PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
May 12, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

For the month of May, 2017

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65
20031-912 - Rio de Janeiro, RJ
Federative Republic of Brazil

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F _____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _____ No___X____

FINANCIAL REPORT

FIRST QUARTER OF 2017 RESULTS

Derived from consolidated interim financial information reviewed by independent auditors, stated in millions of U.S. dollars, prepared in accordance with International Financial Reporting Standards – IFRS issued by the International Accounting Standards Board – IASB.

Rio de Janeiro – May 11, 2017

Main financial highlights

- Net income of US$ 1,417 million in 1Q-2017, compared to the loss of US$ 318 million in 1Q-2016, as a result of:
  - lower oil and natural gas imports costs, due to the higher share of national oil in the processed feedstock and to the higher domestic natural gas production;
  - higher level of exports, that reached 782 thousand barrels per day (bpd), 72% above the 1Q-2016, with higher average prices;
  - sales, general and administrative expenses 9% lower than 1Q-2016; and
  - lower expenses associated with asset write-offs and drilling rigs idleness.
- Adjusted EBITDA* of US$ 8,030 million in 1Q-2017, 48% higher than 1Q-2016, reflecting lower operational expenses and import costs. Adjusted EBITDA Margin* was 37% in 1Q-2017.
- In 1Q-2017, Free Cash Flow* was positive for the eighth quarter in a row, reaching US$ 4,250 million, 7 times 1Q-2016. This result reflects the combination of improvement in the operational generation and reduction in investments.
- Gross debt decreased 3%, from US$ 118,370 million as of December 31, 2016 to US$ 115,124 million as of March 31, 2017, a reduction of US$ 3,246 million.
- Net debt* decreased 1% (US$ 1,388 million), from US$ 96,381 million as of December 31, 2016 to US$ 94,993 million as of March 31, 2017. In addition, liquidity management led to a weighted average maturity of outstanding debt to increase from 7.46 years as of December 31, 2016 to 7.61 years as of March 31, 2017.
- Reduction of the ratio between Net debt and LTM Adjusted EBITDA*, from 3.76 as of December 31, 2016 to 3.36 as of March 31, 2017. During the same period, leverage decreased from 55% to 54%.
- Petrobras employees, as of March 31, 2017, were 65,220, a decrease of 17% compared to March, 31, 2016, due to the voluntary separation incentive plan.

Main operating highlights

- Average crude oil production in Brazil reached 2,182 thousand bpd in 1Q-2017, 10% above the average crude oil production in 1Q-2016.
- Total crude oil production reached 2,248 thousand bpd in 1Q-2017, an increase of 9% compared to 1Q-2016.
- In 1Q-2017, output of domestic oil products decreased by 8% when compared to 1Q-2016, to 1,811 thousand bpd. Domestic oil product sales decreased by 5% to 1,951 thousand bpd.
- The Company sustained the position of net exporter, due to the increase in exports of 72% and reduction in imports of 40%, when compared to1Q-2016.

* See definitions of Free cash flow, Adjusted EBITDA, LTM Adjusted EBITDA, Adjusted EBITDA Margin and Net Debt in glossary and the respective reconciliations of such items in Liquidity and Capital Resources, Reconciliation of Adjusted EBITDA, LTM Adjusted EBITDA and Net Debt.

1

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BM&F BOVESPA: PETR3, PETR4

NYSE: PBR, PBRA

BCBA: APBR, APBRA

LATIBEX: XPBR, XPBRA

This release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to risks and uncertainties. The forward-looking statements, which address the Company's expected business and financial performance, among other matters, contain words such as "believe," "expect," "estimate," "anticipate," "optimistic," "intend," "aim," "will," "may," "should," "could," "would," "likely," and similar expressions. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. There is no assurance that the expected events, trends or results will actually occur. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.

The Company's actual results could differ materially from those expressed or forecast in any forward-looking statements as a result of a variety of assumptions and factors. These factors include, but are not limited to, the following: (i) failure to comply with laws or regulations, including fraudulent activity, corruption, and bribery; (ii) the outcome of ongoing corruption investigations and any new facts or information that may arise in relation to the "Lava Jato Operation"; (iii) the effectiveness of the Company's risk management policies and procedures, including operational risk; and (iv) litigation, such as class actions or proceedings brought by governmental and regulatory agencies. A description of other factors can be found in the Company's Annual Report on Form 20-F for the year ended December 31, 2015, and the Company's other filings with the U.S. Securities and Exchange Commission.

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* See definitions of Free cash flow, Adjusted EBITDA, LTM Adjusted EBITDA and Net Debt in glossary and the respective reconciliations of such items in Liquidity and Capital Resources, Reconciliation of Adjusted EBITDA, LTM Adjusted EBITDA and Net Debt.

Main Items and Consolidated Economic Indicators

| | US$ million | | | | |
|---|---|---|---|---|---|
| | Jan-Mar | | | | |
| | 2017 | 2016 | 2017 x 2016 (%) | 4Q-2016 | 1Q17 X 4Q16 (%) |
| Sales revenues | 21,737 | 17,989 | 21 | 21,403 | 2 |
| Gross profit | 7,563 | 5,373 | 41 | 6,926 | 9 |
| Operating income (loss) | 4,538 | 2,084 | 118 | 3,577 | 27 |
| Net finance income (expense) | (2,465) | (2,223) | (11) | (1,612) | (53) |
| Consolidated net income (loss) attributable to the shareholders of Petrobras | 1,417 | (318) | 546 | 754 | 88 |
| Basic and diluted earnings (losses) per share attributable to the shareholders of Petrobras | 0.11 | (0.02) | 650 | 0.06 | 83 |
| Adjusted EBITDA * | 8,030 | 5,420 | 48 | 7,527 | 7 |
| Adjusted EBITDA margin* (%) | 37 | 30 | 7 | 35 | 2 |
| Gross margin (%) | 35 | 30 | 5 | 32 | 3 |
| Operating margin (%) | 21 | 12 | 9 | 17 | 4 |
| Net margin (%) | 7 | (2) | 9 | 4 | 3 |
| | | | | | |
| Total capital expenditures and investments | 3,670 | 3,987 | (8) | 4,269 | (14) |
| Exploration & Production | 2,984 | 3,522 | (15) | 3,384 | (12) |
| Refining, Transportation and Marketing | 265 | 243 | 9 | 308 | (14) |
| Gas & Power | 365 | 75 | 387 | 437 | (16) |
| Distribution | 23 | 25 | (8) | 45 | (49) |
| Biofuel | 6 | 69 | (91) | 5 | 20 |
| Corporate | 27 | 53 | (49) | 90 | (70) |
| | | | | | |
| Average commercial selling rate for U.S. dollar (R$/U.S.$) | 3.15 | 3.90 | (19) | 3.30 | (5) |
| Period-end commercial selling rate for U.S. dollar (R$/U.S.$) | 3.17 | 3.56 | (11) | 3.26 | (3) |
| Variation of the period-end commercial selling rate for U.S. dollar (%) | (2.8) | (8.9) | 6 | 0.4 | (3) |
| | | | | | |
| Domestic basic oil products price (U.S.$/bbl) | 72.42 | 59.52 | 22 | 67.00 | 8 |
| Brent crude (U.S.$/bbl) | 53.78 | 33.89 | 59 | 49.46 | 9 |
| | | | | | |
| Domestic Sales price | | | | | |
| Crude oil (U.S.$/bbl) | 50.70 | 28.88 | 76 | 45.71 | 11 |
| Natural gas (U.S.$/bbl) | 36.18 | 30.22 | 20 | 32.08 | 13 |
| | | | | | |
| International Sales price | | | | | |
| Crude oil (U.S.$/bbl) | 46.21 | 41.59 | 11 | 42.44 | 9 |
| Natural gas (U.S.$/bbl) | 19.73 | 23.27 | (15) | 18.34 | 8 |
| | | | | | |
| Total sales volume (Mbbl/d) | | | | | |
| Diesel | 702 | 798 | (12) | 707 | (1) |
| Gasoline | 539 | 564 | (4) | 553 | (3) |
| Fuel oil | 56 | 80 | (30) | 67 | (16) |
| Naphtha | 165 | 111 | 49 | 164 | 1 |
| LPG | 224 | 218 | 3 | 232 | (3) |

| | | | | | |
|---|---|---|---|---|---|
| Jet fuel | 101 | 107 | (6) | 101 | – |
| Others | 164 | 178 | (8) | 178 | (8) |
| Total oil products | 1,951 | 2,056 | (5) | 2,001 | (2) |
| Ethanol, nitrogen fertilizers, renewables and other products | 99 | 111 | (11) | 104 | (5) |
| Natural gas | 319 | 360 | (11) | 332 | (4) |
| Total domestic market | 2,369 | 2,527 | (6) | 2,438 | (3) |
| Crude oil, oil products and others exports | 782 | 455 | 72 | 649 | 20 |
| International sales | 242 | 457 | (47) | 364 | (34) |
| Total international market | 1,024 | 912 | 12 | 1,013 | 1 |
| Total | 3,393 | 3,439 | (1) | 3,450 | (2) |

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* See definition of Adjusted EBITDA and Adjusted EBITDA Margin in glossary and the respective reconciliation in Reconciliation of Adjusted EBITDA.

1Q-2017 x 1Q-2016 Results*:

Virtually all revenues and expenses of our Brazilian operations are denominated and payable in Brazilian Real. Although the fluctuation of Brazilian Real affects revenues and expenses in different ways when translated into U.S. dollars, we have only included it in the results of operations discussion when it was a contributing factor to changes in our results of operations as compared to previous periods. In 1Q-2017, the average Brazilian Real appreciated by 19% in relation to U.S. dollar when compared to 1Q-2016.

Gross Profit

Gross profit increased by 41% to US$ 7,563 million in 1Q-2017 when compared to 1Q-2016, mainly due to the effect of foreign exchange translation (the appreciation of the Brazilian Real against the U.S. dollar), the lower oil and natural gas import costs and higher oil and oil products exports. The increase of the domestic oil share in the processed feedstock, the higher natural gas production and the increase of its participation in the sales mix contributed to the reduction of import costs while sales of oil inventory were relevant to the increase in exports. Gross margin reached 35%,

On the other hand, there was reduction in the sale of oil products in the domestic market of 5%, lower revenues from international operations, due to the sale of Petrobras Argentina S.A. (PESA) and of Petrobras Chile Distribuición Ltda. (PCD) and higher production taxes.

Operating income

Operating income was US$ 4,538 million in 1Q-2017, 118% above the 1Q16, reflecting foreign translation effects, lower expenses associated with employees, due to the voluntary separation plan’s impact, the reduced costs of asset write-offs and the decrease in drilling rigs idleness. Despite the increase in exports, there were lower sales expenses, as a result of reduction in freight costs and in domestic sales, as well as reversal in provisions for allowance for impairment with receivables.

Net Finance Expense

Net finance expense of US$ 2,465 million, US$ 242 million higher relative to 1Q-2016 mainly due to the effect of foreign exchange translation, partially offset by the lower foreign exchange losses of the U.S. dollar against the Euro.

Net income (loss) attributable to the shareholders of Petrobras

Net income attributable to the shareholders of Petrobras was US$ 1,417 million in 1Q 2017, compared to a net loss of US$ 318 million in 1Q 2016, mainly due to increase in exports and reduction in operational expenses.

Adjusted EBITDA**

Adjusted EBITDA increased by 48% when compared to 1Q 2016, to US$ 8,030 million in 1Q 2017, mainly due to lower expenses associated with oil and natural gas imports and operating expenses. The Adjusted EBITDA Margin** reached 37% in 1Q 2017.

Free Cash Flow **

The higher operating cash flow and lower investments resulted in a positive Free Cash Flow** of US$ 4,250 million, 7 times 1Q 2016.

* Additional information about operating results of 1Q17 x 1Q16, see “Additional Information” item 4.
* See definitions of Free Cash Flow, Adjusted EBITDA and Adjusted EBITDA Margin in glossary and the respective reconciliations in Liquidity and Capital Resources and Reconciliation of Adjusted EBITDA. *

4

Exploration & Production Main Indicators

| | US$ million | | |
|---|---|---|---|
| | Jan-Mar | | |
| | 2017 | 2016 | 2017 x 2016 (%) |
| Sales revenues | 10,572 | 6,057 | 75 |
| Brazil | 10,330 | 5,681 | 82 |
| Abroad | 242 | 375 | (35) |
| Gross profit | 3,758 | 727 | 417 |
| Brazil | 3,665 | 604 | 507 |
| Abroad | 93 | 123 | (24) |
| Operating expenses | (614) | (923) | 33 |
| Brazil | (575) | (869) | 34 |
| Abroad | (39) | (54) | 28 |
| Operating income (loss) | 3,144 | (196) | 1704 |
| Brazil | 3,090 | (265) | 1266 |
| Abroad | 54 | 69 | (22) |
| Net income (Loss) attributable to the shareholders of Petrobras | 2,067 | (154) | 1442 |
| Brazil | 2,021 | (182) | 1210 |
| Abroad | 46 | 28 | 64 |
| Adjusted EBITDA of the segment * | 5,669 | 2,359 | 140 |
| Brazil | 5,521 | 2,165 | 155 |
| Abroad | 148 | 194 | (24) |
| EBITDA margin of the segment (%)* | 54 | 39 | 15 |
| Capital expenditures of the segment | 2,984 | 3,522 | (15) |
| | | | |
| Average Brent crude (US$/bbl) | 53.78 | 33.89 | 59 |
| | | | |
| Sales price - Brazil | | | |
| Crude oil (US$/bbl) | 50.70 | 28.88 | 76 |
| Sales price - Abroad | | | |
| Crude oil (US$/bbl) | 46.21 | 41.59 | 11 |
| Natural gas (US$/bbl) | 19.73 | 23.27 | (15) |
| Crude oil and NGL production (Mbbl/d) | 2,248 | 2,067 | 9 |
| Brazil | 2,182 | 1,980 | 10 |
| Abroad | 42 | 62 | (32) |
| Non-consolidated production abroad | 24 | 25 | (4) |
| Natural gas production (Mbbl/d) | 557 | 549 | 1 |
| Brazil | 501 | 455 | 10 |
| Abroad | 56 | 94 | (40) |
| Total production | 2,805 | 2,616 | 7 |
| | | | |
| Lifting cost - Brazil (US$/barrel) | | | |
| excluding production taxes | 10.83 | 10.49 | 3 |
| including production taxes | 20.38 | 13.43 | 52 |
| | | | |
| Lifting cost – abroad without production taxes (US$/barrel) | 4.56 | 5.62 | (19) |
| | | | |
| Production taxes - Brazil | 1,972 | 552 | 257 |
| Royalties | 993 | 489 | 103 |
| Special participation charges | 964 | 51 | 1790 |

| | | | |
|---|---|---|---|
| Rental of areas | 15 | 12 | 25 |
| Production taxes - Abroad | 42 | 70 | (40) |

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* See definitions of Adjusted EBITDA and Adjusted EBITDA Margin in Glossary and reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.

RESULT BY BUSINESS SEGMENT

EXPLORATION & PRODUCTION

1Q-2017 x 1Q-2016

Gross Profit

Gross profit increased due to higher oil prices and higher production in Brazil, partially offset by increase in production taxes.

Operating income

Operating income reversed the net loss occurred in 1Q-2016, due to higher gross profit, and lower expenses associated with asset write-off and drilling rigs idleness, as well as the non-occurrence of impairment charges in 1Q-2017.

Abroad, operating income reduced due to the sale of Petrobras Argentina (PESA), in July/2016.

Operating Performance

Production

Domestic crude oil and NGL production increased by 10% mainly due to the ramp-up of Lula, Sapinhoá, Golfinho, Parque das Baleias and Marlim Sul fields and the start-up of production on new systems: FPSO Cid. de Caraguatatuba (Lapa) and Cid. de Saquarema (Lula).

The ramp-ups and start-ups mentioned above resulted in an increase of 10% in domestic natural gas production.

Despite the start-up of Saint Malo and Lucius fields, in the United States, the production of oil and NGL abroad declined 32%. Gas production decreased 40% due to the sale of PESA in 2016.

Lifting Cost

Lifting cost increased mainly due to the foreign exchange charges over the costs denominated in Brazilian Real and to an increase in production taxes as a result of higher oil prices. This result was partially offset by production increase and lower expenditures associated with logistics services and personnel. The pre-salt production increase, with lower unit costs, also contributed to lifting cost reduction.

Lifting cost abroad decreased due to the sale of PESA in 2016.

6

Refining, Transportation and Marketing Main Indicators

| | US$ million | | |
|---|---|---|---|
| | Jan-Mar | | |
| | 2017 | 2016 | 2017 x 2016 (%) |
| Sales revenues | 17,147 | 13,577 | 26 |
| Brazil (includes trading operations abroad) | 17,455 | 13,584 | 28 |
| Abroad | 306 | 738 | (59) |
| Eliminations | (614) | (745) | 18 |
| Gross profit | 2,346 | 3,577 | (34) |
| Brazil | 2,362 | 3,607 | (35) |
| Abroad | (16) | (30) | 47 |
| Operating expenses | (675) | (637) | (6) |
| Brazil | (657) | (611) | (8) |
| Abroad | (18) | (26) | 31 |
| Operating income (loss) | 1,671 | 2,940 | (43) |
| Brazil | 1,705 | 2,996 | (43) |
| Abroad | (34) | (56) | 39 |
| Net income (loss) attributable to the shareholders of Petrobras | 1,291 | 2,041 | (37) |
| Brazil | 1,314 | 2,095 | (37) |
| Abroad | (23) | (54) | 57 |
| Adjusted EBITDA of the segment * | 2,296 | 3,440 | (33) |
| Brazil | 2,317 | 3,478 | (33) |
| Abroad | (21) | (38) | 45 |
| EBITDA margin of the segment (%)* | 13 | 25 | (12) |
| | | | |
| Capital expenditures of the segment | 265 | 243 | 9 |
| Domestic basic oil products price (US$/bbl) | 72.42 | 59.52 | 22 |
| Imports (Mbbl/d) | 290 | 486 | (40) |
| Crude oil import | 93 | 199 | (53) |
| Diesel import | – | 47 | (100) |
| Gasoline import | 13 | 51 | (75) |
| Other oil product import | 184 | 189 | (3) |
| Exports (Mbbl/d) | 779 | 453 | 72 |
| Crude oil export | 609 | 307 | 98 |
| Oil product export | 170 | 146 | 16 |
| Exports (imports), net | 489 | (33) | 1582 |
| Refining Operations - Brazil (Mbbl/d) | | | |
| Output of oil products | 1,811 | 1,958 | (8) |
| Reference feedstock | 2,176 | 2,176 | – |
| Refining plants utilization factor (%) | 77 | 84 | (7) |
| Feedstock processed (excluding NGL) | 1,681 | 1,836 | (8) |
| Feedstock processed | 1,725 | 1,870 | (8) |
| Domestic crude oil as % of total feedstock processed | 95 | 89 | 6 |
| | | | |
| Refining Operations - Abroad (Mbbl/d) | | | |
| Total feedstock processed | 56 | 140 | (60) |
| Output of oil products | 59 | 144 | (59) |
| Reference feedstock | 200 | 230 | (13) |
| Refining plants utilization factor (%) | 55 | 57 | (2) |

| | | | |
|---|---|---|---|
| Refining cost - Brazil | | | |
| Refining cost (US$/barrel) | 3.04 | 2.27 | 34 |
| Refining cost - Abroad (US$/barrel) | 5.22 | 4.01 | 30 |
| Sales volume (includes sales to BR Distribuidora and third-parties) | | | |
| Diesel | 648 | 764 | (15) |
| Gasoline | 469 | 513 | (9) |
| Fuel oil | 57 | 75 | (24) |
| Naphtha | 165 | 111 | 49 |
| LPG | 223 | 219 | 2 |
| Jet fuel | 114 | 124 | (8) |
| Others | 184 | 195 | (6) |
| Total domestic oil products (Mbbl/d) | 1,860 | 2,001 | (7) |

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* See definitions of Adjusted EBITDA and Adjusted EBITDA Margin in Glossary and reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.

REFINING, TRANSPORTATION AND MARKETING

1Q-2017 x 1Q-2016

Gross Profit

Gross profit decreased due to lower sales margins, mainly of diesel and gasoline, influenced by increase in Brent prices and in domestic oil, as well as reduction in oil products sales volume in the domestic market.

Operating Income

Operating income decreased due to the lower gross profit and to foreign exchange translation effects over the operating expenses, partially offset by reduced sales and tax expenses.

Operating Performance

Imports and Exports of Crude Oil and Oil Products

Net crude oil exports increased as a result of production growth and of decrease in volume processed in refineries, both domestic and imported.

The reduction in net oil products imports, especially diesel and gasoline, is due to lower domestic market along with the increase in market share of our competitors in the Brazilian market.

Refining Operations

Processed feedstock was 8% lower, mainly due to lower oil products domestic demand and to increase in imports by third parties.

Refining Cost

Refining cost was higher mainly reflecting a decrease in processed feedstock along with higher employee compensation costs attributable to the 2016 Collective Bargaining Agreement.

Gas & Power Main Indicators

| | US$ million | | |
|---|---|---|---|
| | Jan-Mar | | |
| | 2017 | 2016 | 2017 x 2016 (%) |
| Sales revenues | 2,449 | 2,402 | 2 |
| Brazil | 2,442 | 2,259 | 8 |
| Abroad | 7 | 143 | (95) |
| Gross profit | 777 | 468 | 66 |
| Brazil | 775 | 442 | 75 |
| Abroad | 2 | 26 | (92) |
| Operating expenses | (282) | (187) | (51) |
| Brazil | (279) | (183) | (52) |
| Abroad | (3) | (4) | 25 |
| Operating income (loss) | 495 | 281 | 76 |
| Brazil | 496 | 260 | 91 |
| Abroad | (1) | 21 | (105) |
| Net income (Loss) attributable to the shareholders of Petrobras | 325 | 195 | 67 |
| Brazil | 319 | 166 | 92 |
| Abroad | 6 | 29 | (79) |
| Adjusted EBITDA of the segment * | 718 | 474 | 51 |
| Brazil | 718 | 449 | 60 |
| Abroad | – | 25 | (100) |
| EBITDA margin of the segment (%) * | 29 | 20 | 9 |
| | | | |
| Capital expenditures of the segment | 365 | 75 | 387 |
| | | | |
| Physical and financial indicators | | | |
| Electricity sales (Free contracting market - ACL) - average MW | 759 | 863 | (12) |
| Electricity sales (Regulated contracting market - ACR) - average MW | 3,058 | 3,172 | (4) |
| Generation of electricity - average MW | 2,017 | 2,832 | (29) |
| Electricity price in the spot market - Differences settlement price (PLD) - US$/MWh | 50 | 18 | 181 |
| Imports of LNG (Mbbl/d) | 16 | 74 | (78) |
| Imports of natural gas (Mbbl/d) | 118 | 194 | (39) |

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* See definitions of Adjusted EBITDA and Adjusted EBITDA Margin in Glossary and reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.

GAS & POWER

1Q-2017 x 1Q-2016

Gross Profit

Gross profit increased as a result of lower acquisition costs, mainly due to the reduction of natural gas and LNG imports. Additionally, in spite of the lower thermoelectric demand, natural gas revenues increased due to effects of foreign exchange translation.

Operating income

Operating income increased due to the higher gross profit, as well as to lower sale and tax expenses and higher revenues with take or pay contracts, despite higher provisions for judicial losses.

Operating Performance

Physical and Financial Indicators

There was reduction in natural gas sales, mainly due to reduced thermoelectric demand in the period, resulting in reduction on LNG and Bolivian gas imports.

Distribution Main Indicators

| | US$ million | | |
|---|---|---|---|
| | Jan-Mar | | |
| | 2017 | 2016 | 2017 x 2016 (%) |
| Sales revenues | 6,649 | 6,453 | 3 |
| Brazil | 6,308 | 5,639 | 12 |
| Abroad | 341 | 814 | (58) |
| Gross profit | 491 | 496 | (1) |
| Brazil | 462 | 416 | 11 |
| Abroad | 29 | 80 | (64) |
| Operating expenses | (313) | (508) | 38 |
| Brazil | (296) | (448) | 34 |
| Abroad | (17) | (60) | 72 |
| Operating income (loss) | 178 | (12) | 1583 |
| Brazil | 166 | (32) | 619 |
| Abroad | 12 | 20 | (40) |
| Net Income (Loss) attributable to the shareholders of Petrobras | 118 | (6) | 2067 |
| Brazil | 110 | (24) | 558 |
| Abroad | 8 | 18 | (56) |
| Adjusted EBITDA of the segment * | 217 | 24 | 803 |
| Brazil | 201 | (5) | 4115 |
| Abroad | 16 | 29 | (45) |
| EBITDA margin of the segment (%) * | 3 | – | 3 |
| | | | |
| Capital expenditures of the segment | 23 | 25 | (8) |
| | | | |
| Market share - Brazil | 29.8% | 32.4% | (2.6) |
| | | | |
| Sales Volumes - Brazil (Mbbl/d) | | | |
| Diesel | 285 | 312 | (9) |
| Gasoline | 190 | 195 | (3) |
| Fuel oil | 45 | 64 | (30) |
| Jet fuel | 53 | 53 | (1) |
| Others | 119 | 148 | (20) |
| Total domestic oil products | 692 | 773 | (10) |

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* See definitions of Adjusted EBITDA and Adjusted EBITDA Margin in Glossary and reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.

DISTRIBUTION

1Q-2017 x 1Q-2016

Gross Profit

Gross profit remained roughly stable in U.S. dollars, reflecting the effects of foreign exchange translation. In Brazilian Real, there was a decrease in gross profit due to lower sales volumes, caused by a reduction in economic activity in Brazil and loss of market share.

Operating income

Operating income increased, reflecting the losses suffered in the 1Q-2016 with receivables from the electricity sector and with judicial claims.

Operating Performance

Market Share - Brazil

The decrease in market share was mainly due to lower sales to thermoelectric power plants (42%) and to maintenance of the sales margin policy that prioritizes the Company’s profitability maximization strategy.

Additionally, there was higher participation of regional domestic players, as well as fall of the market consumption.

Liquidity and Capital Resources

| | U.S.$ million | | |
|---|---|---|---|
| | Jan-Mar | | |
| | 2017 | 2016 | 4Q-2016 |
| Adjusted cash and cash equivalents* at the beginning of period | 21,989 | 25,837 | 22,365 |
| Government bonds and time deposits with maturities of more than 3 months at the beginning of period | (784) | (779) | (783) |
| Cash and cash equivalents at the beginning of period | 21,205 | 25,058 | 21,582 |
| Net cash provided by (used in) operating activities | 7,384 | 4,428 | 7,210 |
| Net cash provided by (used in) investing activities | (2,626) | (3,713) | (2,094) |
| Capital expenditures and investments in investees | (3,134) | (3,818) | (3,580) |
| Proceeds from disposal of assets (divestment) | 596 | 3 | 1,466 |
| Investments in marketable securities | (88) | 102 | 20 |
| (=) Net cash flow | 4,758 | 715 | 5,116 |
| Net financings | (6,751) | (4,477) | (5,334) |
| Proceeds from financing | 4,142 | 1,845 | 6,401 |
| Repayments | (10,893) | (6,322) | (11,735) |
| Dividends paid to non-controlling interest | – | – | (73) |
| Investments by non-controlling interest | (41) | 37 | 27 |
| Effect of exchange rate changes on cash and cash equivalents | 42 | 522 | (113) |
| Cash and cash equivalents at the end of period | 19,213 | 21,855 | 21,205 |
| Government bonds and time deposits with maturities of more than 3 months at the end of period | 918 | 771 | 784 |
| Adjusted cash and cash equivalents* at the end of period | 20,131 | 22,626 | 21,989 |
| | | | |
| Reconciliation of Free cash flow | | | |
| Net cash provided by (used in) operating activities | 7,384 | 4,428 | 7,210 |
| Capital expenditures and investments in investees | (3,134) | (3,818) | (3,580) |
| Free cash flow* | 4,250 | 610 | 3,630 |

As of March 31, 2017, the balance of cash and cash equivalents was US$ 19,213 million and the balance of adjusted cash and cash equivalents was US$ 20,131 million. Our principal uses of funds in 1Q-2017 were for repayment of financing (and interest payments) and for capital expenditures. We partially met these requirements with cash provided by operating activities of US$ 7,384 million and with proceeds from financing of US$ 4,142 million.

Net cash provided by operating activities of US$ 7,384 million was mainly generated by higher oil product margins, by the reduction of oil and natural gas import costs, by the higher share of national oil in the processed feedstock, as well as the increase in exports of oil and oil products, with higher prices. These effects were partially offset by lower sales in Brazil and higher production taxes.

Capital expenditures and equity investments totaled US$ 3,134 million in 1Q-2017 (81% in E&P business segment), a 18% decrease when compared to 1Q-2016.

Free cash flow* was positive, amounting to US$ 4,250 million in 1Q-2017, 7 times 1Q-2016.

From January to March 2017, proceeds from financing amounted to US$ 4,142 million. These funds were raised mainly through capital markets transactions and used to roll-over debt and pay capital expenditures. Global notes were issued in international capital markets in the amount of US$ 4 billion, with maturities of 5 and 10 years. The proceeds of those offerings, together with cash were used to tender US$5.58 billion of Petrobras’s existing global notes. In

addition, the Company pre-paid debts of US$ 0.75 billion with BNDES and a structured operation in the amount of US$ 0.13 billion.

Repayments of principal and interest totaled US$ 10,893 million in 1Q-2017 and the nominal cash flow (cash view), including principal and interest payments, by maturity, is set out in US$ million, below:

| Maturity | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 and thereafter | Balance at March 31, 2017 | Balance at December 31, 2016 |
|---|---|---|---|---|---|---|---|---|
| Principal | 6,105 | 11,459 | 18,219 | 14,036 | 18,997 | 46,703 | 115,519 | 119,736 |
| Interest | 5,508 | 6,551 | 5,825 | 4,680 | 3,480 | 31,941 | 57,985 | 58,406 |
| Total | 11,613 | 18,010 | 24,044 | 18,716 | 22,477 | 78,644 | 173,504 | 178,142 |

*

* See reconciliation of Adjusted Cash and Cash Equivalents in Net Debt and definitions of Adjusted Cash and Cash Equivalents and Free Cash Flow in glossary.

Consolidated debt

As of March 31, 2017, the gross debt in U.S. dollars decreased 3% when compared to December 31, 2016. The net debt in U.S. dollars reduced 1% when compared to December 31, 2016, mainly as a result of repayments of principal and interest.

Current debt and non-current debt include finance lease obligations of US$ 21 million and US$ 230 million as of March 31, 2017, respectively (US$ 18 million and US$ 226 million on December 31, 2016).

The weighted average maturity of outstanding debt reached 7.61 years as of March 31, 2017 (compared to 7.46 years as of December 31, 2016).

The ratio between Net debt and the LTM Adjusted EBITDA* decreased from 3.76 as of December 31, 2016 to 3.36 as of March 31, 2017, due to the reduction in debt and increase in LTM Adjusted EBITDA.

| | U.S.$ million | | |
|---|---|---|---|
| | 03.31.2017 | 12.31.2016 | Δ% |
| Current debt | 11,037 | 9,773 | 13 |
| Non-current debt | 104,087 | 108,597 | (4) |
| Total | 115,124 | 118,370 | (3) |
| Cash and cash equivalents | 19,213 | 21,205 | (9) |
| Government securities and time deposits (maturity of more than 3 months) | 918 | 784 | 17 |
| Adjusted cash and cash equivalents * | 20,131 | 21,989 | (8) |
| Net debt * | 94,993 | 96,381 | (1) |
| Net debt/(net debt+shareholders' equity) - Leverage | 54% | 55% | (1) |
| Total net liabilities * | 228,590 | 224,994 | 2 |
| (Net third parties capital / total net liabilities) | 64% | 66% | (2) |
| Net debt/LTM Adjusted EBITDA ratio * | 3.36 | 3.76 | (11) |
| Average maturity of outstanding debt (years) | 7.61 | 7.46 | 0.15 |

| | US$ million | | |
|---|---|---|---|
| | 03.31.2017 | 12.31.2016 | Δ% |
| Summarized information on financing | | | |
| Floating rate or fixed rate | | | |
| Floating rate debt | 63,586 | 63,978 | (1) |
| Fixed rate debt | 51,287 | 54,148 | (5) |
| Total | 114,873 | 118,126 | (3) |
| | | | |
| Currency | | | |
| Reais | 24,830 | 24,175 | 3 |
| US Dollars | 81,751 | 84,951 | (4) |
| Euro | 5,911 | 6,640 | (11) |
| Other currencies | 2,381 | 2,360 | 1 |
| Total | 114,873 | 118,126 | (3) |

| | | | |
|---|---|---|---|
| By maturity | | | |
| 2017 | 8,073 | 9,755 | (17) |
| 2018 | 11,403 | 11,216 | 2 |
| 2019 | 18,041 | 20,898 | (14) |
| 2020 | 13,856 | 16,313 | (15) |
| 2021 | 18,853 | 18,777 | – |
| 2022 years on | 44,647 | 41,167 | 8 |
| Total | 114,873 | 118,126 | (3) |

**

* See definition of Adjusted Cash and Cash Equivalents, Net debt, Total Net Liabilities and LTM Adjusted EBITDA in glossary and reconciliation in Reconciliation of LTM Adjusted EBITDA.

ADDITIONAL INFORMATION

1. Reconciliation of Adjusted EBITDA

Our Adjusted EBITDA is a performance measure computed by using the EBITDA (net income before net finance income (expense), income taxes, depreciation, depletion and amortization) adjusted by items not considered as part of Company's primary business, which include results in equity-accounted investments, impairment of assets and reversals, cumulative foreign exchange adjustments reclassified to the income statement and gains and losses on disposal and write-offs of assets.

In 2016, we revised our presentation of Adjusted EBITDA to better reflect management's views of the performance of its primary business, by adding back gains and losses on disposal and write-offs of assets and the amount of cumulative translation adjustments reclassified to the income statement as a result of dispositions. We have applied the same methodology to data for earlier periods in this report for comparative purposes.

Adjusted EBITDA is not a measure defined in the International Financial Reporting Standards – IFRS. Our calculation may not be comparable to the calculation of Adjusted EBITDA by other companies and it should not be considered as a substitute for any measure calculated in accordance with IFRS. The Company reports its Adjusted EBITDA to give additional information and a better understanding of the Company's income from its primary business and it must be considered in conjunction with other measures and indicators for a better understanding of the Company's operational performance.

Adjusted EBITDA is also a component of a metric included in the Company's Business and Management Plan: Net debt / LTM Adjusted EBITDA ratio.

Adjusted EBITDA

| | U.S.$ million | | | | |
|---|---|---|---|---|---|
| | Jan-Mar | | | | |
| | 2017 | 2016 | 2017 x 2016 (%) | 4Q-2016 | 1Q17 X 4Q16 (%) |
| Net income (loss) | 1,531 | (97) | (1,678) | 830 | 84 |
| Net finance income (expenses) | 2,465 | 2,223 | 11 | 1,612 | 53 |
| Income taxes | 737 | 57 | 1,193 | 748 | (1) |
| Depreciation, depletion and amortization | 3,423 | 3,235 | 6 | 3,410 | – |
| EBITDA | 8,156 | 5,418 | 51 | 6,600 | 24 |
| Results in equity-accounted investments | (195) | (99) | 97 | 387 | (150) |
| Impairment (losses) / reversals | (7) | 75 | (109) | 1,071 | (101) |
| Reclassification of cumulative translation adjustment - CTA | 37 | – | | 29 | 28 |
| Gains and losses on disposal/write-offs of assets | 39 | 26 | 50 | (560) | (107) |
| Adjusted EBITDA | 8,030 | 5,420 | 48 | 7,527 | 7 |
| Adjusted EBITDA margin (%) | 37 | 30 | 7 | 35 | 2 |

LTM Adjusted EBITDA

| | US$ million | |
|---|---|---|
| | Last twelve months (LTM) until | |
| | 03.31.2017 | 12.31.2016 |
| Net income (loss) | (2,721) | (4,349) |
| Net finance income (expenses) | 7,997 | 7,755 |
| Income taxes | 1,364 | 684 |
| Depreciation, depletion and amortization | 14,153 | 13,965 |
| EBITDA | 20,793 | 18,055 |
| Results in equity-accounted investments | 122 | 218 |
| Impairment (losses) / reversals | 6,111 | 6,193 |
| Reclassification of cumulative translation adjustment - CTA | 1,494 | 1,457 |
| Gains and losses on disposal/write-offs of assets | (281) | (293) |
| Adjusted EBITDA | 28,239 | 25,630 |

ADDITIONAL INFORMATION

2. Impact of our Cash Flow Hedge policy*

| | US$ million | | | | |
|---|---|---|---|---|---|
| | Jan-Mar | | | | |
| | 2017 | 2016 | 2017 x 2016 (%) | 4Q-2016 | 1Q17 X 4Q16 (%) |
| Total inflation indexation and foreign exchange variation | 1,638 | 5,494 | -70 | 320 | 412 |
| Deferred Foreign Exchange Variation recognized in Shareholders' Equity | (1,736) | (5,630) | 69 | 293 | (692) |
| Reclassification from Shareholders' Equity to the Statement of Income | (774) | (742) | -4 | (730) | -6 |
| Net Inflation indexation and foreign exchange variation | (872) | (878) | 1 | (117) | -645 |

The reclassification of foreign exchange variation expense from Shareholders' Equity to the Income Statement in 1Q-2017 increased 6% compared to 4Q 2016 in U.S.dollars, and remained roughly stable without foreign exchange translation effects, given that there were no anticipated reclassifications of foreign exchange variation expenses from Shareholders' Equity to the Income Statement as a result of planned exports that were no longer expected to occur or did not occur.

Additional hedging relationships may be revoked or additional reclassification adjustments from equity to the income statement may occur as a result of changes in forecast export prices and export volumes following a review of the Company's business plan. Based on a sensitivity analysis considering a US$ 10/barrel decrease in Brent prices stress scenario, when compared to the Brent price projections in our most recent update of the 2017-2021 Business and Management Plan (Plano de Negócios e Gestão – PNG), a US$ 0.6 million reclassification adjustment from equity to the income statement would occur.

The expected annual realization of the foreign exchange variation balance in shareholders' equity, on March 31, 2017, is set out below:

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 to 2027 | Total |
| Expected realization | (3,927) | (4,741) | (1,153) | (2,909) | (1,419) | (624) | (618) | 782 | (14,609) |

* See information on Formal Notice from CVM in note 5 to the Company's Interim Financial Statements for the period ended March 31, 2017.

16

ADDITIONAL INFORMATION

3. Special Items

| US$ million | | | | |
|---|---|---|---|---|
| Jan-Mar | | | | |
| 2017 | 2016 | | Items of Income Statement | 4Q-2016 |
| (205) | (76) | (Losses)/Gains on legal proceedings | Other income (expenses) | 474 |
| (37) | – | Cumulative translation adjustment - CTA | Other income (expenses) | (29) |
| – | (13) | State Tax Amnesty Program / PRORELIT | Other income (expenses) | (32) |
| – | – | Amounts recovered relating to Lava Jato Operation | Other income (expenses) | 62 |
| – | – | Gains / (losses) on decommissioning of returned/abandoned areas | Several | 493 |
| 1 | – | Gains (losses) on Disposal of Assets | Other income (expenses) | 1,027 |
| (13) | (75) | Impairment of assets and investments | Several | (1,125) |
| 35 | (139) | Impairment of trade receivables from companies in the isolated electricity system | Selling expenses | (8) |
| 87 | – | Voluntary Separation Incentive Plan – PIDV | Other income (expenses) | (121) |
| (132) | (303) | Total | | 741 |

Impact of the impairment of assets and investments on the Company´s Income Statement:

| | | | |
|---|---|---|---|
| 7 | (75) | Impairment | (1,071) |
| (20) | – | Results in equity-accounted investments | (54) |
| (13) | (75) | Impairment of assets and investments | (1,125) |

Impact of the effects of State Tax Amnesty Program and of Program of Reduction of Tax Litigation (PRORELIT) on the Company’s Income Statement:

| | | | |
|---|---|---|---|
| – | (11) | Tax expenses | (26) |
| – | (2) | Interest expenses | (6) |
| – | (13) | State Tax Amnesty Program / PRORELIT | (32) |

These special items are related to the Company’s businesses and based on management’s judgement have been highlighted and are presented as additional information to provide a better understanding of the Company’s performance. These items are presented when relevant and do not necessarily occur in all periods.

ADDITIONAL INFORMATION

4. Results of Operations of 1Q-2017 compared to 1Q-2016 (additional information):

Virtually all revenues and expenses of our Brazilian operations are denominated and payable in Brazilian Real. Although the fluctuation of the Brazilian Real affects revenues and expenses in different ways when translated into U.S. dollars, we have only included it in the results of operations discussion below when it was a contributing factor to changes in our results of operations as compared to previous periods. In 1Q-2017, the average Brazilian Real appreciated by 19% in relation to U.S. dollar when compared to 1Q-2016.

Sales revenues were US$ 21,737 million in 1Q-2017, a 21% increase (US$ 3,748 million) when compared to US$ 17,989 million in 1Q-2016 mainly due to:

- Higher domestic revenues (US$ 1,979 million), as a result of:
  Higher oil products revenues (US$ 1,909 million), reflecting the higher average prices of diesel and gasoline when expressed in U.S. Dollar, the impacts of the increase in international prices over naphtha, jet fuel and fuel oil, as well as the price of LPG in bulk, which increased by 12.3% since December 7, 2016. These effects were partially offset by the 5% decrease on oil products sales volume.
  Natural gas revenues increased by US$ 49 million, as a result of the higher average prices when expressed in U.S. Dollar, despite the lower thermoelectric demand; and
  Electricity revenues, which are mainly derived from electricity generation, remained relatively flat (US$ 8 million), due to the effects of foreign exchange translation, which were substantially offset by the impacts of the improved hydrological conditions in Brazil.
- Higher export revenues (US$ 2,371 million), mainly reflecting the increased volume of crude oil export, due to the lower domestic demand and higher domestic production, as well as the higher crude oil and oil product prices, following the increase in international prices.
- Lower revenues from operations abroad (US$ 602 million), due to the sale of the Company’s subsidiaries Petrobras Argentina S.A. (PESA) and Petrobras Chile Distribución Ltda.

Sales revenues were significantly affected when translated into U.S. dollars. In 1Q-2017, sales revenues decreased by 3% when expressed in Brazilian Real (the main functional currency of Petrobras Group) and compared to 1Q-2016. These foreign exchange translation effects totaled US$ 4,252 million, impacting each component in different ways.

Cost of sales was US$ 14,174 million in 1Q-2017, a 12% increase (US$ 1,558 million) compared to US$ 12,616 million in 1Q-2016, reflecting:

- Foreign exchange translation effects which increased the cost of sales when expressed in U.S. dollars, reflecting the appreciation of the average Brazilian Real;
- Higher production taxes expenses as a result of higher international prices; and
- Higher crude oil export volume.

These effects were partially offset by:

- Lower import costs of natural gas and crude oil, generated by the lower economic activity, by the decreased share of oil products in domestic market and by the lower thermoelectric demand. The higher share of domestic natural gas on sales mix and the increased share of domestic crude oil on feedstock processed also contributed to the decreased import costs;
- Decreased costs from operations abroad mainly attributable to the sale of Petrobras Argentina S.A. (PESA) and Petrobras Chile Distribución Ltda.; and

- Lower depreciation charges related to crude oil production, as a result of impairment losses in 2016.

Cost of sales was significantly affected when translated into U.S. dollars. In 1Q-2017, cost of sales decreased by 10% when expressed in Brazilian Real and compared to 1Q-2016. These effects totaled US$ 2,773 million, impacting each component in different ways.

Selling expenses were US$ 760 million in 1Q-2017, a 21% decrease (US$ 199 million) compared to US$ 959 million in 1Q-2016, mainly due to:

- Lower freight expenses, due to decreased domestic sales volume;
- The effect of the sale of Petrobras Argentina S.A. (PESA) and Petrobras Chile Distribuición Ltda. (PCD); and
- Reversal of allowance for impairment of trade receivables from companies in the electricity sector in 1Q-2017, compared to the allowance for similar impairments recognized in 1Q 2016.

General and administrative expenses were US$ 733 million in 1Q-2017, an 8% increase (US$ 55 million) compared to US$ 678 million in the 1Q-2016, mainly due to foreign exchange translation effects, which increased the General and administrative expenses when expressed in U.S. dollars. These effects were partially offset by the lower personnel expenses mainly generated by employee separations in the scope of the voluntary separation incentive plans implemented from 2014 to 2016 (PIDV2014/2016), as well as by lower third-party expenses.

General and administrative expenses were significantly affected when translated into U.S. dollars. In 1Q-2017, general and administrative expenses decreased by 13% when expressed in Brazilian Real and compared to 1Q-2016. These effects totaled US$ 143 million, affecting each component in different ways.

Exploration costs were US$ 94 million in 1Q-2017, a 68% decrease (US$ 199 million) compared to US$ 293 million in 1Q-2016, mainly due to lower exploration expenditures written off as dry hole or sub-commercial wells.

Other expenses, net were US$ 1,239 million in 1Q-2017, a 14% increase (US$ 148 million) when compared to US$ 1,091 million in 1Q-2016, mainly due to:

- Higher pension and medical benefit expenses associated with retirees (US$ 170 million), due to unwinding of discount over an increased net actuarial obligation;
- Higher losses on legal, administrative and arbitral proceedings (US$ 106 million) when expressed in U.S. dollars;
- Negative cumulative translation adjustment recycled from shareholders' equity to the statement of income due to divestment of assets in the 1Q-2017 (US$ 37 million);
- Lower unscheduled stoppage expenses, mainly due to lower equipment idleness (US$ 93 million); and
- Reversal of expenses related to the voluntary separation incentive plan, as a result of cancellation of enrollments by some employees (US$ 87 million).

Other expenses, net were significantly affected when translated into U.S. dollars. In 1Q-2017, other expenses, net decreased by 9% when expressed in Brazilian Real and compared to 1Q-2016. These effects totaled US$ 243 million, affecting each component in different ways.

Net finance expense was US$ 2,465 million in 1Q-2017, a 11% increase (US$ 242 million) when compared to US$ 2,223 million in 1Q-2016, due to:

- Higher finance expenses (US$ 318 million), reflecting:
  (i) Foreign exchange translation effects, which increased finance expenses when expressed in U.S. dollars, reflecting the appreciation of the average Brazilian Real;
  (ii) Increase in finance expenses abroad resulting from the repurchase of bonds through the wholly-owned subsidiary Petrobras Global Finance BV (PGF), in January 2017, partially offset by the appreciation of the average Brazilian Real;
  (iii) Higher capitalized interest, mainly due to the increase in the average balance of works in progress and to the higher capitalization rate, partially offset by the lower average conversion rate in 2017; and
  (iv) Debts settled in advance during 4Q-2016 reduced the amount of finance expenses in 1Q-2017.

- Flat foreign exchange and inflation indexation charges in 1Q-2017 (US$ 6 million lower), mainly due to:

(i) Foreign exchange translation effects, which increased the foreign exchange and inflation indexation charges when expressed in U.S. dollars, reflecting the appreciation of the average Brazilian Real;
(ii) Decreased impact of the depreciation of the U.S. dollar against the Euro on the Company’s net debt in the 1Q-2017, compared to the 1Q-2016;
(iii) Higher foreign exchange charges over the positive exposure in U.S. dollar against the Brazilian Real in the 1Q-2017 (appreciation of Brazilian Real), net of the reclassification of cumulative foreign exchange variation from shareholders’ equity to net income due to occurred exports designated for cash flow hedge accounting;
(iv) Negative foreign exchange variation generated by the impact of a 1.2% depreciation of the U.S. dollar against the Pound Sterling on the Company’s net debt denominated in Pound Sterling in the 1Q-2017, compared to the positive foreign exchange variation due to the 3.0% appreciation in the 1Q-2016; and
(v) Lower Brazilian Real x Euro exposure due to the settlement of intercompany loans.

Net finance expense was significantly affected when translated into U.S. dollars. In 1Q-2017, net finance expense decreased by 11% when expressed in Brazilian Real and when compared to 1Q-2016. These foreign exchange translation effects totaled US$ 482 million, affecting each component in different ways.

Income taxes expenses (corporate income tax and social contribution) of US$ 737 million in 1Q-2017, compared to US$ 57 million in 1Q-2016, mainly due to the taxable results generated in the period. For more information about income taxes expenses, see Note 19.4 to the Company’s unaudited interim financial statements.

19

FINANCIAL STATEMENTS

Interim Income Statement - Consolidated

| | U.S.$ million | | |
|---|---|---|---|
| | Jan-Mar | | |
| | 2017 | 2016 | 4Q-2016 |
| Sales revenues | 21,737 | 17,989 | 21,403 |
| Cost of sales | (14,174) | (12,616) | (14,477) |
| Gross profit | 7,563 | 5,373 | 6,926 |
| Selling expenses | (760) | (959) | (926) |
| General and administrative expenses | (733) | (678) | (894) |
| Exploration costs | (94) | (293) | (428) |
| Research and development expenses | (107) | (129) | (99) |
| Other taxes | (92) | (139) | (260) |
| Other expenses, net* | (1,239) | (1,091) | (742) |
| | (3,025) | (3,289) | (3,349) |
| Operating income (loss) | 4,538 | 2,084 | 3,577 |
| Finance income | 297 | 227 | 242 |
| Finance expenses | (1,890) | (1,572) | (1,737) |
| Foreign exchange gains (losses) and inflation indexation charges | (872) | (878) | (117) |
| Net finance income (expense) | (2,465) | (2,223) | (1,612) |
| Results in equity-accounted investments | 195 | 99 | (387) |
| Income (loss) before income taxes | 2,268 | (40) | 1,578 |
| Income taxes | (737) | (57) | (748) |
| Net income (loss) | 1,531 | (97) | 830 |
| Net income (loss) attributable to: | | | |
| Shareholders of Petrobras | 1,417 | (318) | 754 |
| Non-controlling interests | 114 | 221 | 76 |
| | 1,531 | (97) | 830 |

*Includes impairment (reversal of US$ 7 million in 1Q-2017 and expenses of US$ 75 million in 1Q-2016 and of US$ 1,071 million in 4Q-2016).

FINANCIAL STATEMENTS

Interim Statement of Financial Position – Consolidated

| ASSETS | U.S.$ million | |
|---|---|---|
| | 03.31.2017 | 12.31.2016 |
| Current assets | 42,311 | 44,769 |
| Cash and cash equivalents | 19,213 | 21,205 |
| Marketable securities | 918 | 784 |
| Trade and other receivables, net | 4,432 | 4,769 |
| Inventories | 8,260 | 8,475 |
| Recoverable taxes | 2,578 | 2,502 |
| Assets classified as held for sale | 4,965 | 5,728 |
| Other current assets | 1,945 | 1,306 |
| Non-current assets | 206,410 | 202,214 |
| Long-term receivables | 20,028 | 20,420 |
| Trade and other receivables, net | 4,580 | 4,551 |
| Marketable securities | 225 | 90 |
| Judicial deposits | 4,426 | 3,999 |
| Deferred taxes | 3,137 | 4,307 |
| Other tax assets | 3,212 | 3,141 |
| Advances to suppliers | 1,154 | 1,148 |
| Other non-current assets | 3,294 | 3,184 |
| Investments | 3,377 | 3,052 |
| Property, plant and equipment | 179,660 | 175,470 |
| Intangible assets | 3,345 | 3,272 |
| Total assets | 248,721 | 246,983 |

| LIABILITIES | U.S.$ million | |
|---|---|---|
| | 03.31.2017 | 12.31.2016 |
| Current liabilities | 24,767 | 24,903 |
| Trade payables | 4,711 | 5,762 |
| Finance debt and Finance lease obligations | 11,037 | 9,773 |
| Taxes payable | 3,818 | 3,755 |
| Payroll and related charges | 1,900 | 2,197 |
| Pension and medical benefits | 900 | 820 |
| Liabilities associated with assets classified as held for sale | 393 | 492 |
| Other current liabilities | 2,008 | 2,104 |
| Non-current liabilities | 141,731 | 144,530 |
| Finance debt and Finance lease obligations | 104,087 | 108,597 |
| Deferred taxes | 249 | 263 |
| Pension and medical benefits | 22,566 | 21,477 |
| Provision for decommissioning costs | 10,553 | 10,252 |
| Provisions for legal proceedings | 3,758 | 3,391 |
| Other non-current liabilities | 518 | 550 |
| Shareholders' equity | 82,223 | 77,550 |
| Share capital (net of share issuance costs) | 107,101 | 107,101 |
| Profit reserves and others | (25,729) | (30,322) |
| Non-controlling interests | 851 | 771 |
| Total liabilities and shareholders' equity | 248,721 | 246,983 |

21

FINANCIAL STATEMENTS

Interim Statement of Cash Flows – Consolidated

| | US$ million | | |
|---|---|---|---|
| | Jan-Mar | | |
| | 2017 | 2016 | 4Q-2016 |
| Net income (loss) | 1,531 | (97) | 830 |
| (+) Adjustments for: | 5,853 | 4,525 | 6,380 |
| Depreciation, depletion and amortization | 3,423 | 3,235 | 3,410 |
| Foreign exchange, indexation and finance charges | 2,497 | 2,238 | 1,715 |
| Results in equity-accounted investments | (195) | (99) | 387 |
| Reclassification of cumulative translation adjustment and other comprehensive income | 59 | – | 29 |
| Revision and unwinding of discount on the provision for decommissioning costs | 192 | 148 | (322) |
| Allowance (reversals) for impairment of trade and others receivables | (2) | 129 | 652 |
| Gains and losses on disposal / write-offs of assets | 39 | 26 | (560) |
| Deferred income taxes, net | 475 | (361) | 425 |
| Exploration expenditures written-off | 8 | 148 | 315 |
| Impairment of assets | (7) | 75 | 1,071 |
| Inventory write-down to net realizable value | 23 | 301 | 38 |
| Pension and medical benefits (actuarial expense) | 692 | 513 | 604 |
| Judicial deposits | (302) | (98) | (493) |
| Inventories | 386 | (428) | (218) |
| Trade and other receivables, net | 481 | 917 | (840) |
| Trade payables | (1,046) | (965) | 351 |
| Pension and medical benefits | (156) | (112) | (275) |
| Taxes payable | 95 | (568) | 883 |
| Income taxes paid | (84) | (69) | (118) |
| Other assets and liabilities | (725) | (505) | (674) |
| (=) Net cash provided by (used in) operating activities | 7,384 | 4,428 | 7,210 |
| (-) Net cash provided by (used in) investing activities | (2,626) | (3,713) | (2,094) |
| Capital expenditures, investments in investees and dividends received | (3,134) | (3,818) | (3,580) |
| Proceeds from disposal of assets (divestment) | 596 | 3 | 1,466 |
| Divestment (investment) in marketable securities | (88) | 102 | 20 |
| (=) Net cash flow | 4,758 | 715 | 5,116 |
| (-) Net cash provided by (used in) financing activities | (6,792) | (4,440) | (5,380) |
| Proceeds from financing | 4,142 | 1,845 | 6,401 |
| Repayment of principal | (9,223) | (4,373) | (9,735) |
| Repayment of interest | (1,670) | (1,949) | (2,000) |
| Dividends paid to non-controlling interest | – | – | (73) |
| Investments by non-controlling interest | (41) | 37 | 27 |
| Effect of exchange rate changes on cash and cash equivalents | 42 | 522 | (113) |
| (=) Net increase (decrease) in cash and cash equivalents in the period | (1,992) | (3,203) | (377) |
| Cash and cash equivalents at the beginning of period | 21,205 | 25,058 | 21,582 |
| Cash and cash equivalents at the end of period | 19,213 | 21,855 | 21,205 |

SEGMENT INFORMATION

Interim Consolidated Income by Segment – 1Q-2017

| | U.S.$ million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | E&P | RTM | GAS & POWER | BIOFUEL | DISTRIB. | CORP. | ELIMIN. | TOTAL |
| Sales revenues | 10,572 | 17,147 | 2,449 | 52 | 6,649 | – | (15,132) | 21,737 |
| Intersegments | 10,216 | 4,058 | 704 | 50 | 104 | – | (15,132) | – |
| Third parties | 356 | 13,089 | 1,745 | 2 | 6,545 | – | – | 21,737 |
| Cost of sales | (6,814) | (14,801) | (1,672) | (57) | (6,158) | – | 15,328 | (14,174) |
| Gross profit | 3,758 | 2,346 | 777 | (5) | 491 | – | 196 | 7,563 |
| Expenses | (614) | (675) | (282) | 1 | (313) | (1,162) | 20 | (3,025) |
| Selling expenses | (32) | (438) | (75) | (1) | (238) | 2 | 22 | (760) |
| General and administrative expenses | (78) | (117) | (53) | (7) | (68) | (410) | – | (733) |
| Exploration costs | (94) | – | – | – | – | – | – | (94) |
| Research and development expenses | (52) | (3) | (4) | – | – | (48) | – | (107) |
| Other taxes | (10) | (18) | (20) | (3) | (6) | (35) | – | (92) |
| Other expenses, net | (348) | (99) | (130) | 12 | (1) | (671) | (2) | (1,239) |
| Operating income (loss) | 3,144 | 1,671 | 495 | (4) | 178 | (1,162) | 216 | 4,538 |
| Net finance income (expense) | – | – | – | – | – | (2,465) | – | (2,465) |
| Results in equity-accounted investments | 11 | 173 | 28 | (17) | – | – | – | 195 |
| Income (loss) before income taxes | 3,155 | 1,844 | 523 | (21) | 178 | (3,627) | 216 | 2,268 |
| Income taxes | (1,069) | (568) | (168) | 1 | (60) | 1,200 | (73) | (737) |
| Net income (loss) | 2,086 | 1,276 | 355 | (20) | 118 | (2,427) | 143 | 1,531 |
| Net income (loss) attributable to: | | | | | | | | |
| Shareholders of Petrobras | 2,067 | 1,291 | 325 | (20) | 118 | (2,507) | 143 | 1,417 |
| Non-controlling interests | 19 | (15) | 30 | – | – | 80 | – | 114 |
| | 2,086 | 1,276 | 355 | (20) | 118 | (2,427) | 143 | 1,531 |

Interim Consolidated Income by Segment – 1Q-2016

| | U.S.$ million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | E&P | RTM | GAS & POWER | BIOFUEL | DISTRIB. | CORP. | ELIMIN. | TOTAL |
| Sales revenues | 6,056 | 13,577 | 2,402 | 58 | 6,453 | – | (10,557) | 17,989 |
| Intersegments | 5,880 | 3,979 | 545 | 56 | 97 | – | (10,557) | – |
| Third parties | 176 | 9,598 | 1,857 | 2 | 6,356 | – | – | 17,989 |
| Cost of sales | (5,329) | (10,000) | (1,934) | (63) | (5,957) | – | 10,667 | (12,616) |
| Gross profit | 727 | 3,577 | 468 | (5) | 496 | – | 110 | 5,373 |
| Expenses | (923) | (637) | (187) | (31) | (508) | (1,021) | 18 | (3,289) |
| Selling expenses | (43) | (450) | (111) | (1) | (376) | (2) | 24 | (959) |
| General and administrative expenses | (87) | (101) | (51) | (5) | (56) | (377) | (1) | (678) |
| Exploration costs | (293) | – | – | – | – | – | – | (293) |
| Research and development expenses | (54) | (17) | (5) | (1) | – | (52) | – | (129) |
| Other taxes | (16) | (37) | (43) | (1) | (10) | (32) | – | (139) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other expenses, net | (430) | (32) | 23 | (23) | (66) | (558) | (5) | (1,091) |
| Operating income (loss) | (196) | 2,940 | 281 | (36) | (12) | (1,021) | 128 | 2,084 |
| Net finance income (expense) | – | – | – | – | – | (2,223) | – | (2,223) |
| Results in equity-accounted investments | (26) | 96 | 14 | 11 | 2 | 2 | – | 99 |
| Income (loss) before income taxes | (222) | 3,036 | 295 | (25) | (10) | (3,242) | 128 | (40) |
| Income taxes | 68 | (999) | (95) | 12 | 4 | 998 | (45) | (57) |
| Net income (loss) | (154) | 2,037 | 200 | (13) | (6) | (2,244) | 83 | (97) |
| Net income (loss) attributable to: | | | | | | | | |
| Shareholders of Petrobras | (154) | 2,041 | 195 | (13) | (6) | (2,464) | 83 | (318) |
| Non-controlling interests | – | (4) | 5 | – | – | 220 | – | 221 |
| | (154) | 2,037 | 200 | (13) | (6) | (2,244) | 83 | (97) |

Other Income (Expenses) by Segment – 1Q-2017

| | U.S.$ million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | E&P | RTM | GAS & POWER | BIOFUEL | DISTRIB. | CORP. | ELIMIN. | TOTAL |
| Unscheduled stoppages and pre-operating expenses | (412) | (9) | (11) | – | – | – | – | (432) |
| Pension and medical benefits - retirees | – | – | – | – | – | (487) | – | (487) |
| Gains / (losses) related to legal, administrative and arbitration proceedings | (32) | (43) | (228) | – | (26) | (70) | – | (399) |
| Profit sharing | (34) | (17) | (3) | – | – | (34) | – | (88) |
| Institutional relations and cultural projects | – | – | – | – | (7) | (44) | – | (51) |
| Gains / (losses) on disposal/write-offs of assets (*) | (20) | (25) | 1 | 3 | 1 | 1 | – | (39) |
| Allowance for impairment of other receivables | (26) | (6) | – | – | – | (3) | – | (35) |
| Operating expenses with thermoelectric power plants | – | – | (24) | – | – | – | – | (24) |
| Health, safety and environment | (2) | 1 | (1) | – | – | (11) | – | (13) |
| Impairment (losses) / reversals | – | 7 | – | – | – | – | – | 7 |
| Government grants | 2 | 4 | 18 | 1 | – | – | – | 25 |
| Voluntary Separation Incentive Plan - PIDV | 37 | (28) | 56 | – | 7 | 15 | – | 87 |
| Ship/Take or Pay agreements | – | – | 89 | – | – | – | – | 89 |
| Expenses/Reimbursements from E&P partnership operations | 92 | – | – | – | – | – | – | 92 |
| Others | 47 | 17 | (27) | 8 | 24 | (1) | (2) | 66 |
| | (348) | (99) | (130) | 12 | (1) | (671) | (2) | (1,239) |

Other Income (Expenses) by Segment – 1Q-2016

| | U.S.$ million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | E&P | RTM | GAS & POWER | BIOFUEL | DISTRIB. | CORP. | ELIMIN. | TOTAL |
| Unscheduled stoppages and pre-operating expenses | (507) | (9) | (8) | – | – | (1) | – | (525) |
| Pension and medical benefits - retirees | – | – | – | – | – | (317) | – | (317) |
| Gains / (losses) related to legal, administrative and arbitration proceedings | (8) | (9) | (2) | – | (91) | (183) | – | (293) |
| Institutional relations and cultural projects | (2) | (1) | – | – | (3) | (55) | – | (61) |
| Gains / (losses) on disposal/write-offs of assets (*) | (10) | (8) | (10) | – | 2 | – | – | (26) |
| Allowance for impairment of other receivables | – | (4) | – | – | – | (10) | – | (14) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Operating expenses with thermoelectric power plants | – | – | (28) | – | – | – | – | (28) |
| Health, safety and environment | (4) | (4) | (2) | – | – | (10) | – | (20) |
| Impairment (losses) / reversals | (75) | – | – | – | – | – | – | (75) |
| Government grants | 1 | 6 | 3 | – | – | – | – | 10 |
| Ship/Take or Pay agreements | 4 | – | 42 | – | – | – | – | 46 |
| Expenses/Reimbursements from E&P partnership operations | 140 | – | – | – | – | – | – | 140 |
| Others | 38 | (3) | 22 | (23) | 25 | 18 | (5) | 72 |
| | (430) | (32) | 23 | (23) | (66) | (558) | (5) | (1,091) |

(*) Includes losses on advances to suppliers, returned areas and cancelled projects.

Interim Consolidated Assets by Segment – 03.31.2017

| | U.S.$ million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | E&P | RTM | GAS & POWER | BIOFUEL | DISTRIB. | CORP. | ELIMIN. | TOTAL |
| Total assets | 142,150 | 52,994 | 21,306 | 521 | 5,790 | 31,210 | (5,250) | 248,721 |
| | | | | | | | | |
| Current assets | 5,712 | 11,617 | 4,537 | 271 | 2,535 | 22,333 | (4,694) | 42,311 |
| Non-current assets | 136,438 | 41,377 | 16,769 | 250 | 3,255 | 8,877 | (556) | 206,410 |
| Long-term receivables | 7,466 | 3,597 | 1,334 | 134 | 1,044 | 6,959 | (506) | 20,028 |
| Investments | 1,410 | 1,431 | 511 | 14 | 5 | 6 | – | 3,377 |
| Property, plant and equipment | 125,149 | 36,159 | 14,585 | 102 | 1,978 | 1,737 | (50) | 179,660 |
| Operating assets | 93,000 | 31,742 | 12,081 | 99 | 1,688 | 1,369 | (50) | 139,929 |
| Assets under construction | 32,149 | 4,417 | 2,504 | 3 | 290 | 368 | – | 39,731 |
| Intangible assets | 2,413 | 190 | 339 | – | 228 | 175 | – | 3,345 |

Interim Consolidated Assets by Segment – 12.31.2016

| | U.S.$ million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | E&P | RTM | GAS & POWER | BIOFUEL | DISTRIB. | CORP. | ELIMIN. | TOTAL |
| Total assets | 140,096 | 52,580 | 19,488 | 522 | 6,230 | 33,769 | (5,702) | 246,983 |
| | | | | | | | | |
| Current assets | 5,604 | 12,460 | 3,592 | 405 | 3,039 | 24,934 | (5,265) | 44,769 |
| Non-current assets | 134,492 | 40,120 | 15,896 | 117 | 3,191 | 8,835 | (437) | 202,214 |
| Long-term receivables | 7,630 | 3,312 | 2,006 | 4 | 1,017 | 6,838 | (387) | 20,420 |
| Investments | 1,449 | 1,104 | 466 | 13 | 14 | 6 | – | 3,052 |
| Property, plant and equipment | 123,056 | 35,515 | 13,094 | 100 | 1,936 | 1,819 | (50) | 175,470 |
| Operating assets | 90,716 | 31,150 | 11,862 | 97 | 1,654 | 1,472 | (50) | 136,901 |
| Assets under construction | 32,340 | 4,365 | 1,232 | 3 | 282 | 347 | – | 38,569 |
| Intangible assets | 2,357 | 189 | 330 | – | 224 | 172 | – | 3,272 |

Reconciliation of Consolidated Adjusted EBITDA by Segment – 1Q-2017

| | U.S.$ million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | E&P | RTM | GAS & POWER | BIOFUEL | DISTRIB. | CORP. | ELIMIN. | TOTAL |
| Net income (loss) | 2,086 | 1,276 | 355 | (20) | 118 | (2,427) | 143 | 1,531 |
| Net finance income (expenses) | – | – | – | – | – | 2,465 | – | 2,465 |
| Income taxes | 1,069 | 568 | 168 | (1) | 60 | (1,200) | 73 | 737 |
| Depreciation, depletion and amortization | 2,505 | 607 | 224 | 1 | 40 | 46 | – | 3,423 |
| EBITDA | 5,660 | 2,451 | 747 | (20) | 218 | (1,116) | 216 | 8,156 |
| Results in equity-accounted investments | (11) | (173) | (28) | 17 | – | – | – | (195) |
| Impairment (losses) / reversals | – | (7) | – | – | – | – | – | (7) |
| Reclassification of cumulative translation adjustment - CTA | – | – | – | – | – | 37 | – | 37 |
| Gains and losses on disposal/write-offs of assets | 20 | 25 | (1) | (3) | (1) | (1) | – | 39 |
| Adjusted EBITDA * | 5,669 | 2,296 | 718 | (6) | 217 | (1,080) | 216 | 8,030 |

Reconciliation of Consolidated Adjusted EBITDA by Segment – 1Q-2016

*

| | U.S.$ million | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | E&P | RTM | GAS & POWER | BIOFUEL | DISTRIB. | CORP. | ELIMIN. | TOTAL |
| Net income (loss) | (154) | 2,037 | 200 | (13) | (6) | (2,244) | 83 | (97) |
| Net finance income (expenses) | – | – | – | – | – | 2,223 | – | 2,223 |
| Income taxes | (68) | 999 | 95 | (12) | (4) | (998) | 45 | 57 |
| Depreciation, depletion and amortization | 2,470 | 492 | 183 | 3 | 38 | 49 | – | 3,235 |
| EBITDA | 2,248 | 3,528 | 478 | (22) | 28 | (970) | 128 | 5,418 |
| Results in equity-accounted investments | 26 | (96) | (14) | (11) | (2) | (2) | – | (99) |
| Impairment (losses) / reversals | 75 | – | – | – | – | – | – | 75 |
| Reclassification of cumulative translation adjustment - CTA | – | – | – | – | – | – | – | – |
| Gains and losses on disposal/write-offs of assets | 10 | 8 | 10 | – | (2) | – | – | 26 |
| Adjusted EBITDA * | 2,359 | 3,440 | 474 | (33) | 24 | (972) | 128 | 5,420 |

* See definition of Adjusted EBITDA in glossary.

Glossary

ACL - Ambiente de Contratação Livre (Free contracting market) in the electricity system.

ACR - Ambiente de Contratação Regulada (Regulated contracting market) in the electricity system.

ANP - Brazilian National Petroleum, Natural Gas and Biofuels Agency.

Reference feedstock or installed capacity of primary processing - Maximum sustainable feedstock processing reached at the distillation units at the end of each period, respecting the project limits of equipment and the safety, environment and product quality requirements. It is lower than the authorized capacity set by ANP (including temporary authorizations) and by environmental protection agencies.

Feedstock processed (excluding NGL) - Daily volume of crude oil processed in the Company´s refineries in Brazil and is factored into the calculation of the Refining Plants Utilization Factor.

Feedstock processed – Brazil - Daily volume of crude oil and NGL processed.

CTA – Cumulative translation adjustment – The exchange variation cumulative amount that is recognized on Shareholders' Equity should be transferred to the Statement of Income at the moment of the investment disposal.

Adjusted cash and cash equivalents - Sum of cash and cash equivalents, government bonds and time deposits from highly rated financial institutions abroad with maturities of more than 3 months from the date of acquisition, considering the expected realization of those financial investments in the short-term. This measure is not defined under the International Financial Reporting Standards – IFRS and should not be considered in isolation or as a substitute for cash and cash equivalents computed in accordance with IFRS. It may not be comparable to adjusted cash and cash equivalents of other companies, however management believes that it is an appropriate supplemental measure that helps investors assess our liquidity and supports leverage management.

Adjusted EBITDA – Net income plus net finance income (expense); income taxes; depreciation, depletion and

Free cash flow - Net cash provided by operating activities less capital expenditures and investments in investees. Free cash flow is not defined under the International Financial Reporting Standards – IFRS and should not be considered in isolation or as a substitute for cash and cash equivalents calculated in accordance with IFRS. It may not be comparable to free cash flow of other companies, however management believes that it is an appropriate supplemental measure that helps investors assess our liquidity and supports leverage management.

LPG - Liquified crude oil gas.

LNG - Liquified natural gas.

Operating indicators - Indicators used for businesses management and are not reviewed by independent auditor.

NGL - Natural gas liquids.

Lifting Cost - Crude oil and natural gas lifting cost indicator, which considers expenditures occurred in the period.

LTM Adjusted EBITDA – Sum of the last 12 months (Last Twelve Months) of Adjusted EBITDA.

Basic and diluted earnings (losses) per share - Calculated based on the weighted average number of shares.

Operating margin - Calculated based on operating income (loss) excluding write-offs of overpayments incorrectly capitalized.

Adjusted EBITDA margin - Adjusted EBITDA divided by sales revenues.

Market share - Relation between Distribution sales and total market. Beginning in 2015, our market share excludes sales made to wholesalers. Market share for prior periods was revised pursuant to the changes made by the Brazilian National Petroleum, Natural Gas and Biofuels Agency (ANP) and by the Brazilian Wholesalers and Fuel Traders Syndicate (Sindicom). Prior periods are presented based on the new methodology.

Total liabilities net - Total liability less adjusted cash and cash equivalents.

amortization; results in equity-accounted investments; impairment, cumulative translation adjustment and gains/losses on disposal/write-offs of assets. Adjusted EBITDA is not a measure defined by IFRS and it is possible that it may not be comparable to similar measures reported by other companies.

Effect of average cost in the Cost of Sales – In view of the average inventory term of 60 days, the crude oil and oil products international prices movement, as well as foreign exchange effect over imports, government take and other factors that impact costs, do not entirely influence the cost of sales in the period, having its total effects only in the next period.

Net debt – Gross debt less adjusted cash and cash equivalents. Net debt is not a measure defined in the International Standards - IFRS and should not be considered in isolation or as a substitute for total long-term debt calculated in accordance with IFRS. Our calculation of net debt may not be comparable to the calculation of net debt by other companies. Management believes that net debt is an appropriate supplemental measure that helps investors assess our liquidity and supports leverage management.

Consolidated Structured Entities - Entities that have been designated so that voting or similar rights are not the determining factor that decides who controls the entity. Petrobras has no share of earnings in investments in certain structured entities that are consolidated in the financial statements, but the control is determined by the power it has over its relevant operating activities. As there are no interests, the result came from certain consolidated structured entities is attributable to non-controlling interests in the income statement, and it is not considered on net income attributable to shareholders of Petrobras.

Refining plants utilization factor (%) - Feedstock processed (excluding NGL) divided by the reference feedstock.

PESA – Petrobras Argentina S.A.

PLD (differences settlement price) - Electricity price in the spot market. Weekly weighed prices per output level (light, medium and heavy), number of hours and related market capacity.

Domestic crude oil sales price - Average between the prices of exports and the internal transfer prices from Exploration & Production to Refining, Transportation and Marketing.

Domestic natural gas production - Natural gas production in Brazil less LNG plus gas reinjection.

Jet fuel – Aviation fuel.

Net Income by Business Segment - Company’s segment results. Petrobras is an integrated energy company and most of the crude oil and natural gas production from the Exploration & Production segment is transferred to other business segments of the Company. Our results by business segment include transactions carried out with third parties, transactions between companies of Petrobras’s Group and transfers between Petrobras’s business segments that are calculated using internal prices defined through methodologies based on market parameters. On April 28, 2016, the Extraordinary General Meeting approved the statutory adjustments according to the new organizational structure of the company and its new management and governance model, to align the organization to the new reality of the oil and gas sector and prioritize profitability and capital discipline.

On March 31st, 2017, the presentation related to the business segment information reflects the Chief Operating Decision Maker assessment related to the performance and the business resources allocation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 12, 2017

PETRÓLEO BRASILEIRO S.A—PETROBRAS

By: /s/ Ivan de Souza Monteiro

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Ivan de Souza Monteiro

Chief Financial Officer and Investor Relations Officer