its intention and financial ability to hold them to maturity. After the initial assessment, investments held to maturity are assessed at amortized cost using the effective interest method less loss on impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and fees or costs incurred. The amortization of the effective interest method is posted in the financial income item in the income statement. Losses originating from impairment are recognized as financial expenses in the statements. The Group recorded no investments held to maturity during the years ended December 31, 2014 and 2013.

2. **Accounting practices**--Continued

2.13. **Financial instruments - Initial recognition and subsequent measurement** --Continued

(i) Financial assets--Continued

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are not classified as (a) loans and receivables, (b) investments held to maturity or (c) financial assets at fair value through profit or loss. These financial assets include equity and debt instruments. Debt instruments in this category are those intended to be held for an indefinite period and may be sold to meet liquidity needs or in response to changes in market conditions.

After the initial measurement, financial assets available for sale are reported at fair value with unrealized gains and losses recognized directly in the available for sale reserve within other comprehensive income until the investment is derecognized, except losses due to impairment, interest calculated using the effective interest method, and gains or losses from foreign exchange variations on monetary assets that are recognized directly in the income statement.

2. **Accounting practices**--Continued

2.13. **Financial instruments - Initial recognition and subsequent measurement** --Continued

(i) Financial assets--Continued

Financial assets available for sale--Continued

When the investment is unrecognized or when there is an impairment loss, the cumulative gains or losses that were previously recognized in other comprehensive income should be recognized in profit or loss.

Variations in fair value attributable to translation differences that result from a change in the asset's amortized cost are recognized in income, and other changes directly in equity. Variations in fair value attributable to translation differences that result from a change in the asset's amortized cost are recognized in income, and other changes directly in equity.

The Company recorded no financial asset available for sale during the years ended December 31, 2014 and 2013.

Derecognition (write-off)

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay in full the received cash flows, without material delay, to a third party under a "transfer" agreement, and (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor substantially retained all the risks and rewards of the asset, but has transferred control over the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a transfer agreement, and has neither transferred nor substantially retained all of the risks and rewards of the asset, the asset is recognized to the extent of the Company's continuing involvement with the asset.

2. Accounting practices--Continued

2.13. Financial instruments - Initial recognition and subsequent measurement --Continued

(i) Financial assets--Continued

Derecognition (write-off)

The continuous involvement that takes the form of a guarantee over the transferred asset is measured at the lower between the original carrying amount of the asset and the highest consideration that could be required from the Company.

(ii) Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event" incurred) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of loss due to impairment may include signs that borrowers are going through a period of significant financial difficulty. The likelihood that they will enter bankruptcy or other financial reorganization, default or delay payment of interest or principal, and when there are signs of a measurable drop in the estimated future cash flows, such as changes in maturities or economic conditions related to defaults.

2. **Accounting practices**--Continued

2.13. **Financial instruments - Initial recognition and subsequent measurement** --Continued

(ii) Impairment of financial assets--Continued

Financial assets at amortized cost

Regarding financial assets carried at amortized cost, the Group first assesses, individually, whether there is clear evidence of loss due to impairment of each financial asset that is individually significant, or collectively for financial assets that are not individually significant. If the Group concludes that there is no evidence of loss due to impairment for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and it assesses them together with regard to the loss due to impairment. Assets that are assessed individually for purposes of loss for impairment and for which a loss for impairment is or continues being recognized are not included in a joint assessment of loss due to impairment.

The amount of any loss due to impairment is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding expected future credit losses not yet incurred). The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate.

2. **Accounting practices**--Continued

2.13. **Financial instruments - Initial recognition and subsequent measurement** --Continued

(ii) Impairment of financial assets--Continued

Financial assets at amortized cost--Continued

The asset's book value is reduced by means of an allowance and the amount of the loss recognized in the income statement. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to the Group. If in a subsequent year the amount of the estimated impairment value increases or decreases because of an event occurring after the loss due to impairment was recognized, the previously recognized loss is increased or reduced by adjusting the allowance. In the event of any future recovery from an amount written off, such recovery is recognized in the income statement.

Financial instruments available for sale

For financial instruments classified as available for sale, the Group assesses whether there is any objective evidence that the investment is recoverable at each balance sheet date.

For investments in equity instruments classified as available for sale, objective evidence includes a significant and prolonged decline in the fair value of the investments below their accounting cost. When there is evidence of loss due to impairment, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less the loss on impairment that has been previously recognized in income - is reclassified from equity to income. Increases in fair value after the recognition of a loss due to impairment are recognized directly in the comprehensive income.

2. **Accounting practices**--Continued

2.13. **Financial instruments - Initial recognition and subsequent measurement** --Continued

(ii) Impairment of financial assets--Continued

Financial assets available for sale--Continued

In the case of debt instruments classified as available for sale, the loss on impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded as loss on impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any loss due to impairment in the investment previously recognized in the income statement.

Interest continues to be computed at the effective interest rate used to discount the future cash flows for the loss due to impairment on the reduced carrying amount of the asset. Interest income is recorded as financial income. When, in a subsequent period, the fair value of a debt instrument increases and such increase can be objectively related to an event occurring after the loss due to impairment was recognized in the income statement, the loss due to impairment is reversed in the income statement.

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, upon initial recognition, as financial liabilities at fair value through profit or loss; loans and funding, accounts payable, or as derivatives classified as hedging instruments, as appropriate.

Financial liabilities are initially recognized at fair value and, in the case of loans, funding, and accounts payable, are added to the directly related transaction cost.

2. **Accounting practices**--Continued

2.13. **Financial instruments - Initial recognition and subsequent measurement** --Continued

(iii) Financial liabilities--Continued

Initial recognition and measurement--Continued

The Group's financial liabilities include trade accounts payable and other accounts payable, loans and borrowings, collateral agency agreements, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, which can be as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading when they are acquired for the purpose of selling in the short term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria, as defined by CPC 38. Derivatives, including embedded derivatives that are not closely related to the host contract and must be separated, and are also classified as held for trading unless they are designated as effective hedging instruments.

Gains and losses on liabilities held for trading are recognized in the income statement.

The Group presented no financial liability at fair value through profit or loss during the years ended December 31, 2014 and 2013.

2. Accounting practices--Continued

2.13. Financial instruments - Initial recognition and subsequent measurement --Continued

(iii) Financial liabilities--Continued

Subsequent measurement--Continued

Loans and financing

The financial guarantee contracts issued by the Group are contracts that require payments to reimburse the holder for losses incurred when the specified debtor fails to make payments due under the terms of the relevant debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs directly related to the issuance of the guarantee.

Financial guarantee contracts

The financial guarantee contracts issued by the Group are contracts that require payments to reimburse the holder for losses incurred when the specified debtor fails to make payments due under the terms of the relevant debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs directly related to the issuance of the guarantee. The liability is subsequently measured based on the best estimate of the expense required to settle the present obligation at the balance sheet date or the amount recognized less amortization, whichever is greater.

Derecognition (write-off)

A financial liability is derecognized when the obligation is discharged, canceled or expires.

When an existing financial liability is replaced by another one of the same amount with substantially different terms, or the terms of an existing liability are substantially changed, such replacement or change is treated as the write-off of the original liability and the recognition of a new liability, and the difference in corresponding book amounts is recognized in the income statement.

2. Accounting practices--Continued

2.13. Financial instruments - Initial recognition and subsequent measurement --Continued

(iv) Financial instruments – net presentation

Financial assets and liabilities are presented net in the balance sheet if and only if there is currently a legal and enforceable right to offset the recognized amounts and there is the intention to realize the asset and settle the liability simultaneously.

2.14. Derivative financial instruments and hedge accounting

The Group may use derivative financial instruments such as forward currency contracts, forward commodity contracts, and interest rate swaps to provide hedge against the risk of changes in exchange rates, the risk of changes in commodity prices, and the risk of variation in interest rates, respectively.

Derivative financial instruments designated as hedge are recognized initially at fair value on the date the of execution of the derivative contract and subsequently also revalued at fair value. Derivatives are carried as financial assets when the fair value of the instrument is positive, and as liabilities when negative.

Any gains or losses arising from changes in the fair value of derivatives during the year are posted directly in the income statement, except for the effective portion of the cash flow hedges, which is recognized directly in equity, in other comprehensive income and subsequently reclassified to income when the hedged item affects profit or loss.

For hedge accounting purposes there are the following classifications:

- Fair value hedge by providing protection against exposure to changes in the fair value of a recognized asset or liability or a firm commitment not recognized, or of an identified part of such asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss.

2. **Accounting practices**--Continued

2.14. **Derivative financial instruments and hedge accounting**--Continued

- Cash flow hedge by providing protection against changes in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly likely forecast transaction and that could affect profit or loss.

- Net investment hedge in a foreign operation.

Upon initial recognition of a hedge relationship, the Group formally classifies and documents the hedge relationship to which it wishes to apply hedge accounting, as well as the risk management objective and strategy for undertaking the hedge. The documentation includes the identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged, the nature of the risks excluded from the hedging relationship, the prospective evidence of the effectiveness of the hedging relationship and the way in which the Group will assess the hedging instrument's effectiveness for purposes of offsetting the exposure to changes in the fair value of the hedged item or cash flows related to the hedged risk. Insofar as cash flows hedges are concerned, the evidence of the highly likely nature of the hedged transaction, as well as the expected timing of transfer of gains or losses on hedging instruments from equity to P&L are also included in the hedging relationship documentation. It is expected that these hedges are highly effective in offsetting changes in fair value or cash flows, being continually assessed to determine whether they were actually effective over all base periods for which they were intended.

Hedges meeting their accounting criteria are recorded as follows:

Fair value hedge

A change in the fair value of a hedging derivative is recognized in P&L as a financial expense. A change in the fair value of a hedged item related to the hedged risk is recorded as an adjustment of the carrying value of the hedged item and is also recognized in P&L as a financial expense.

2. **Accounting practices**--Continued

2.14. **Derivative financial instruments and hedge accounting**--Continued

Fair value hedge--Continued

For fair value hedges relating to items carried at amortized cost, any adjustments to the fair value are amortized through profit or loss over the remaining period of the hedge, using the effective interest method. Amortization of the effective interest rate may start as soon as an adjustment is made, and will continue, at most, until the date when the hedged item ceases to be adjusted to reflect changes in fair value attributable to the hedged risk.

If a hedged item is written off, the unamortized fair value is immediately recorded in the income statement.

When an unrecognized firm commitment is designated as a hedged item in a hedging relationship, the subsequent accumulated change in the fair value of the firm commitment attributable to the hedged exposure is recognized as a financial asset, if positive, and as a financial liability, if negative, with the corresponding gain or loss recognized in P&L.

The Group uses interest rate swaps to hedge against exposure to changes in the fair value of the loan, guaranteeing a fixed rate of 4%.

Cash flow hedge

The effective portion of the gain or loss on a hedge instrument is recognized directly in equity, under other comprehensive income, while the ineffective portion is recognized immediately in financial income.

When the Group's documented risk management strategy for a specific hedging relationship excludes a specific gain or loss component of the hedging instrument from the hedge effectiveness assessment, this excluded gain or loss component or the corresponding cash flows are promptly recognized in financial income.

2. **Accounting practices**--Continued

2.14. **Derivative financial instruments and hedge accounting**--Continued

Cash flow hedge--Continued

The amounts recorded in other comprehensive income are immediately transferred to P&L when a hedged transaction affects income, for example, when the financial revenue or expense being hedged is recognized or when a forecast sale occurs. When a hedged item is the cost of a non-financial asset or liability, the amounts recorded in equity are transferred at the initial carrying amount of the non-financial asset or liability.

If a hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its classification as a hedge is revoked, any gain or loss previously recognized in comprehensive income remains deferred in equity as a reserve under other comprehensive income until the forecast transaction occurs or the firm commitment is fulfilled.

The Group uses forward exchange contracts to hedge against its exposure to exchange risk related to anticipated and highly probably future transactions and to firm commitments, and forward commodities contracts to protect against its exposure to volatility in commodity prices.

Hedges of net investments

Hedges of net investments in foreign operations, including the hedge of a monetary item, which are recorded as part of a net investment, are accounted for similarly to a cash flow hedge. Gain or loss from the effective portion of the hedging instrument is recognized directly in equity under other comprehensive income, while the result from the ineffective portion of hedge is promptly recognized in financial income (expenses). On disposal of a foreign operation, the cumulative value of gains or losses recognized directly in equity is transferred to P&L.

2. **Accounting practices**--Continued

2.15. Inventories

The costs incurred to bring the product to its location and condition are measured at weighted average cost of acquisition or production.

The net realizable amount corresponds to the sales price estimated for the normal course of the businesses, less estimated execution costs and those necessary for the completion of the sale.

2.16. Cash and cash equivalents

Cash and cash equivalents are held so as to meet short-term cash commitments rather than for investment or other purposes. Cash equivalents are construed by the Group as short-term investments immediately convertible into a known cash amount, posing low risk of any change in market value. As such, an investment normally qualifies as cash equivalent when redeemable in the short-term, for instance, within three months from transaction date.

2.17. Provisions

General

Provisions are recorded when the Company has a present (legal or constructive) obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits, in an amount that can be reliably estimated. When the Group expects to recover a provision amount, in total or in part, for instance by force of an insurance agreement, the recovery is recognized as a separate asset, but only when the recovery is practically certain. Expenses related to any provision are recorded in P&L, net of any reimbursement.

2. **Accounting practices**--Continued

2.17. **Provisions**--Continued

Obligations for asset retirement

The provision for abandonment arose on the acquisition of Polvo field. The asset retirement costs are provisioned based on the present value of expected costs to settle the obligation using estimated cash flows and are recognized as current, reflecting the specific risks inherent in the obligation for asset retirement. The financial effect of the discount is recorded as expense as incurred and recognized in the income statement as a finance cost. The estimated future asset retirement costs are annually reviewed and adjusted as appropriate. Changes in the estimated future costs or discount rate applied are added to or deducted from the cost of the asset.

Provisions for tax, civil and labor risks

The Company is a party to legal and administrative proceedings. Provisions are set up for contingencies relating to legal proceedings under which it is likely that resources will have to be paid out to settle the obligation, and when a reasonable estimate of the amount can be made. The assessment of the probability of loss includes an appraisal of the available evidence, the hierarchy of laws, the available case law, the most recent court decisions and their relevance in the judicial order, as well as the opinion of external legal counsel. Provisions are reviewed and adjusted to consider changes in circumstances, such as applicable limitation period, conclusions of tax inspections or additional exposures identified based on new topics or court decisions.

At December 31, 2014, the Company had set up provisions in an amount of R$33,636.

2. Accounting practices--Continued

2.18. Equity-settled transactions

Employees (including executives) of the Group and its subsidiaries have received compensation in the form of share-based payments, whereby the employees provide services in exchange for equity securities ("transactions settled with equity securities").

Transactions settled with equity instruments

The cost of employees' transactions settled with equity instruments and awards granted is measured at fair value on the date of the grant. To determine fair value, the Group uses a pricing expert who employs an appropriate valuation method.

The cost of equity-settled transactions is recognized, in combination with a corresponding increase in shareholders' equity, over the period when the employee meets the performance and/or terms of service conditions, ending on the date when the employee acquires the full right to the award (vesting date). Accumulated costs recognized for equity-settled transactions, at each base date up to the vesting date, reflect the length of time since the expiry of the vesting period and the Company's best estimate of the number of its equity instruments to vest.

Expenses or credits to P&L for the year are shown under "personnel expenses", with a balancing entry to "equity valuation adjustments in equity", and represent changes in accumulated expenses recognized at the start and at the end of the year.

No expense is recognized for awards where the vesting period is not completed, other than those conditional on a market event (e.g. the price of Group shares), where the award vests irrespective of whether or not market conditions are satisfied, provided that all the other conditions for vesting are met.

2. **Accounting practices**--Continued

2.18. **Equity-settled transactions**--Continued

Transactions settled with equity instruments--Continued

In the case of an equity-settled transaction where the plan is amended, the minimum expense recognized in "personnel expenses" corresponds to the cost according to the original conditions. An additional expense is recognized for any amendment that increases the total fair value of the agreement for equity-settled payments.

The dilution effect of outstanding options is reflected as dilution of additional shares in calculating diluted earnings per share (Note 23.3).

The Company has no outstanding transactions involving share-based payments which are expected to be settled in cash.

2.19. **Translation of foreign currency balances**

The individual and consolidated financial statements are presented in *Reais* (in thousands of *Reais* – R$), which is the parent company's functional currency.

The functional currency of its overseas subsidiaries is the US Dollar, as a result of their business plans and, in particular, their operating costs. Assets and liabilities denominated in foreign currency are translated into the functional currency using the exchange rate ruling on the date of the respective balance sheets. Gains and losses from the adjustment of these assets and liabilities, as a result of differences between the exchange rates ruling on the date of the transaction and at the end of the year, are recognized in P&L as financial income or expenses.

2. **Accounting practices**--Continued

2.19. **Translation of foreign currency balances**--Continued

Functional currency and reporting currency for financial statements

The Group's functional currency is the Real, which is also the currency used for preparing and presenting the financial statements. The financial statements of each subsidiary included in the consolidation of the Group and used as a basis for valuation of investments by the equity method, are prepared based on the functional currency of each entity and denominated in Reais.

Transactions denominated in foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency (Real) using the current exchange rate as at the balance sheet date. Gains and losses resulting from the adjustment of these assets and liabilities incurred between the current exchange rate (sale PTAX published by the Central Bank of Brazil) on the date of the transaction and the respective year-end, are recognized as adjustments to asset valuation in equity.

2. Accounting practices--Continued

2.20. Adjustment of assets and liabilities to present value

Long-term monetary assets and liabilities are adjusted for inflation and, therefore, adjusted to present value. Adjustment to present value of short-term monetary assets and liabilities is calculated, and recorded, only if considered material in relation to the accounting statements taken as a whole. For the purposes of recording and determining materiality, the adjustment to present value is calculated taking into account the contractual cash flows and the explicit interest rate, and in some cases the implicit interest rate, of the respective assets and liabilities. On the basis of analyses carried out, and management's best estimates, the Group has concluded that the adjustment to present value of current and non-current monetary assets and liabilities is immaterial in relation to the financial statements taken as a whole, and so no such adjustment has been registered.

2.21. Leases

A contract is described as a lease when it is substantially based on the use of a specific asset or assets, or the right to the use of a certain asset, on the date of its execution.

The Group as lessee

Financial leases which basically transfer to the Group all the risks and benefits relating to the ownership of the item leased, are capitalized at the beginning of the lease for the fair value of the asset leased or, if lower, for the present value of the minimum leasing payments. To this cost are added, when applicable, the direct initial costs incurred in the transactions.

Financial lease payments are allocated to financial charges and to reducing the financial lease liabilities in such a way as to obtain a constant interest rate on the outstanding balance of the liability. Financial charges are recognized in P&L.

The assets leased are depreciated over their useful life. However, when it is not reasonably certain that the Group will obtain ownership at the end of the lease period, the asset is depreciated over its estimated useful life, or over the period of the lease, whichever is shorter.

Operating lease payments are recognized as an expense in P&L on a straight-line basis, over the period of the lease.

2. **Accounting practices**--Continued

2.21. **Leases**--Continued

The Group as a lessor

Leases for which the Group does not transfer substantially all risks of and benefits arising from ownership of the asset are classified as operating lease. Initial direct costs incurred in the negotiation of operating leases are added to the book value of the leased asset and recognized over the lease term on a basis similar to income from rents. Contingent rents are recognized as income over the period they are earned.

2.22. Cash flow statements

The cash flow statements were prepared and presented in accordance with Technical Pronouncement CPC 03R2.

2.23. Statements of value added

The statements of value added were prepared and presented in accordance with Technical Pronouncement CPC 09.

2.24. New standards, amendments and interpretations to existing standards not yet in effect

The following new standards and interpretations to existing standards were issued by the IASB, but are not yet effective for the period ended December 31, 2014. Early adoption of standards, although encouraged by the IASB, is not allowed in Brazil by the Brazilian Accounting Pronouncements Committee (CPC). IFRS 9 - “Financial instruments", covers the classification, measuring and the recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014, effective for January 1, 2018. It replaced the guidance in IAS 39, which relates to classification and measurement of financial instruments. IFRS 9 keeps, but simplifies, the combined measurement model and establishes three main categories of measurement for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. It also brings a new model of expected credit losses to replace the current model of incurred losses.

2. **Accounting practices**--Continued

2.24. New standards, amendments and interpretations to existing standards not yet in effect -- Continued

IFRS 9 relieves the requirements of hedge effectiveness and requires an economic relationship between the hedged item and the hedging instrument, and that the hedge ratio is the same as that that management in fact uses for risk management purposes. Management is evaluating the full impact of its adoption.

IFRS 15 – "Revenue from Contracts with Customers" – This new standard provides the principles that an entity shall apply to determine the measurement of revenue and when it is recognized. It comes into force on January 1, 2017 and replaces IAS 11 - "Construction Contracts", IAS 18 - "Revenues" and related interpretations. Management is evaluating the impact of its adoption.

There are no other IFRS or IFRIC interpretations that have not yet entered into effect that could have significant impact on the Company.

3. Judgments, estimates and significant accounting assumptions

Judgments

The preparation of the financial statements requires Management to make judgments and adopt estimates and assumptions that affect the amounts presented for income, expenses, assets and liabilities, as well as disclosure of contingent liabilities, on the financial statements base date. However, the uncertainty related to these assumptions and estimates may lead to results that require a significant adjustment to the book value of assets and liabilities affected in future periods.

In the process of applying the Group's accounting policies, Management makes the following judgments that have significant effect on the amounts recognized in the consolidated financial statements:

Operating lease commitments – Group as lessor

The Company contracted commercial leases in its portfolio of properties for investment. The Company determined that, based on the assessment of the terms and conditions of the agreements, it assumes all significant risks and benefits arising from ownership of said assets; accordingly, it books these agreements as operating leases.

Estimates and assumptions

The main assumptions related to sources of uncertainties in future estimates and other important sources of uncertainty in estimates at the balance sheet date, involving significant risks of causing a significant adjustment to the book value of assets and liabilities in the next fiscal year are discussed below:

3. Judgments, estimates and significant accounting assumptions --Continued

Judgments--Continued

Impairment of non-financial assets

Annually, the company tests for impairment its assets located in the Solimões, Namibia and Polvo basins, where it holds the operation of the respective blocks.

This asset analysis requires the application of judgments and it is subject to reviews on an annual basis, or at a shorter period, should there be any sign of significant changes. For specific Polvo analysis, we used the evaluation of D&M (Degolyer and Macnaughton) specialists.

The result of the evaluation corresponding to the Polvo field has not showed any reduction in the volume of the barrel of oil equivalent when compared to the last report issued in the previous year.

Due to the expiration of the minimum exploratory program of the Namibian licenses, and uncertainty over the renewal thereof, the Company decided to record the impairment of the entire balance of the corresponding assets. The Company continues to pursue the renewal of licenses.

3. Judgments, estimates and significant accounting assumptions --Continued

Estimates and assumptions--Continued

Impairment of non-financial assets--Continued

In the Solimões basin, the impairment of recorded amounts was recorded as exploration expenses. The amounts paid for the acquisition of signing bonuses continue in assets. The Company believes that the balance recorded is the fair value of the asset, in the case of a sale of its interest.

Taxes

The deferred tax asset is recognized for all tax loss carryforwards not utilized to the extent that it is probable that there will be future taxable income against which they can be offset. Substantial judgment from Management is required to determine the amount of the deferred income tax and social contribution asset that can be recognized, based on the probable term and amount of future taxable income, along with future tax planning strategies.

The Company presents tax loss carryforwards in the amount of R$675,854 (R$ 678,374 in 2013). These losses refer to subsidiaries that post a history of losses that do not lapse and cannot be used for offsetting against taxable income in another part of the Company. The offsetting of accumulated tax losses is limited to 30% of taxable income generated in a given fiscal year. These subsidiaries have neither temporary taxable differences nor tax planning that could partially justify the recognition of deferred tax assets.

Should the Company be able to recognize all unrecognized deferred tax assets, there would be a profit increase of R$229,790. For further details on deferred taxes, see Note 21.

3. Judgments, estimates and significant accounting assumptions --Continued

Estimates and assumptions--Continued

Share-based payment transactions

The Group measures the cost of settled transactions involving shares with employees based on the fair value of the equity instruments on the date they are granted. The estimate of the fair value of share-based payments requires the determination of the most appropriate valuation model for the concession of equity instruments, which depends on the terms and conditions of the concession. This also requires determining the most appropriate data for evaluation model, including the expected life of the option, volatility and dividend income yield and related assumptions. Assumptions and models used in fair value estimates of share-based payments are explained in note 23.

Fair value of financial instruments

When the fair value of the financial assets and liabilities presented in the balance sheet cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. The data for these methods are based on those adopted by the market, when possible.

however, when this is not feasible, a certain level of judgment is required to establish the fair value. Judgment includes considerations on data used, such as liquidity risk, credit risk and volatility. Changes in the assumptions related to these factors can affect the fair value presented for the financial instruments.

Provisions

The Group recognizes a provision for legal contingencies. The assessment of the probability of loss includes an appraisal of the available evidence, the hierarchy of laws, the available case law, the most recent court decisions and their relevance in the judicial order, as well as the opinion of external legal counsel. Provisions are reviewed and adjusted to consider changes in circumstances, such as applicable limitation period, conclusions of tax inspections or additional exposures identified based on new topics or court decisions.

The settlement of transactions involving these estimates may result in amounts different from those recorded in the financial statements due to inaccuracies inherent in the process to determine them. The Group revises its estimates and assumptions at least on an annual basis.

4. Investment in Affiliate

As required by ICPC 09 – Individual Financial Statements, Separate Financial Statements, Consolidated Financial Statements, and Equity Accounting, investments in affiliates and subsidiaries are accounted for under the equity method in the financial statements of the parent company, and investments in subsidiaries are eliminated for purposes of preparation of consolidated financial statements.

A subsidiary is an entity in which the Group, either directly or through other subsidiaries, holds shareholders' rights that assure, on a permanent basis, prevalence in corporate decisions and power to elect the majority of management members. An affiliate is an entity over which the Group has significant influence.

Based on the equity method, investment in affiliates and subsidiaries is accounted in the balance sheet of the parent company at cost, including changes after the acquisition of ownership interest in subsidiaries. Goodwill related to the subsidiary is included in the book value of the investment, and it is not amortized.

The income statement of the parent company reflects the portion of operating income (loss) of subsidiaries in the caption "equity pick-up". When a change is directly recognized in equity of the affiliate and subsidiary, the Group will recognize its portion in the variations occurred and will disclose this event, as applicable, in the statement of changes in equity. Unrealized gains and losses, resulting from transactions between the Group and its affiliates and subsidiaries, are eliminated in accordance with the interest held.

The ownership interest in subsidiaries is presented in the income statement as equity pick-up, representing net income proportionally attributable to the percentage of interest.

After applying the equity method, the Parent Company determines if it is necessary to recognize an additional impairment loss on the investment in its affiliates and subsidiaries. The Group determines, on each balance sheet closing date, if there is evidence that investments in affiliates and subsidiaries posted impairment losses. If so, the amount of impairment loss is calculated as the difference between that amount and book value, and that amount is recognized in the income statement.

5. Segment information

Operating segments are defined as business activities which can raise revenue and incur expenses. The operating results are regularly reviewed by the chief manager of the entity's operations for making decisions about funds to be allocated to the segment, to assess its performance and to make individualized financial information available

6. Cash and cash equivalents

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Cash	**1**	1	**1**	1
Banks	**48**	17	**350,633**	33,581
	49	18	**350,634**	33,582
National	**49**	18	**202**	258
Abroad	**-**	-	**350,432**	33,324

The balance of cash and cash equivalents consists primarily of (i) remunerated accounts abroad, mostly in U.S. dollars in banks rated as investment grade by the major rating agencies, and (ii) investment fund in U.S. dollars backed by American Treasury securities (Treasury Liquidity Fund), managed by JP Morgan. The resources substantially originates from oil exports made by HRTO&G subsidiary.

7. Marketable securities

			Parent company		Consolidated	
Bank	Maturity	Remuneration	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Brazil - Debentures						
Bradesco	-	CDI	**-**	-	**-**	31,033
Itaú BBA	-	CDI	**87,924**	18,165	**94,370**	35,248
BTG Pactual	-	CDI	**-**	-	**-**	31,023
Citibank	-		**-**	-	**-**	22,688
Chase	-		**-**	-	**-**	965
Votorantim	-	CDI	**-**	-	**3,942**	-
Total investments for trading			**87,924**	18,165	**98,312**	120,957

Financial investments mainly comprise repurchase agreements backed by debentures, in national currency, issued by banks considered investment grade by the major ratings agencies. Financial investments are tied to the remuneration of the Interbank Deposit Certificate - CDI.

7. Marketable securities -- Continued

For guarantee

On December 31, 2013 the Company had financial investments in the amount of R$ 273,001, in order to ensure the acquisition of 60% of the exploration right of Polvo field, as discussed in Note 14, being part used for the payment of transaction, and part to early settle the loan with Credit Suisse, as described in Note 16. On December 31, 2014, the Company was free of any guarantees restricting its liquidity.

8. Recoverable taxes

	Parent company		Consolidated	
	12/31/2014	**12/31/2013**	**12/31/2014**	**12/31/2013**
Income and social contribution	**9,937**	14,222	**21,323**	34,403
Pis and Cofins	**-**	-	**13,599**	**-**
VAT	**-**	-	**4,273**	8,039
Other	**-**	-	**146**	81
	9,937	14,222	**39,341**	42,523

9. Assets held for sale

On 2013, the Company began the process of divesting of non-core assets. This process includes the sale of the remaining fleet of helicopters, and helitransportable drilling rigs, besides the sale of subsidiary Air Amazonia, which was completed in the third quarter of 2013. Additionally, during this period HRT BV completed the sale of one helicopter and received the amount of R$ 6 million for it.

The table below shows the fixed assets held for sale:

	12/31/2014	**12/31/2013**
Aircrafts		
Quantity	**7**	8
Cost of aircrafts	**151,639**	151,639
Accumulated depreciation of aircrafts	**(31,858)**	(31,858)
Write-off of aircrafts sold	**(75,520)**	(64,005)
Loss on revaluation to market value	**(42,304)**	-
Translation adjustment	**24,870**	16,050
	26,828	71,826
Rigs		
Quantity	**4**	4
Cost of rigs	**126,860**	126,860
Loss on revaluation to market value	**(59,994)**	(59,994)
Translation adjustment	**28,757**	16,848
	95,623	83,714
Cranes		
Cost of cranes	**5,547**	-
Write-off of cranes sold	**(6,434)**	-
Translation adjustment	**887**	-
Fair value of cranes	**-**	-
Exploration assets - Solimões Basin	**135,707**	-
	258,158	155,540

Assets held for sale are recorded at fair value, which is the lowest amount between the fair value and the historical cost. The sale of assets held for sale is considered highly likely and the Company maintains an active search for buyers.

In addition, management has been making the necessary efforts to successfully sell such assets by amounts equal or higher than those recorded. Changes in economic conditions or in transactions currently under discussion may result in the recognition of further losses to those already recognized.

9. Assets held for sale--Continued

In March 2014, HRTO&G and Rosneft signed an "FOA" (Farm-Out Agreement) agreement to transfer the operation and a 6%-interest in Solimões, and a purchase and sale agreement of 4 onshore drilling rigs in the total amount US$ 36 million, of which US$ 18 million were paid in advance to the Company on the agreement signing date.

In July 2014, ANP approved the transfer of 6% of the exploration rights and the transfer of Solimões operations to Rosneft. On the same date, the Company signed a memorandum of understanding for the second phase of the gas monetization project in that Basin. However, until the end of the year ended December 31, 2014, the negotiations based on the terms of said “FOA” had not been completed.

10. Advances to suppliers

	Parent company		Consolidated	
	12/31/2014	**12/31/2013**	**12/31/2014**	**12/31/2013**
Queiroz Galvão Óleo & Gás	**-**	-	**25,993**	13,347
Geoquasar Energy	**-**	-	**18,234**	15,530
BW Guarantee (Prosafe)	**-**	-	**18,613**	-
Other	**194**	113	**5,344**	4,131
	194	113	**68,184**	33,008
Provision for non-realization of assets	**-**	-	**(25,993)**	-
	194	113	**42,191**	33,008

The amount paid in advance to Queiroz Galvão refers to clause 24.2 of the agreements of Rigs QG-VIII and QG-IX, which started to be discounted from the monthly billing of said rigs as from October 2012. The advances to Geoquasar refer basically to deposits in court made by determination of the Ministry of Labor, operating costs assumed by HRT O&G and contractual payments in advance. The advances to BW Offshore (Prosafe) refer to contractual commitments and are held as a financial collateral from lease agreements and operation of FPSO Polvo.

11. Advances from partners in Oil and Gas operations

	2014	2013
Current liabilities		
Operated blocks		
Rosneft		
Solimões Sedimentary Basin	**(22,444)**	12,849
Maersk		
BM-C-8 - Polvo	**62,495**	-
GALP		
Namíbia – Petroleum Exploration Licences 23	**(7,198)**	13,769
Total operated blocks	**32,853**	26,618
Non-operated blocks (Cowan – ES)	**(16)**	(722)
Total current liabilities	**32,837**	25,896

The amounts recorded in current liabilities refer to the amounts payable, net of receivables, of the respective exploration and oil production projects in which the Company is the operator, for which there have been the investment of funds and the monthly rendering of accounts.

12. Investments

At December 31, 2014 and 2013, the Company presented the following main interest held in subsidiaries:

- **HRT America Inc ("HRTA")**

  On March 4, 2011, HRT America Inc. (HRTA) was incorporated in Delaware, with head office in Houston, in the United States. The subsidiary was incorporated primarily to provide geological and geophysical services to the affiliates, mainly to its subsidiaries.

- **HRT O&G Exploração e Produção de Petróleo Ltda. ("HRTOG")**

  The subsidiary was created on July 20, 2009, with headquarters in Rio de Janeiro, and engages in: (i) exploration, development and production of oil and natural gas; (ii) import, export, refining, sale and distribution of oil, natural gas, fuel and oil by-products; (iii) generation, sale and distribution of electric power; and (iv) equity interest holding in other companies.

  HRTOG holds, since January 8, 2014, a 60%-interest in the Polvo Field, located in the southern portion of the Campos Basin, in the state of Rio de Janeiro.

  It also currently holds 55% of the exploration rights in two Consortia (BT-SOL 4 and BT-SOL 4A), comprising a total of 16 blocks in the Solimões Basin and has a percentage interest of 11.32% in HRTAF.

  In 2011, the subsidiary was qualified by ANP as a "B Operator", i.e., it is authorized to operate in both onshore ("A" Operator) and offshore blocks, in this case, up to 400 meters deep.

12. Investments--Continued

- **HRT Africa ("HRTAF")**

  The subsidiary initially named Labrea Petróleo S.A. had the new corporate name approved on March 30, 2011 by the Board of Trade of the State of Rio de Janeiro and its corporate purposes are: (i) exploration, development and production of oil and natural gas; (ii) import, export, refining, sale and distribution of oil, natural gas, fuel and oil by-products; (iii) generation, sale and distribution of electric power; and (iv) equity interest holding in other companies.

  On June 17, 2011, a subsidiary of HRT Africa in Namibia was organized.

  In the course of 2012, HRTP performed an ownership restructuring, streamlining the Group's ownership structure and centralizing assets located in the Republic of Namibia in Namibian subsidiaries incorporated for such purpose.
  As part of this restructuring, HRT Canada Inc. (HRTC) was contributed to HRT Africa and more two Namibian companies were incorporated: HRT Walvis and HRT Luderitz.

  Accordingly, the assets regarding which the Group holds an exploration license in the Republic of Namibia were consolidated under a single ownership structure, having HRTAF in Brazil as parent company.

  HRTAF has interest in two Blocks in Recôncavo Basin, one block in Rio do Peixe Basin and one Block in Espírito Santo Basin.

  As part of the acquisition of Polvo field, HRT Africa received 100% interest in BP Energy América LLC (current HRT Lux Energy S.à.r.l.), the owner of a fixed platform, called "Polvo A", and of a 3,000 HP drilling rig, which is the equipment needed for operations in this field.

12. Investments--Continued

- **IPEX - Integrated Petroleum Expertise Company Serviços em Petróleo Ltda. ("IPEX")**

  The subsidiary was organized on July 31, 2004 under the corporate name of High Resolution Technology & Petroleum Ltda., to provide geological and geophysical research services in the oil exploration segment in Brazil. In 2009, the corporate name of the subsidiary was changed to Integrated Petroleum Expertise Company - Serviços em Petróleo Ltda.

  Continuing the initiatives of divesting non-core assets and reducing corporate costs, initiated in 2013, the Company entered into on September 17, 2014, the Purchase and Sale Agreement with Eurofins Scientific Group ("Eurofins"), for sale its subsidiary Integrated Petroleum Expertise Company - Serviços em Petróleo Ltda ("IPEX").

  The purchase and sale between HRT and Innolab of Brazil Ltda ("Innolab"), a subsidiary of Eurofins in Brazil occurred in September 26, 2014, in accordance with the contractual terms. The transaction of purchase and sale considered in addition to the full transfer of the share in the capital of HRT for Innolab IPEX, the transfer of all equipment, contracts and employees.

  Until the date of sale IPEX results presented as follows:

	09/26/2014	12/31/2013
Gross income	**3,592**	7,007
Deductions from gross income	**(625)**	(1,006)
Net income	**2,967**	**6,001**
Cost of products/services	**(474)**	(2,267)
Gross income	**2,493**	**3,734**
Operating expenses	**(6,660)**	(11,218)
Net financial income (loss)	**30**	11
Profit/loss before income taxes and social contribution	**(4,137)**	**(7,473)**
Deferred income and social contribution taxes	**460**	-
Income (loss) from discontinued operation	**(3,677)**	**(7,473)**
Revenue from Group's companies	**634**	1,606

12. **Investments**--Continued

Portfolio of concessions

At December 31, 2014, the Group's subsidiaries were part in the following concessions in Brazilian basins and had the following Petroleum Exploration Licenses (PEL) in Namibian basins:

Country	Basin	Block	Operator	% HRT
Brazil	Solimões	SOL-T-169	HRTOG	55%
Brazil	Solimões	SOL-T-168	HRTOG	55%
Brazil	Solimões	SOL-T-170	HRTOG	55%
Brazil	Solimões	SOL-T-191	HRTOG	55%
Brazil	Solimões	SOL-T-192	HRTOG	55%
Brazil	Solimões	SOL-T-214	HRTOG	55%
Brazil	Solimões	SOL-T-215	HRTOG	55%
Brazil	Solimões	SOL-T-216	HRTOG	55%
Brazil	Solimões	SOL-T-217	HRTOG	55%
Brazil	Solimões	SOL-T-194	HRTOG	55%
Brazil	Solimões	SOL-T-195	HRTOG	55%
Brazil	Solimões	SOL-T-151	HRTOG	55%
Brazil	Solimões	SOL-T-174	HRTOG	55%
Brazil	Solimões	SOL-T-197	HRTOG	55%
Brazil	Solimões	SOL-T-196	HRTOG	55%
Brazil	Solimões	SOL-T-218	HRTOG	55%
Brazil	Campos	BM-C-8	HRTOG	60%
Brazil	Espírito Santo	ES-T-400	HRTAF	10%
Brazil	Recôncavo	REC-T-158	HRTAF	10%
Namíbia	Orange	PEL028	HRT Luderitz	77.2%
Namíbia	Orange	PEL024	Kunene	86%
Namíbia	Orange	PEL022	Orange	100%
Namíbia	Walvis	PEL023	HRT Walvis	86%

(*) The terms of the exploration period, as well as its estimated activities, are detailed in Note 21.

12. **Investments**--Continued

a) Breakdown of Investment

	Parent company	
	12/31/2014	**12/31/2013**
HRT O&G Exploração e Produção de Petróleo Ltda.	**361,979**	1,049,485
IPEX - Integrated Petroleum Expertise Company Serviços em Petróleo Ltda.	**-**	(4,048)
HRT América	**379**	12,174
HRT Africa	**258,055**	434,085
	620,413	**1,491,696**

b) Changes in investments

	HRTOG	IPEX	HRTBV	HRT África	HRT América	Air Amazonia	Total
Balance at January 1, 2013	1,820,451	(4,303)	211,023	1,468,334	13,334	(64,502)	3,444,337
Capital increase	34,016	-	-	217,940	-	2,612	254,568
Merger of HRT BV by HRT Africa	-	-	(283,807)	283,807	-	-	-
Equity pick-up	(794,361)	255	50,921	(1,428,065)	(3,106)	73,802	(2,100,554)
Sales of shares	-	-	-	-	-	(11,912)	(11,912)
Conversion adjustments	(10,621)	-	21,863	13,890	1,946	-	27,078
Impairment	-	-	-	(121,821)	-	-	(121,821)
Balance at December 31, 2013	1,049,485	(4,048)	-	434,085	12,174	-	1,491,696
Capital increase	**-**	**11,888**	**-**	**497**	**-**	**-**	**12,385**
Equity pick-up	**(707,257)**	**(3,772)**	**-**	**(273,812)**	**(12,459)**	**-**	**(997,300)**
Sales of shares	**-**	**(4,068)**	**-**	**-**	**-**	**-**	**(4,068)**
Conversion adjustments	**19,751**	**-**	**-**	**105,053**	**664**	**-**	**125,468**
Impairment	**-**	**-**	**-**	**(7,768)**	**-**	**-**	**(7,768)**
Balance at December 31, 2014	**361,979**	**-**	**-**	**258,055**	**379**	**-**	**620,413**

c) Significant information on investees

	HRTOG	IPEX	HRT Africa	HRT America
Direct interest	100%	100%	89%	100%
Indirect interest	0%	0%	11%	0%
Equity	361,979	-	290,998	379
Income (loss) for the year	(835,322)	-	(325,293)	(12,459)
Total assets	894,584	-	394,790	9,490

13. Property, plant and equipment (consolidated)

a) Breakdown of balances

	Depreciation rate - %	Cost	Depreciation	Translation adjustment	Balance at 12/31/2014	Balance at 12/31/2013
In operation						
Sculptures	-	-	-	-	-	26
Vessels	10	-	-	-	-	543
Polvo A platform and s platform and drilling rig	UOP	101,439	(41,983)	4,037	63,493	
Machinery and equipment	10	1,695	(697)	6	1,004	8,677
Furniture and fixtures	10	2,812	(1,530)	69	1,351	4,158
Communication equipment	20	218	(132)	-	86	265
Vehicles	20	959	(487)	(244)	228	5,581
IT equipment	20	6,767	(4,805)	91	2,053	4,639
Leasehold improvements	4	2,497	(752)	130	1,875	57,534
Facilities	10	2,615	-	217	2,832	8,983
In progress						
Material for use and consumption (wells)		3	-	-	3	41,989
Advances for acquisition of cranes		-	-	-	-	6,729
Total		119,005	(50,386)	4,306	72,925	139,124

b) Changes in balances

	Balance at 01/01/2014	Additions	Write-offs	Depreciation	Impairment	Translation adjustment	Transfers	Balance at 12/31/2014
In operation								
Sculptures	**26**	**-**	**(26)**	**-**	**-**	**-**	**-**	**-**
Vessels	**543**	**-**	**-**	**(81)**	**(462)**	**-**	**-**	**-**
Polvo A platform and s platform and drilling rig	**-**	**101,439**	**-**	**(41,983)**	**-**	**4,037**	**-**	**63.493**
Machinery and equipment	**8,677**	**98**	**(2,939)**	**(1,135)**	**(2,337)**	**(1)**	**(1,359)**	**1,004**
Furniture and fixtures	**4,158**	**-**	**(1,569)**	**(633)**	**(840)**	**204**	**31**	**1,351**
Communication equipment	**265**	**53**	**(27)**	**(102)**	**(103)**	**-**	**-**	**86**
Vehicles	**5,581**	**3,828**	**(265)**	**(1,841)**	**(6,853)**	**(222)**	**-**	**228**
IT equipment	**4,639**	**72**	**(327)**	**(1,585)**	**(183)**	**(563)**	**-**	**2,053**
Leasehold improvements	**57,534**	**1,197**	**(387)**	**(2,905)**	**(560)**	**294**	**(53,298)**	**1,875**
Facilities	**8,983**	**16**	**(3,571)**	**(572)**	**(1,997)**	**(499)**	**472**	**2,832**
In progress								
Material for use and consumption (wells)	**41,989**	**14,257**	**(31,657)**	**-**	**(24,941)**	**-**	**355**	**3**
Advances for acquisition of cranes	**6,729**	**-**	**-**	**-**	**-**	**(402)**	**(6,327)**	**-**
Total	**139,124**	**120,960**	**(40,768)**	**(50,837)**	**(38,276)**	**(2,848)**	**(60,126)**	**72,925**

	Balance at 01/01/2013	Additions	Write-offs	Depreciation	Impairment	Translation adjustment	Transfers to assets held for sale	Balance at 12/31/2013
In operation								
Aircrafts	133,838	-	(64,005)	(14,057)	-	16,050	(71,826)	-
Sculptures	26	-	-	-	-	-	-	26
Vessels	613	-	-	(70)	-	-	-	543
Machinery and equipment	9,788	112	-	(1,223)	-	-	-	8,677
Furniture and fixtures	4,826	323	(373)	(657)	-	39	-	4,158
Communication equipment	359	5	-	(99)	-	-	-	265
Vehicles	7,362	43	-	(1,932)	-	108	-	5,581
IT equipment	6,589	-	(197)	(1,878)	-	125	-	4,639
Leasehold improvements	60,394	-	(96)	(3,068)	-	304	-	57,534
Facilities	8,786	-	-	(575)	-	772	-	8,983
In progress								
Material for use and consumption (wells)	39,446	2,543	-	-	-	-	-	41,989
Advances for acquisition of cranes	5,641	262	-	-	-	826	-	6,729
Advances for acquisition of rig	115,108	11,752	-	-	(59,994)	16,848	(83,714)	-
Other	1,086	-	(1,086)	-	-	-	-	-
Total	393,862	15,040	(65,757)	(23,559)	(59,994)	35,072	(155,540)	139,124

14. Intangible assets (consolidated)

a) Breakdown of the balance

	Amortization rate (%)	Consolidated	
		12/31/2014	**12/31/2013**
Oil & Gas assets			
Subscription bonus - Solimões Basin	(*)	**-**	135,707
Subscription bonus – Walvis Basin	(*)	**-**	10,449
Subscription bonus – Orange Basin	(*)	**-**	349,335
Subscription bonus - Recôncavo - ES	(*)	**151**	151
Assets in production – Polvo	(*)	**301,973**	-
Exploration expenses	(*)	**170**	487,488
Software and other	20	**9,532**	11,018
		311,826	994,148
Accumulated amortization		**(134,876)**	(5,833)
Total		**176,950**	988,315

(*) Subscription bonuses and exploration expenses are amortized by the unit of production method, considering the production of each concession and the volume of reserves. If economically feasible hydrocarbon reserves are not identified, these costs will be posted to P&L.

b) Changes in balances

	Balance at 01/01/2013	Additions	Write-offs	Assets held for sale	Amortization	Impairment	Translation adjustment	**Balance at 12/31/2013**
Subscription bonus - Solimões Basin	167,095	-	(20,445)	-	-	(10,943)	-	135,707
Subscription bonus – Walvis Basin	53,689	-	-	-	-	(43,240)	-	10,449
Subscription bonus – Orange Basin	1,278,703	-	-	-	-	(973,971)	44,603	349,335
Subscription bonus - Reconcavo - ES	165	-	(14)	-	-	-	-	151
Exploration expenses	810,270	509,739	(641,712)	-	-	(190,809)	-	487,488
Software and other	6,959	-	-	-	(1,774)	-	-	5,185
Goodwill	406,530	-	-	-	-	(406,530)	-	-
	2,723,411	509,739	(662,171)	-	(1,774)	(1,625,493)	44,603	988,315

	Balance at 01/01/2014	Additions	Write-offs	Assets held for sale	Amortization	Impairment	Translation adjustment	**Balance at 12/31/2014**
Subscription bonus - Solimões Basin	135,707	-	-	(135,707)	-	-	-	-
Subscription bonus – Walvis Basin	10,449	-	-	-	-	(10,449)	-	-
Subscription bonus – Orange Basin	349,335	-	-	-	-	(396,099)	46,764	-
Subscription bonus - Reconcavo - ES	151	-	-	-	-	-	-	151
Subscription bonus - Polvo	-	301,973	-	-	(127,403)	-	-	174,570
Exploration expenses	487,488	55,395	(542,713)	-	-	-	-	170
Software and other	5,185	1,464	(3,125)	-	(1,640)	-	176	2,060
	988,315	358,832	(545,838)	(135,707)	(129,043)	(406,548)	46,940	176,951

14. Intangible assets (Consolidated)--Continued

b) Changes in balances--Continued

The subscription bonus for each block is presented below:

Blocks	12/31/2013	Acquisition	Amortization	Impairment	Assets held for sale	Translation adjustment	12/31/2014
Onshore							
SOL-T-168	10,492	-	-	-	(10,492)	-	-
SOL-T-169	5,802	-	-	-	(5,802)	-	-
SOL-T-170	4,010	-	-	-	(4,010)	-	-
SOL-T-191	9,903	-	-	-	(9,903)	-	-
SOL-T-192	10,561	-	-	-	(10,561)	-	-
SOL-T-214	9,892	-	-	-	(9,892)	-	-
SOL-T-215	10,553	-	-	-	(10,553)	-	-
SOL-T-216	10,553	-	-	-	(10,553)	-	-
SOL-T-217	10,553	-	-	-	(10,553)	-	-
SOL-T-151	8,593	-	-	-	(8,593)	-	-
SOL-T-174	10,567	-	-	-	(10,567)	-	-
SOL-T-194	8,049	-	-	-	(8,049)	-	-
SOL-T-195	4,400	-	-	-	(4,400)	-	-
SOL-T-196	5,940	-	-	-	(5,940)	-	-
SOL-T-197	10,561	-	-	-	(10,561)	-	-
SOL-T-218	5,278	-	-	-	(5,278)	-	-
ES-BT-400	100	-	-	-	-	-	**100**
REC-T-158	51	-	-	-	-	-	**51**
Total onshore bonus	**135,858**	**-**	**-**	**-**	**(135,707)**	**-**	**151**
Offshore							
PEL 0023	10,449	-	-	(10,449)	-	-	-
PEL 0028	22,980	-	-	(26,056)	-	3,076	-
PEL 0024	232,372	-	-	(263,479)	-	31,107	-
PEL 0022	93,983	-	-	(106,564)	-	12,581	-
BM-C-8	-	301,973	(127,403)	-	-	-	174,570
Total offshore bonus	**359,784**	**301,973**	**(127,403)**	**(406,548)**	**-**	**46,764**	**174,570**

Solimões

Regarding the blocks in Solimões Basin, the terms for exploration of SOL-T-151, SOL-T-174, SOL-T-192, SOL-T-196, SOL-T-197, SOL-T-214, SOL-T-215, SOL-T-216, SOL-T-217 and SOL-T-218 blocks were postponed for 4 years. The Group's strategy includes the farm-out of this project as alternative for investment financing. Also, a study is being made regarding monetization of gas findings, and its alternatives for deployment are underway by the current partner in these assets - Rosneft and Petrobras, and other potential partners for development of assets.

14. Intangible assets (Consolidated)--Continued

b) Changes in balances--Continued

Solimões—continued

HRTO&G requested ANP to postpone or suspend the second phase of the exploration period regarding SOL-T-148 and SOL-T-149 blocks. On January 28, 2014, the company received an official letter informing that the request was rejected, the final term of May 5, 2014 being maintained

Management decided to record a provision for impairment in the amount of the bonuses relating to SOL-T-148 and SOL-T-149 blocks, in the amount of R$4,630 in the year 2013. In December 2014, the Company received final decision rejecting the request for renewal and wrote-off the amounts provisioned.

Regarding SOL-T-195 block, the Company also requested ANP to postpone the second phase of the exploration period HRT obtained the extension for two years, through official letter No. 790/2014/SEP released on July 17, 2014.

Subsequently, the Company carried out the impairment test of the Solimões assets, through which it posted a loss of R$ 486,875 (R$ 1,625,493). The amounts capitalized in Solimões intangible assets refer only to the subscription bonus regarding licenses falling due in the amount of R$ 135,707 thousand.

Namíbia

On November 10, 2014, the Company requested the Namibian government to extend the term of the concessions on the coast of Africa. Negotiation comprised the return/abandonment of all Petroleum Exploration Licenses 22, 23, 24 and 28 and at the same time the return of the same, thus performing a “re-application” of said licenses.

By the end of the year, with the expiration of licenses and without a concrete indication of renewal, re-application and/or extension of the exploratory terms through the Ministry of Mines and Energy of Namibia, the Company decided to discontinue exploration efforts on these prospects and, therefore, provision the subscription bonus balance.

14. Intangible assets (Consolidated)--Continued

b) Changes in balances--Continued

Business combinations

On January 8th, 2014 the Company completed the commercial transaction with BP for the transfer of the 60% interest in the Polvo Field to HRT, becoming the operator of said concession. In addition, the Company acquired 100% interest in BPEA, which owns the fixed platform, "Polvo A" and a 3,000 HP drilling rig that operates in the field.

It is worth highlighting that according to contractual conditions, the purchase price was subject to review by the Company and was altered in relation to the preliminary amounts, according to the conclusion of the business transaction with BP on January 8, 2014.

	US$
Original value of the transaction - based January 1st, 2013	**135,000**
(-) Price adjustments	**(54,528)**
(+) Guarantees of transferred contracts	**7,356**
(+) Balance of the joint venture cash - on January 1st, 2013	**4,351**
Consideration transferred at the end of the transaction (*)	**92,179**

(*) Pursuant to contractually agreed price adjustments and equivalent to R$ 219,192

The Company preliminarily valued, at the date of acquisition, the assets acquired and liabilities assumed at their fair values. As provided by technical pronouncement CPC 15 (R1) during the measurement period, the initial allocation of the purchase price may be monetarily restated. The conclusion of the final purchase price was carried out in October 2014 and the final price allocation promoted the componentization of oil and gas assets in its various elements.

The Company contracted an independent expert to assist in the validation process for the allocation of the purchase price and determination of the fair value of net assets acquired, completed in December 2014.

14. Intangible assets (Consolidated)--Continued

b) Changes in balances--Continued)

Business Combination--Continued

Allocations made in the acquisition are presented below:

	In thousand of reais
Assets	
Current assets	
Cash and cash equivalents	50,499
Advances to suppliers	17,492
Inventories	52,228
Recoverable taxes	7,658
	127,877
Non-current assets	
Oil & Gas assets	
Concession contract	296,816
Production platform and drilling rig	99,416
	396,232
Total assets	**524,109**
Liabilities	
Current liabilities	
Deferred income and social contribution taxes	15,701
Advance from partners	56,124
Taxes payable	29,567
	101,392
Non-current liabilities	
Provision for abandonment	122,521
	122,521
Total liabilities	**223,913**
Final consideration transferred in Reais	**219,192**
Bargain purchase recognized in a business combination	**81,004**

The Company through HRT O&G entered into a purchase and sale agreement with Maersk Energia Ltda ("Maersk") to acquire 40% stake in the Campo de Polvo. The completion of the sale between HRT O&G and Maersk transaction is subject to certain conditions, among which the final approval of the National Agency of Petroleum, Natural Gas and Biofuels (ANP).

In a board meeting held on October 8, 2014, the ANP rejected the sale of 40% interest in Polvo Field by Maersk. HRT filed a request for reconsideration on October 24, 2014 and is awaiting new positioning of the ANP.

HRT O&G has plans to life extension of that field by increasing production from proved developed and undeveloped (1P) and probable reserves (2P).

15. Suppliers (Consolidated)

	Consolidated	
	12/31/2014	**12/31/2013**
Domestic suppliers	**45,221**	60,287
Suppliers abroad	**17,996**	3,075
	63,217	63,362

The change in the balance of suppliers is related to early 2014's activities HRTO&G as the Polvo field operator and balances on December 31, 2014 still include provisions related to the demobilization of some suppliers of Solimões, some of which have advances.

16. Loans (consolidated)

	Consolidated	
Current	**12/31/2014**	**12/31/2013**
Credit Suisse	**-**	70,380
Total	**-**	70,380

In 2013, HRT O&G entered into a financing agreement with Credit Suisse in the amount of US$75,000,000, effective for 24 months. According to the agreement, repayment will be made in 6 installments, as follows: fixed rate of 7.25% p.a. and variable rate of 1.5% on the estimated production of the asset in the first 12 months, and 1.25% on the production estimated for the period between the 13th and 24th month.

The first repayment, in the amount of US$40 million, was made on October 15, 2013, and the outstanding balance would be paid in 5 quarterly installments as from April 2014. On February 21, 2014, HRTO&G settled the outstanding balance of this financing.

17. Debentures (Consolidated)

The Board of Directors' Meeting held on October 27, 2014 approved the 1st issue of convertible debentures in a single series, subordinated and unsecured, of private placement, amounting to R$ 90,000,000.00.

On December 9, 2014 the placement was completed, with the subscription of a total of 4,359,624 debentures, totaling R$ 87,192,480.00.

The debentures may be converted into shares at the sole discretion of the debenture holders, as of October 24, 2015 until the date of maturity of the debentures. The number of shares to be delivered to the debenture holders on the date of conversion of the debentures will be the result of dividing the par value of the debentures by the lesser of: (i) the weighted average, based on the the daily volume, of the closing price of the shares in the last 10 trading sessions on BM&FBOVESPA, preceding October 27, 2014, applying a 25% discount; or (ii) the weighted average, based on the daily volume, of the closing price of shares in the last 10 trading sessions on the BM&FBOVESPA, prior to receipt of the conversion request by applying a discount of 25%, thus giving a conversion price.

The debentures have a term of five (5) years, maturing in October 27, 2019, and will bear interest corresponding to the accumulated variation of 90% (ninety percent) of the average daily rates of the DI rate.

The full remuneration will be paid semiannually, with the first payment made 6 months after the date of issuance.

18. Impairment

Management tests the net book value of assets annually in order to identify events or changes in economic and operational expectations that may identify impairment. When such evidence is apparent, and the net book value exceeds the recoverable amount, a provision for impairment is set up to adjust the net book value to the recoverable amount.

On December 31, 2014, the Company tested its assets for impairment, and total losses were determined in the amount of R$486,875.

Assets held for sale

The historical book value of the Company's aircrafts were included in the divestment program is R$ 68,879. Impairment was determined at R$26,828 based on the market value, having as reference recent transactions involving similar assets, as well as the negotiations in course regarding the sale of the asset. Thus, an adjustment in the net book value of R$ 42,051 was recorded.

Exploration assets in Namibia

License	Subscription bonus	Impairment	Final subscription bonus
PEL 0023	10,449	(10,449)	-
PEL 0028	26,056	(26,056)	-
PEL 0024	263,479	(263,479)	-
PEL 0022	106,564	(106,564)	-
	406,548	(406,548)	-

As mentioned in Note 14, the Company made exploration campaigns in certain prospects through the drilling of Wingat, Murombe and Moosehead wells, which were classified as dry or sub-commercial. With the expiration of licenses and without a concrete indication of renewal or extension of the exploratory terms through the Ministry of Mines and Energy of Namibia, the Company decided to discontinue exploration efforts on these prospects and, therefore, provision the subscription bonus balance.

18. Impairment--Continued

Exploration assets in Solimões

Regarding prospects maintained in its assets, the Company has been making all efforts required to achieve the results expected and, as mentioned in Note 1, it is looking for strategic partnerships through reduction of interest, so as to obtain the funds required for additional investments, and does not rule out negotiating its interest. Based on this option, in view of the fair value determined, the Company decided to write-off all exploration expenses allocated to the Solimões project.

In addition, fixed assets related to Solimões recorded in property, plant and equipment have been tested, with an adjustment in the recoverable value of R$ 38,276.

19. Operating lease (lessee)

(Leased Floating, Production, Storage and Offloading Unit from Prosafe Prosafe Production B.V.

Prosafe Production B.V. (currently owned by BW Offshore - "BWO")

The subsidiary HRT O&G (lessee) has a lease agreement of a FPSO vessel with Prosafe (lessor) entered into on December 10, 2013, with 1-year term, and may be renewed annually up to May 1, 2022 .

20. Taxes and social contributions

	Parent company		Consolidated	
	12/31/2014	12/31/2013	**12/31/2014**	12/31/2013
PIS and Cofins on service imports	**-**	-	**62**	-
Service tax	**-**	45	**115**	3,808
Withholding Income Tax (IRRF) on services	**102**	1,253	**960**	3,285
Social contribution tax on services	**15**	31	**419**	3,444
INSS	**4,246**	6,825	**5,559**	14,624
FGTS	**501**	575	**646**	921
Other	**26**	8	**757**	219
	4,890	8,737	**8,518**	26,301

21. Current and deferred income tax and social contribution

Companies	Tax loss		Tax credit	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
HRTP	**65,980**	47,503	**22,433**	16,151
HRTOG	**592,531**	608,269	**201,461**	206,811
IPEX	**-**	13,564	**-**	4,612
HRTAF	**17,343**	9,038	**5,897**	3,073
	675,854	678,374	**229,790**	230,647

The Group has tax loss carryforwards generated in Brazil which may be offset against future taxable profit, limited to 30% every year. Management conservatively opted not to account for said tax credits, which will be recognized as the future taxable income is being generated.

The provision for deferred income and social contribution tax liabilities are as follows:

	Parent company		Consolidated	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Temporary differences on fair value recognized assets on business combinations	**-**	63,450	**9,102**	126,877
Deferred income and social contribution liabilities	**-**	-	**385**	-
	-	63,450	**9,487**	126,877

In May 2014, this Provisional Executive Order was converted into Law No. 12,973, as amended on some devices, including with regard to the treatment of dividends, interest on capital and investment appraisal for the value of equity. Differently than anticipated Provisional Executive Order, the Law No. 12,973 established the non tax incidence unconditionally for profits and dividends calculated based on the results reported between January 1, 2008 and December 31, 2013

The Company prepared an analysis of the possible effects of Law No. 12,973, and concluded that they have no significant effect on its operations and financial statements for December 31, 2014 and December 31, 2013 and is evaluating whether or not opt for anticipation of its effects, which should be manifested in the Statement of Charges and Federal Tax Credits (DCTF) relating to events that occurred in the month of August pursuant to the Receita Federal do Brasil (RFB) 1499/2014 published in the Official Gazette of 10.16.2014.

22. Provision for abandonment

Changes in the provision for abandonment of wells is shown below:

	Consolidated
On January 8, 2014	**122,520**
Currency adjustment	**14,488**
Price-level restatement	**1,031**
On December 31, 2014	**138,039**

The estimated abandonment costs were provisioned for the period ended December 31, 2014. This provision corresponds to HRT interest of 60%, and reflects the estimated present value discounted at the rate of 1.29% per annum and monetary restated at the rate of 1.33% per annum. In addition, amounts are adjusted by the variation of the U.S. dollar. These costs will be incurred in the abandonment of the Polvo field, including, but not limited to the plugging of wells, and the removal of production lines and equipment.

23. Equity

23.1. Capital

At December 31, 2014, the subscribed and paid-in capital in the amount of R$3,821,206 is divided into 29,748,449 common registered book-entry shares, with no par value (after the reverse split approved by the Extraordinary General Meeting (EGM) on June 24, 2014 and concluded on August 04, 2014, at the ratio of 10 to 1). The Company's authorized capital is R$10,000,000,000.00 (ten billion Reais).

It is worth mentioning that at the Annual and Special Shareholders' Meeting held on April 27, 2012, the split of shares issued by the Group at the ledge of 1/50 was approved, so that each share issued by the Company is represented by 50 (fifty) shares.

On June 24, 2014 was approved at an EGM, the reverse split of shares of the Company at the ratio of 10 to 1, also including the grouping of Global Depositary Shares ("GDSs") issued and outstanding of the Company, being maintained the ratio of two GDSs for each common share until then in force.

23. Equity--continued

23.1. Capital—Continued

The amount of deferred income and social contribution tax liabilities are as follows:

Dates	Amount	Number of shares
Total capital at December 31, 2013	3,821,205	297,466,745
Reverse stock split at a ratio of 10 to 1	**3,821,205**	**29,746,674**
Payment of stock option	**1**	**1,775**
Total capital at December 31, 2014	**3,821,206**	**29,748,449**

23.2. Share-based payment

First program (SOP I)

On May 14, 2010, the Company approved the First Stock Option Program (SOP I), totaling 492,600 shares (number updated by the reverse stock split effected on August 04, 2014). From this total, 441,205 shares have already been issued and exercised and 47,995 canceled options until December 31, 2014.

Second Program - Retention Plan (SOP II)

Under the terms of the resolution of the Board of Directors held on May 9, 2012, in September 2012 the Company granted options representing up to 662,295 Company's shares (number updated by the reverse stock split effected on August 4, 2014) with the main objective of retaining key managers and employees, according to the Incentive Plan to Attract and Retain Strategic Employees, approved by the Extraordinary General Meeting on April 27, 2011.

23. **Equity**--continued

23.2. Share-based compensation--Continued

Second Program - Retention Plan (SOP II)--Continued

Until December 31, 2014, 147,852 shares have already been issued and exercised and 201,157 have been canceled.

As provided for in Accounting Pronouncement CPC 10 (IFRS 2) - Share-based payments, the fair value of the financial instrument is measured at the grant date of options using the Black-Scholes Merton pricing model based on the following assumptions:

Total shares granted	**662,295**
Price per share (in Reais)	**R$22.20**
Fair value of the option on the grant date (in Reais)	**R$64.20**
Estimated average volatility of price per share	**127.49%**
Average risk-free rate of return	**8.74%**
Option validity	**3 years**

Third Program - Performance Bonus (SOP III)

In January 2013, the Company granted options representing up to 541,458 shares (number updated by the reverse stock split effected on August 4, 2014) with the main objective of remunerting and retaining key managers and employees, according to the Performance Incentive Plan, approved by the Extraordinary General Meeting on April 27, 2011. Until December 31, 2014, 98,087 shares have already been issued and exercised and 93,931 options have been canceled.

As provided for in Accounting Pronouncement CPC 10 (IFRS 2) - Share-based payments, the fair value of the financial instrument is measured at the grant date of options using the Black-Scholes Merton pricing model based on the following assumptions:

Total shares granted	**541,458**
Price per share (in Reais)	**R$20.60**
Fair value of the option on the grant date (in Reais)	**R$58.70**
Estimated average volatility of price per share	**74.22%**
Average risk-free rate of return	**8.22%**
Option validity	**immediat e**

23. **Equity**--Continued

23.2. Share-based compensation--Continued

Fourth program (SOP IV)

Under the terms of the Board of Directors of the Company held on November 11, 2013 and signed with management contracts between the Company and two directors, were granted 175,000 shares of the Company (number updated by the reverse stock split effected on August 4, 2014) with the main objective of retaining administrators according to the Incentive Plan to Attract and Retain Strategic Employees, approved by the Extraordinary General Meeting on April 27, 2011. Until December 31, 2014, no option was exercised and options corresponding to 22,497 shares were canceled.

As provided for in Accounting Pronouncement CPC 10 (IFRS 2) - Share-based payments, the fair value of the financial instrument is measured at the grant date of options using the Black-Scholes Merton pricing model based on the following assumptions:

Total shares granted	**175,000**
Price per share (in Reais)	**R$7.90**
Fair value of the option on the grant date (in Reais)	**R$4.80**
Estimated average volatility of price per share	**0.7782%**
Average risk-free rate of return	**9.50%**
Option validity	**3 years**

23.3 Earnings per share

In compliance with CPC 41 (IAS 33) (approved by CVM Rule No. 636, of August 6, 2010 - Earnings per Share), the Group presents the following information on earnings per share for the fiscal periods ended December 31, 2014 and 2013. Basic earnings per share are calculated by dividing net income for the year attributed to the Company's common and preferred shareholders by the weighted average number of common and preferred shares available in the period.

Diluted earnings per share are calculated by dividing income/loss attributable to Company's common shareholders by the weighted average number of common shares available for the year, plus the weighted average number of common shares that would be issued on conversion of all potential diluted common shares into common shares.

23. Equity--Continued

23.3 Earnings per share--Continued

The tables below show data of income and shares used in calculating basic and diluted earnings per share:

Basic and diluted earnings (loss) per share	12/31/2014	12/31/2013
Numerator (in thousands of Reais)		
Loss for the year attributed to the Parent company's shareholders	**(1,003,073)**	(2,237,870)
Denominator (in thousands of shares)		
Weighted average number of common shares adjusted by dilution effect	**29,748**	**297,018**
Basic earnings and diluted per share	**(33.718)**	**(7.534)**

24. Related party transactions

Intercompany agreements

Commercial operations of HRTP with its subsidiaries are carried out at normal market prices and conditions.

Key management personnel compensation

Key management personnel compensation for the period ended December 31, 2014, totaled R$4,056 (R$8,119 in 2013).

Loans between related parties

On December 31, 2014, there was a loan agreement between HRT Africa (lender) and HRT (borrower) with the balance of R$ 2,068, and a loan agreement between HRT O&G (lender) and HRT (borrower) with the balance of R$ 3,134. These agreements have as updating factor the CDI (Interbank Deposit Certificates).

25. Gross operating margin

	Consolidated
	12/31/2014
Net income	**486,839**
Cost of oil production	**(254,861)**
Floating Production Storage and Offloading	**(58,429)**
Logistics	**(42,441)**
Consumables	**(29,058)**
Operation and maintenance	**(25,548)**
Personnel	**(13,203)**
SMS	**(12,504)**
Oil acquired at fair value in a business combination	**(51,077)**
Other costs	**(22,061)**
Royalties	**(46,969)**
Depreciation and amortization of oil and gas assets	**(166,248)**
Gross operating margin	**18,761**

On December 31, 2014 the oil in store in the amount of R$8,784 is representative of 57 thousand bbl.

Of the accounts receivable in the consolidated on December 31, 2014, R$ 622 refers to the sale of oil in the Polvo field. Regarding the other amounts, the principal balance receivable refers to chartering of aircrafts in the amount of R$ 1,037.

26. Financial income (loss)

On December 31, 2014, the Company's income (loss) is composed as follows:

	Consolidated	
	12/31/2014	12/31/2013
Financial income	**81,445**	134,233
Income from interest earning bank deposits	**7,101**	23,802
Foreign exchange variation income	**72,439**	103,150
Other financial income	**1,905**	7,281
Financial expenses	**(65,573)**	(90,167)
Expense on exchange rate change	**(48,819)**	(53,770)
Losses on derivative operations	**-**	(26,813)
Interest on loans	**(15,082)**	(5,086)
Other financial expenses	**(1,672)**	(4,498)
	15,872	44,066

27. Guarantees and commitments

At December 31, 2014, the Company and subsidiaries entered into various agreements with suppliers for exploration activities, most of which are "umbrella agreements" involving services, materials and equipment to be provided with different maturities, basically concerning lease and operation of rigs, drilling services, supply of fuel, seismic, among others.

The 16 Solimões Basin Blocks under concession are in the Second Exploration Period with minimum commitment to drilling one well per block, up to the litho-stratigraphic horizon of the Juruá Formation, as follows:

Blocks	Exploration period	Conclusion	Minimum exploration program	Activity performed	Observations
SOL-T-169	Second	02/16/2014	1 well per block	Drilled 1-HRT-2-AM and 1-HRT-8-AM	Presented the Discovery Assessment Plan - PAD
SOL-T-168	Second	03/20/2014	1 well per block	Drilled 1-HRT-3-AM	Presented the Discovery Assessment Plan - PAD
SOL-T-170				Drilled 1-HRT-1-AM and 1-HRT-6-AM	
SOL-T-191				Drilled 1-HRT-9-AM	
SOL-T-194	Second	09/07/2016	1 well per block	SOL-T-194: Drilled 1-HRT-4-AM and 1-HRT-7-AM	SOL-T-194: Presented PAD
SOL-T-195					SOL-T-195: Granted extension of time for two years, from 07/09/2014
SOL-T-151 SOL-T-174 SOL-T-192 SOL-T-196 SOL-T-197 SOL-T-214 SOL-T-215 SOL-T-216 SOL-T-217 SOL-T-218	Second	03/03/2017	1 well per block	SOL-T-192: Drilled 1-HRT-5-AM and 1-HRT-10-AM	SOL-T-196: Drilling conditioned to drilling of Block SOL-T-195 SOL-T-218: Drilling conditioned to drilling of Block SOL-T-195

With regard to the minimum exploration program of the licenses in Namibia, the following commitments are assumed:

PEL	Exploration period	Conclusion	Minimum exploration program	Activity performed
022 (blocks 2815, 2816 and 2915)	2nd Period	09/22/2014	USD 3.1MM 1.500 Km seismic 2D or 400 Km² seismic 3D	Acquisition of 1.137 km² 3D seismic
023 (blocks 2112B and 2212A)	2nd Period	05/06/2015	USD 2.0MM 200 Km² seismic 3D	Acquisition of 5.359 km² 3D seismic and well Moosehead-1
024 (blocks 2713A and 2713B)	2nd Period	03/08/2014	USD 1.1MM 1,000 Km seismic 2D or 400 Km² seismic 3D	Acquisition of 1,424 km² 3D seismic and wells Wingat-1 and Murombe-1
028 (blocks 2813A, 2814B and 2914A)	1st Period	05/14/2015	USD 8.5MM 2,000 Km seismic 2D or 500 Km² seismic 3D	Acquisition of 1,237 km² 3D seismic

27. Guarantees and commitments--Continued

Under the terms of the Participation Agreement entered into with HRT Canada and Acarus on December 1, 2010, the Group is engaged to pay 50% of the evaluation and exploration transaction costs in PEL 28, located in Namibia's offshore.

The Company has applied to the Ministry of Mines and Energy of Namibia renewal of PEL 22 and 24 for extension of exploratory period, expired in September and August, respectively, and the extension of the term of the PEL 23 and 28, ending in 2015. Despite the history of renewals granted to HRT and the good relationship with the Government of Namibia, since there was no indication, the Company decided to form a provision for loss for the assets located in Africa.

28. Segment information

Information by business area (operating segment) is presented according to CPC 22 (IFRS 8) - Segment Information. The Group's operations are segmented as follows:

a) Exploration and Production

Include activities of exploration and production of oil and byproducts for sale in Brazil and abroad.

b) Geology and Geophysics

Include geological and geophysical services.

c) Management and others

Include basically the Company's headquarters.

28. **Segment information**--Continued

Management monitors business units operating income/losses separately, which allows decision making regarding allocation of funds and performance assessment. Segments are assessed based on operating income or losses, which, in certain cases, as shown in the table below, are measured differently from operating income or expenses in the consolidated financial statements.

	12/31/2014					12/31/2013				
	Exploration and Production	**Geology and Geophysics Services**	**Management and others**	**Adjustments and eliminations**	**Consolidated**	**Exploration and Production**	**Geology and Geophysics Services**	**Management and others**	**Adjustments and eliminations**	**Consolidated**
External net revenue	486,839	-	-	-	486,839	-	4,395	-	-	4,395
Intersegment net revenue	33,227	27,203	-	(60,430)	-	65,100	18,468	-	(83,568)	-
Net revenue	520,066	27,203	-	(60,430)	486,839	65,100	22,863	-	(83,568)	4,395
Selling costs	(496,874)	(17,425)	-	46,221	(468,078)	(22,723)	(11,984)	-	32,440	(2,267)
Gross profit	23,192	9,778	-	(14,209)	18,761	42,377	10,879	-	(51,128)	2,128
Geology and geophysics expenses	(11,123)	-	-	6,146	(4,977)	(45,682)	(40)	-	1,606	(44,116)
Personnel expenses	(16,085)	(11,807)	(5,231)	(5,510)	(38,633)	(57,678)	(13,919)	(87,011)	(9,717)	(168,325)
General and administrative expenses	(32,283)	(3,551)	(4,840)	9,818	(30,856)	(34,830)	(5,690)	(5,770)	(238)	(46,528)
Expenses with third party services	(46,382)	-	(10,879)	1,868	(55,393)	(31,735)	(756)	(8,312)	-	(40,803)
Taxes and fees	(3,606)	(191)	113	-	(3,684)	(7,797)	(145)	(1,304)	-	(9,246)
Depreciation expense	(8,503)	(1,399)	(188)	-	(10,090)	(11,234)	(2,376)	(194)	(11,529)	(25,333)
Provision for impairment	(607,214)	-	(7,768)	128,107	(486,875)	(1,563,665)	-	(121,821)	-	(1,685,486)
Dry Well Write off	(523,879)	-	-	(17,912)	(541,791)	(662,171)	-	-	71,006	(591,165)
Net financial income	15,155	(99)	816	-	15,872	31,082	14	12,970	-	44,066
Other operating income (expenses)	60,992	(2)	4,376	20,297	85,663	1,470	7	2,273	(104)	3,646
Income (loss) before taxes	(1,149,736)	(7,271)	(23,601)	128,605	(1,052,003)	(2,339,863)	(12,026)	(209,169)	(104)	(2,561,162)

1. Intersegment revenues are eliminated upon consolidation.
2. Segment information considers the income/loss before provision for IRPJ and CSLL.
3. The segment's operational assets and liabilities do not include intersegment balances.

28. Segment information--Continued

Geographical information

	12/31/2014			
	Exploration and Production	**Geology and Geophysics Services**	**Management and others**	**Consolidated**
Current assets				
Brazil	**355,164**	**-**	**98,193**	**453,357**
Abroad	**349,553**	**3,326**	**-**	**352,879**
Non-current assets				
Brazil	**181,230**	**-**	**5,114**	**186,344**
Abroad	**65,525**	**3,034**	**-**	**68,559**

	12/31/2013			
	Exploration and Production	**Geology and Geophysics Services**	**Management and others**	**Consolidated**
Current assets				
Brazil	587,364	2,199	33,771	623,334
Abroad	40,525	9,391	-	49,916
Non-current assets				
Brazil	598,476	3,510	13,550	615,536
Abroad	513,865	2,628	-	516,493

29. Financial risk management objectives and policies

The main financial liabilities of HRT refer to trade accounts payable for goods and services to be used in the Company's exploration campaign, debentures, and the financial security agreements. On the other hand, cash and cash equivalents are recorded in assets, as described in Notes 6 and 7.

The Company is exposed to market (interest and exchange rates), credit, liquidity and environmental risks. The Company's senior management manages these risks by means of appropriate policies and procedures. All activities involving derivatives are conducted for risk management purposes and are carried out by specialized teams with the adequate skills, experience and supervision. It is the Company's policy not to participate in negotiation of derivatives for speculative purposes.

The Board of Directors reviews and sets management policies for each of these risks, which are summarized as follows.

29. Financial risk management objectives and policies--Continued

Market risk

Market risk is the possibility of losses arising from the effect of the fluctuation of market values of financial instruments and commodities. As the Group is formed by non-financial companies, a conservative policy is adopted based on management of asset and liability positions, focusing on liquidity and risk mitigation.

Price change risk (oil)

The Company is subject to the price change risk in its main commercial product - oil, which has reference to the Brent price discounted by a variable value traded in each shipment.

HRT maintains preferably exposure to the price cycle, not using derivatives to hedge the sale of oil operations. The following table presents the sensitivity analysis of the price of oil (Brent), with the fair value at December 31, 2014.

Operation	Risk	Probable scenario	Scenario (I) 25%	Scenario (II) 50%
Operational revenue – oil sale	Decrease in Brent	237,343	244,115	162,743

Interest rate risk

Available funds are invested in securities issued by first-tier financial institutions, in local currency at variable rates, mostly with daily liquidity, in compliance with prudential concentration limits.

Interest rate sensitivity

The table below shows the sensitivity to a possible change in interest rates, income and Company's equity before taxation, where all other variables are kept constant.

Operation	Risk	Probable scenario	Scenario (I) 25%	Scenario (II) 50%
Impact on financial investments	Decrease in CDI / Libor	93	(267)	(534)

29. Financial risk management objectives and policies--Continued

Sensitivity to interest rates--Continued

For calculation of the amounts included in the above scenarios, charges, earnings and variation in derivatives were projected for the following quarter. Debt charges took into account, under the probable scenario, the interest rate projection disclosed by BM&FBOVESPA for the period. Under scenario I, this projection was increased by 25% and under scenario III, the curve was increased by 50% against the probable scenario.

For earnings from financial investments, the CDI projection disclosed by BM&FBOVESPA for the period was taken into account under the probable scenario, a 25% reduction in the projected CDI was taken into account under scenario I and a 50% reduction was taken into account under scenario II.

Exchange risk

Currency risk refers to the exposure to oscillations in the levels of commodity price or service contracted (future cash flows) in foreign currency by the Company. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities and net investments in foreign subsidiaries.

Regarding sensitivity analysis of derivatives, the Company's Management understands that liabilities with exposure to exchange rate variation and their respective derivatives recorded in the balance sheet must be considered.

The table below shows the sensitivity to a variation that may occur in the exchange rate and the impact on the Company's income and equity, before taxation.

Operation	Risk	Probable scenario	Scenario (I) 25%	Scenario (II) 50%
Impact on financial investments	Decrease in US dollar	5,395	65,772	131,543
Investments in subsidiaries	Decrease in US dollar	92,454	(1,127,190)	(2,254,380)

29. Financial risk management objectives and policies--Continued

Currency risk--Continued

For calculation of the amounts included in the above scenarios, charges and earnings were projected for the following quarter. The average exchange rate projection disclosed by BM&FBOVESPA for the period was taken into account under the probable scenario. Under scenario I, this projection was increased by 25% and under scenario II, the curve was increased by 50% against the probable scenario.

Credit risk

Credit risk is the risk of a business counterpart not complying with obligations provided in a financial instrument or contract with the client, resulting in financial loss.

The Company is exposed to credit risk in its operating activities and bank and/or financial institution deposits, foreign exchange transactions and other financial instruments. In order to mitigate such risks, the Company adopts a conservative management by mainly investing short-term funds with day-to-day liquidity and post –fixed rates in first-class banks, bearing in mind ratings by the key risk agencies and respecting prudential concentration limits.

Related to credit risk of its sales operations, the Company analyzes the financial condition of its customers, in conjunction with the provider of marketing services (Trader), which also operates as an intermediary in transactions for the sale of oil.

Liquidity risk

Prudent management of risk implies maintaining cash consistent with the disbursement needs to cover obligations, in accordance with the Company’s business plan.

29. Financial risk management objectives and policies--Continued

Liquidity risk--Continued

Consolidated

Year ended December 31, 2014	Immediate	Up to 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	**350,634**	**-**	**-**	**-**	**350,634**
Marketable securities	**98,312**	**-**	**-**	**-**	**98,312**
Accounts receivable	**-**	**1,835**	**-**	**-**	**1,835**
Taxes recoverable	**-**	**39,341**	**-**	**-**	**39,341**
Advances to suppliers	**-**	**42,191**	**-**	**-**	**42,191**
Prepaid expenses	**-**	**3,486**	**-**	**-**	**3,486**
Assets held for sale	**-**	**258,158**	**-**	**-**	**258,158**
Oil stock	**-**	**8,784**	**-**	**-**	**8,784**
Other	**-**	**3,495**	**5,026**	**-**	**8,521**
Liabilities					
Suppliers	**-**	**(63,217)**	**-**	**-**	**(63,217)**
Advances for sale of fixed assets	**-**	**(47,812)**	**-**	**-**	**(47,812)**
Labor charges	**-**	**(7,439)**	**-**	**-**	**(7,439)**
Income and social contribution charges	**-**	**(17,016)**	**-**	**-**	**(17,016)**
Advances to partners	**-**	**-**	**(32,837)**	**-**	**(32,837)**
Debentures	**-**	**-**	**(87,568)**	**-**	**(87,568)**
Provision for abandonment	**-**	**-**	**(138,039)**	**-**	**(138,039)**
Provision for contingencies	**-**	**-**	**(33,838)**	**-**	**(33,838)**
Other liabilities	**-**	**-**	**(2,152)**	**-**	**(2,152)**
	448,946	**221,806**	**(289,408)**	**-**	**381,344**

Year ended December 31, 2013	Immediate	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	33,582	-	-	-	33,582
Marketable securities	120,957	273,001	-	-	393,958
Accounts receivable	-	989	-	-	989
Taxes recoverable	-	42,523	-	-	42,523
Advances to suppliers	-	33,008	-	-	33,008
Prepaid expenses	-	3,057	-	-	3,057
Assets held for sale	-	155,540	-	-	155,540
Other	-	10,593	4,590	-	15,183
Liabilities					
Loans and financing	-	(70,380)	-	-	(70,380)
Operations with derivatives	-	(11,163)	-	-	(11,163)
Suppliers	-	(63,362)	-	-	(63,362)
Labor charges	-	(17,669)	-	-	(17,669)
Income and social contribution charges	-	(26,366)	-	-	(26,366)
Advance from partners	-	(25,896)	-	-	(25,896)
Other liabilities	-	(8,968)	-	-	(8,968)
	154,539	294,907	4,590	-	454,036

29. Financial risk management objectives and policies--Continued

Liquidity risk--Continued

Parent company

Year ended December 31, 2014	Immediate	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	49	-	-	-	**49**
Marketable securities	87,924	-	-	-	**87,924**
Accounts receivable	-	36	-	-	**36**
Taxes recoverable	-	9,937	-	-	**9,937**
Advances to suppliers	-	194	-	-	**194**
Other	-	54	4,440	-	**4,494**
Liabilities					
Suppliers and others	-	(5,133)	-	-	**(5,133)**
Labor charges	-	(2,411)	-	-	**(2,411)**
Income and social contribution charges	-	(4,890)	-	-	**(4,890)**
Debentures	-	-	(87,568)	-	**(87,568)**
	87,973	**(2,213)**	**(83,128)**	**-**	**2,632**

Year ended December 31, 2013	Immediate	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets					
Cash and cash equivalents	18	-	-	-	**18**
Marketable securities	18,165	-	-	-	**18,165**
Accounts receivable	-	36	-	-	**36**
Taxes recoverable	-	14,222	-	-	**14,222**
Advances to suppliers	-	113	-	-	**113**
Prepaid expenses	-	1,148	-	-	**1,148**
Other	-	69	4,392	-	**4,461**
Liabilities					
Suppliers	-	(3,602)	-	-	**(3,602)**
Labor charges	-	(8,450)	-	-	**(8,450)**
Income and social contribution charges	-	(8,737)	-	-	**(8,737)**
Other liabilities	-	(180)	-	-	**(180)**
	18,183	**(5,381)**	**4,392**	**-**	**17,194**

29. Financial risk management objectives and policies--Continued

Liquidity risk--Continued

Fair value of financial assets and liabilities

The "fair value" concept provides for the valuation of assets and liabilities based on market prices in the case of liquid assets, or based on mathematical pricing models otherwise. The level in the fair value hierarchy gives priority to unadjusted quoted prices in an active market. These financial instruments are grouped in levels from 1 to 3, based on the grade that their fair value is quoted:

a) Level 1: fair value measurement is derived from prices quoted (not corrected) in active markets, based on equal assets and liabilities.

b) Level 2: fair value measurement is derived from other inputs quoted included in Level 1, which are quoted through an asset or liability directly (i.e. as the prices) or indirectly (i.e. derivative of prices).

c) Level 3: fair value measurement is derived from valuation techniques that include and asset or liability that are not included in an active market.

30. Environmental risk

The Company has a comprehensive social-environmental program, supported by the Health, Safety and Environment (HSE) management system, consistent with the sensitivity of the Solimões Basin ecosystems, which includes areas of biodiversity and traditional cultures.

31. Insurance

The Company has a policy of taking out insurance coverage for the items subject to risks.

In fact, it has, together with other Group companies, coverage against major risks such as property damage, PP&E items and D&O with coverage "A" (damages on behalf of Management), "B" (reimbursement to company) and "C" (coverage extension for claims directly related to the capital market).

Coverage provided by Civil liability (D&O) comprise unavailability of assets and online pledge, D&O's liabilities, publicity expenses, liabilities due to errors and omissions in service provision, bodily injury, claims of insurer against insured and insured against insured.

Coverage also includes claims for environmental damages, liability of the spouse or partner in a common law marriage, cost of extradition, estate, heirs, successors and legal representatives, administrators of external entities, emergency expenses, and disqualification of the exercise of the administrator function.

The insurance policies in force at December 31, 2014 cover the amount of R3,496,757 with total premium, according to their effectiveness, of R$10,432. We set out below the main insurance types and insured amounts:

Insurance/modality	Amounts insured
Management's civil liability - D&O	**200,000**
Fire, lightning, explosion and implosion	**3,708**
Electronic equipment	**657**
Aircrafts	**79,152**
Transport	**124,200**
Oil risks	**3,325,771**
General liability	**12,671**
Vehicles	**404**
Residential	**1,565**
Total amount insured	**3,496,757**

32. Contingencies

Management of the Company and its subsidiaries, based on the opinion of its legal advisors regarding the possibility of success in several lawsuits, believes that the provisions recorded in the balance sheet are sufficient to cover losses considered probable and reasonably estimated.

Arbitration Proceedings

The Company is part of two arbitration proceedings brought, described below:

1. Tuscany Perfurações Brasil Ltda. and Tuscany Rig Leasing S.A. filed a request for arbitration against HRT O&G, in the amounts of US$ 39,645 thousand. The sentence was handed down on February 5, 2015, condemning the Company to pay the amount of R$ 33,703. However, an applicable appeal was filled on March 9, 2015, and the company is awaiting trial.

2. On February 28, 2014,Energy Solutions Participações Ltda. requested for filing arbitration proceeding against HRT O&G and allocated to arbitration the amount of R$67,292. Due to non-payment of the costs of arbitration procedding by Geoquasar, the Arbitral Tribunal sent a letter stating that the arbitration proceeding will be filed.

Public Civil Action

HRTO&G is a defendant in Civil Action filed by the Ministry of Labour, as a result of non-payment of severance pay by Geoquasar, outsourced company that provided services to HRTO&G, whose value is R$ 7,834. HRT is awaiting sentencing trial. According to the Legal Adviser of the case, it is possible the chance of success.

Except for the 7 labor claims of the total mentioned in the respective Contingencies in this note, according to the Group's legal advisors, the risk of loss from other lawsuits is “possible” or “remote”. Based on this evaluation, management decided not to form a provision for contingencies, in accordance with accounting practices adopted in Brazil and IFRS.

The evaluation of the Company's legal counsel is that the provision for contingencies recognized in the balance sheet is sufficient to cover possible losses on certain disputes and any outflow of resources that will be required to settle these transactions.

33. Subsequent events

33.1 - Acquisition of oil fields of Bijupirá and Salema

On January 20, 2015, the Company announced a purchase and sale agreement to acquire 80% interest of the rights and obligations of the concession contracts of Bijupirá and Salema fields with Shell Brasil Petróleo Ltda. ("Shell"), whereas Petróleo Brasileiro S.A. - Petrobras holds the remaining 20% working interest. In the same operation, the FPSO Fluminense vessel, used in the production of both fields, with storage capacity of 1.3 million barrels of oil, was acquired, among other assets.

The completion of the purchase and sale transaction between HRT and Shell is subject to certain preceding conditions, among which the approval of the assignment of rights by the Administrative Council for Economic Defense - CADE and the National Agency of Petroleum, Natural Gas and Biofuels - ANP. Only after the approval of these regulators, the company will become the operator of such fields.

The acquisition of Bijupirá and Salema will be made with part of the funds raised through the 1st Issuance of Debentures Convertible into Shares and structured financing operation led by Glencore Ltd., a wholly owned subsidiary of Glencore PLC.

The Bijupirá and Salema fields, located in water depths of 480-850 m, are located in the Pre-Salt polygon, only 80 km towards the northeast of Polvo field, the first HRT production asset, generating important synergy gains among their operations. The licenses cover an area of 40 million m2 and daily production totals 22,000 barrels of light oil and 325 thousand m3 of associated gas, equivalent to 24,000 boe/day. The oil extracted from the fields is light from 28º to 31º API.

33.Subsequent events--Continued

33.2 New Brand - PetroRio

As of January 21, 2015, HRT Participações em Petróleo S.A. adopted the new brand PetroRio. This change highlights the beginning of a new Company, which began to prioritize the generation of revenue and profit through oil production, due to the strategic repositioning and the new culture that has already been adopted since the end of 2014.

33.3 Sale of aircrafts

Following the Company's divestment plan, in March 2015 HRT completed the sale of 5 aircrafts of a total of 7, for US$ 7.5 mm, not recording loss in the transactions. The aircrafts were already recognized at fair value, the same as the sales transaction.