PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
March 16, 2018

UNITED STATES

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 March, 2018

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

2017 RESULTS

Consolidated financial information audited by independent auditors, prepared in accordance with International Financial Reporting Standards - IFRS.

Rio de Janeiro – March 15th, 2018

Results

Petrobras reported a loss of R$ 446 million in 2017, determined by the following factors:

- class action Agreement in the USA, in the amount of R$ 11,198 million; and
- Adhesion to Brazilian federal settlement programs, totaling R$ 10,433 million.

Compared to 2016, there was an improvement in the operating profit due to the following factors:

- Higher net exports of oil at higher prices;
- Reduced personnel costs;
- Lower expenses with dry wells and equipment idleness;
- Gain from the sale of NTS in 2Q-2017; and
- Lower impairment and depreciation of assets.

Excluding the class action agreement, the Company would have presented net income of R$ 7,089 million.

Free Cash Flow* remained positive for the eleventh consecutive quarter, reaching R$ 44,064 million in 2017, 6% higher than the previous year. This result reflects the reduction in investments.

Metric - Net Debt / Adjusted EBITDA

Net debt* reached R$ 280,752 million or US$ 84,871 million, representing a decrease of 11% and 12% respectively, compared to 2016. In addition, liability management made it possible to increase the average duration of 7.46 years to 8.62 years, simultaneously with the reduction of the average rate of 6.2% p.a. to 6.1% p.a..

Adjusted EBITDA* decreased by 14% in 2017 to R$ 76,557 million and the Adjusted EBITDA Margin* was 27%, due to the above mentioned factors (class action agreement and Brazilian federal settlement agreements).

In view of that, the net debt to Adjusted EBITDA** ratio reached 3.67 in 12/31/2017, after having reached 3.16 as of 09/30/2017. Leverage* decreased from 55% to 51% in the year.

Excluding the class action effect, Adjusted EBITDA would be R$ 87,755 million and the net debt/Adjusted EBITDA index would reach 3.20.

Operating highlights

Total crude oil and natural gas production reached 2,767 thousand barrels of oil equivalent per day (boed) in 2017, being 2,655 thousand boed in Brazil, stable compared to 2016.

Output of domestic oil products in Brazil decreased by 5% while its sales dropped 6% when compared to 2016, to 1,800 thousand bpd and 1,940 thousand bpd respectively.

The Company sustained the position of net exporter, with 361 thousand bpd of balance in 2017 (vs. 167 thousand bpd in 2016), due to the increase in exports of 32% and reduction in imports of 18%

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

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NYSE: PBR, PBRA

BCBA: APBR, APBRA

LATIBEX: XPBR, XPBRA

* See definitions of Free Cash Flow, Adjusted EBITDA and Net debt in glossary and the respective reconciliations of such items in Liquidity and Capital Resources, Reconciliation of Adjusted EBITDA and Net debt.

Table 01 - Main Items and Consolidated Economic Indicators

	R$ million						
	Jan-Dec						
	2017	2016	2017 x 2016 (%)	4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
Sales revenues	283,695	282,589	–	76,512	71,822	7	70,489
Gross profit	91,595	89,978	2	25,203	21,237	19	22,812
Operating income (loss)	35,624	17,111	108	(1,414)	7,778	(118)	11,811
Net finance income (expense)	(31,599)	(27,185)	(16)	(7,598)	(7,411)	(3)	(5,309)
Consolidated net income (loss) attributable to the shareholders of Petrobras	(446)	(14,824)	97	(5,477)	266	(2159)	2,510
Basic and diluted earnings (losses) per share attributable to the shareholders of Petrobras	(0.03)	(1.14)	97	(0.41)	0.03	(1467)	0.19
Market capitalization (Parent Company)	216,045	209,777	3	216,045	203,376	6	209,777
Adjusted EBITDA*	76,557	88,693	(14)	12,986	19,223	(32)	24,788
Adjusted EBITDA margin* (%)	27	31	(4)	17	27	(10)	35
Gross margin* (%)	32	32	–	33	30	3	32
Operating margin* (%)	13	6	7	(2)	11	(13)	17
Net margin* (%)	–	(5)	5	(7)	–	(7)	4
Total capital expenditures and investments	48,220	55,348	(13)	14,790	10,435	42	14,060
Exploration & Productio	39,650	47,250	(16)	12,802	8,543	50	11,146
Refining, Transportation and Marketing	4,093	4,032	2	1,104	1,124	(2)	1,015
Gas & Power	3,602	2,426	48	574	578	(1)	1,439
Distribution	345	477	(28)	116	82	43	147
Biofuel	112	364	(69)	62	17	265	15
Corporate	419	799	(48)	132	91	50	298
Average commercial selling rate for U.S. dollar	3.19	3.48	(8)	3.25	3.16	3	3.30
Period-end commercial selling rate for U.S. dollar	3.31	3.26	2	3.31	3.17	4	3.26
Variation of the period-end commercial selling rate for U.S. dollar (%)	1.5	(16.5)	18	4.4	(4.2)	9	0.4
Domestic basic oil products price (R$/bbl)	226.37	227.44	–	246.29	213.41	15	220.25
Brent crude (R$/bbl)	173.30	150.90	15	199.48	164.71	21	162.90
Brent crude (US$/bbl)	54.27	43.69	24	61.39	52.08	18	49.46
Domestic Sales Price							
Crude oil (U.S. dollars/bbl)	50.48	39.36	28	55.82	48.30	16	45.71
Natural gas (U.S. dollars/bbl)	37.79	31.10	22	38.60	37.28	4	32.08
International Sales price							
Crude oil (U.S. dollars/bbl)	47.16	43.52	8	54.04	44.32	22	42.44
Natural gas (U.S. dollars/bbl)	20.79	21.40	(3)	22.23	21.90	2	18.34
Total sales volume (Mbbl/d)							
Diesel	717	780	(8)	692	754	(8)	707
Gasoline	521	545	(4)	501	512	(2)	553
Fuel oil	61	67	(9)	68	68	–	67
Naphtha	134	151	(11)	113	133	(15)	164
LPG	235	234	–	230	249	(8)	232
Jet fuel	101	101	–	105	102	3	101
Others	171	186	(8)	176	172	2	177
Total oil products	1,940	2,064	(6)	1,885	1,990	(5)	2,001
	112	112	–	121	115	5	104

Ethanol, nitrogen fertilizers, renewables and other products							
Natural gas	361	333	8	386	389	(1)	332
Total domestic market	2,413	2,509	(4)	2,392	2,494	(4)	2,437
Crude oil, oil products and others exports	672	554	21	550	699	(21)	649
International sales	242	418	(42)	246	244	1	364
Total international market	914	972	(6)	796	943	(16)	1,013
Total	3,327	3,481	(4)	3,188	3,437	(7)	3,450

*See definition of Adjusted EBITDA, Adjusted EBITDA Margin, Gross Margin, Operating Margin and Net Margin in glossary and the reconciliation in Reconciliation of Adjusted EBITDA.

2017 x 2016 Results*:

The Company improved its operational profit in 2017, due to the increase in Brent prices, as well as in volume and margin of oil exports and increase in natural gas sales, reduction in personnel expenses and with costs attributable to writ-offs of dry and/or subcommercial wells and to equipment idleness, gains with the sale of NTS and drop in impairment and in depreciation. On the other hand, there were lower volumes of oil products sales in the domestic market and higher expenses with government participation. Altogether those factors resulted in an operating income of R$ 35,624 million, 108% higher than 2016.

During 2017, with the objective of eliminating risks and uncertainties related to litigation, the Company signed an agreement to finish the class action, in the total amount of R$ 11,198 million (including taxes), and joined four Brazilian federal settlement programs, which affected the Company's results, generating a net loss of R$ 446 million and a reduction of the Adjusted EBITDA, from R$ 88,693 million in 2016 to R$ 76,557 million in 2017.

The Brazilian federal settlement programs also affected the net finance expenses, being offset by the reduction in interest expenses, as a result of the liability management, that reduced debt's amount and cost. However, the higher depreciation of dollar over the net negative exposure in pound and euro in the period led to worse financial result.

Free Cash Flow increased 6%, in view of the reduction in investments.

4Q-2017 Results**:

In the 4Q-2017, there was improvement in the margins, both in exports and in domestic sales, as a result of the increase in Brent prices and of the pricing policy, contributing to a gross profit 19% higher (R$ 25,203 million), despite the lower sales volume.

On the other hand, the Company signed the agreement to finish the class action and adhered to the tax settlement program related to administrative and judicial disputes related to income tax. Those agreements resulted in increase of operational expenses, reflecting the fall of 32% in Adjusted EBITDA, totaling R$ 12,986 million in the quarter.

Those agreements, in conjunction with the impairment, in the amount of R$ 3,511 million, led to the net loss of R$ 5,477 million.

Free Cash Flow was positive for the eleventh quarter in a row, reaching R$ 6,608 million. Despite higher margins in the domestic sales and exports, the operating cash flow was affected by the increase in judicial deposits, resulting in its reduction by 19%. Besides that, investments were 40% higher due to the signature bonuses related to the last three ANP Bidding Rounds.

* Additional information about operating results of 2017 x 2016, see item 6.
* Additional information related to operating *
results 4Q-2017 x 3Q-2017, see item 7

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Table 02 - Exploration & Production Main Indicators

	R$ million						
	Jan-Dec						
	2017	2016	2017 x 2016 (%)	4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
Sales revenues	134,737	116,033	16	37,154	32,528	14	32,663
Brazil	131,732	111,464	18	36,244	31,890	14	31,953
Abroad	3,005	4,569	(34)	910	638	43	710
Gross profit	45,515	29,847	52	13,213	10,033	32	11,087
Brazil	44,352	28,344	56	12,755	9,803	30	10,848
Abroad	1,163	1,503	(23)	458	230	99	239
Operating expenses	(11,969)	(23,086)	48	(3,019)	(3,702)	18	(1,860)
Brazil	(9,817)	(21,092)	53	(2,235)	(3,377)	34	(1,352)
Abroad	(2,152)	(1,994)	(8)	(784)	(325)	(141)	(508)
Operating income (loss)	33,546	6,761	396	10,194	6,331	61	9,227
Brazil	34,535	7,252	376	10,520	6,426	64	9,496
Abroad	(989)	(491)	(101)	(326)	(95)	(243)	(269)
Net income (loss) attributable to the shareholders of Petrobras	22,453	4,762	372	6,828	4,254	61	6,075
Brazil	22,678	5,290	329	6,870	4,210	63	6,389
Abroad	(225)	(528)	57	(42)	44	(195)	(314)
Adjusted EBITDA of the segment*	65,302	53,648	22	17,867	14,591	22	17,654
Brazil	64,734	52,058	24	17,525	14,399	22	17,264
Abroad	568	1,590	(64)	342	192	78	390
EBITDA margin of the segment (%)*	48	46	2	48	45	3	54
Capital expenditures of the segment	39,650	47,250	(16)	12,802	8,545	50	11,146
Average Brent crude (R$/bbl)	173.30	150.90	15	199.48	164.71	21	162.90
Average Brent crude (US$/bbl)	54.27	43.69	24	61.39	52.08	18	49.46
Sales price - Brazil							
Crude oil (US$/bbl)	50.48	39.36	28	55.82	48.30	16	45.71
Sales price - Abroad							
Crude oil (US$/bbl)	47.16	43.52	8	54.04	44.32	22	42.44
Natural gas (US$/bbl)	20.79	21.40	(3)	22.23	21.90	2	18.34
Crude oil and NGL production (Mbbl/d)	2,217	2,224	–	2,201	2,197	–	2,308
Brazil	2,154	2,144	–	2,140	2,134	–	2,243
Abroad	41	55	(25)	40	41	(2)	43
Non-consolidated production abroad	22	25	(12)	21	22	(5)	22
Natural gas production (Mbbl/d)	550	566	(3)	536	552	(3)	560
Brazil	501	485	3	496	506	(2)	503
Abroad	49	81	(40)	40	46	(13)	57
Total production	2,767	2,790	(1)	2,737	2,749	–	2,868
Lifting cost - Brazil (US$/barrel)							
excluding production taxes	11.27	10.64	6	11.28	11.74	(4)	10.24
including production taxes	20.48	16.27	26	22.02	20.79	6	18.20
Lifting cost - Brazil (R$/barrel)							
excluding production taxes	35.72	36.33	(2)	36.42	36.73	(1)	33.51
including production taxes	65.20	55.12	18	71.88	64.86	11	59.25
Lifting cost – Abroad without production taxes (US$/barrel)	5.51	5.38	2	7.01	4.95	42	5.15
Production taxes - Brazil	25,168	15,888	58	7,563	6,002	26	5,728

Royalties	12,555	10,105	24	3,636	2,950	23	2,997
Special participation charges	12,429	5,600	122	3,882	3,007	29	2,684
Retention of areas	184	183	1	45	45	–	47
Production taxes - Abroad	73	800	(91)	14	13	8	120

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

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RESULT BY BUSINESS SEGMENT

EXPLORATION & PRODUCTION

2017 x 2016	4Q-2017 x 3Q-2017
Results	
Gross profit increased due to higher oil Brent prices, lower costs with depreciation, partially offset by increase in production taxes. This improvement in the operational performance, together with lower impairment expenses and lower equipment idleness, resulted in the increase of operational income.	Higher oil prices led to revenues increase and, on the other hand, to a rise production taxes, resulting in higher gross profit. Operating income was even better, due to the gains with the revaluation of costs forecast related to abandonment and reversal of impairment. These factors were offset by the decision to join the tax settlement program related to income tax.

Operating Results

Production	
Domestic crude oil and NGL production remained stable. Natural gas production increased 3% mainly due to the start-up of production of P 66 and the ramp-up of FPSOs Cid. de Saquarema, Cidade de Maricá and Cidade de Itaguaí. The production of crude oil, NGL and natural gas abroad declined due to PESA’s sale in 2016.	Domestic crude oil and NGL production remained stable. Domestic natural gas production decreased 2% due to more interventions on onshore fields compressions systems. International crude oil, NGL and natural gas production reduced due to operational reasons in the USA mainly related to the Hadrian South filed that stopped production on October/2017.

Lifting Cost	
Lifting cost increased mainly due to the foreign exchange effects related to expenses denominated in Brazilian Real. Additionally, higher production taxes were caused by higher oil prices and increased pre-salt production.	The indicator in US dollar decreased due to the apreciation of the domestic currency in the costs . Additionally, there were higher production taxes caused by the increase in oil prices. Lifting cost abroad increased mainly in the U.S.A, due to higher interventions in Lucius field.

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*Table 03 - Refining, Transportation and Marketing Main Indicators

	R$ million						
	Jan-Dec						
	2017	2016	2017 x 2016 (%)	4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
Sales revenues	214,067	217,181	(1)	56,221	52,616	7	54,165
Brazil (includes trading operations abroad)	219,594	219,906	–	58,025	53,924	8	55,463
Abroad	6,690	10,416	(36)	2,350	1,500	57	2,130
Eliminations	(12,217)	(13,141)	7	(4,154)	(2,808)	(48)	(3,428)
Gross profit	29,598	49,495	(40)	9,300	6,281	48	10,136
Brazil	29,490	49,358	(40)	9,166	6,207	48	10,183
Abroad	108	137	(21)	134	74	81	(47)
Operating expenses	(11,548)	(18,376)	37	(4,727)	(2,702)	(75)	(4,509)
Brazil	(11,180)	(18,409)	39	(4,476)	(2,673)	(67)	(4,775)
Abroad	(368)	33	(1215)	(251)	(29)	(766)	266
Operating income (loss)	18,050	31,119	(42)	4,573	3,579	28	5,627
Brazil	18,310	30,949	(41)	4,689	3,535	33	5,408
Abroad	(260)	170	(253)	(116)	44	(364)	219
Net income (loss) attributable to the shareholders of Petrobras	13,510	20,594	(34)	3,337	2,643	26	2,994
Brazil	13,681	20,418	(33)	3,413	2,614	31	2,772
Abroad	(171)	176	(197)	(76)	29	(362)	222
Adjusted EBITDA of the segment*	28,592	47,475	(40)	8,785	5,854	50	9,925
Brazil	28,432	47,112	(40)	8,624	5,760	50	9,683
Abroad	160	363	(56)	161	94	71	242
EBITDA margin of the segment (%)*	13	22	(9)	16	11	4	18
Capital expenditures of the segment	4,093	4,032	2	1,104	1,124	(2)	1,015
Domestic basic oil products price (R$/bbl)	226.37	227.44	–	246.29	213.41	15	220.25
Imports (Mbbl/d)	308	375	(18)	263	336	(22)	305
Crude oil import	127	136	(7)	141	136	4	69
Diesel import	12	13	(8)	3	34	-	5
Gasoline import	11	32	(66)	10	13	(23)	29
Other oil product import	158	194	(19)	109	153	(29)	202
Exports (Mbbl/d)	669	542	23	550	692	(21)	634
Crude oil export	512	387	32	398	554	(28)	479
Oil product export	157	155	1	152	138	10	155
Exports (imports), net	361	167	116	287	356	(19)	329
Refining Operations - Brazil (Mbbl/d)							
Oil products output	1,800	1,887	(5)	1,795	1,797	–	1,810
Reference feedstock	2,176	2,176	–	2,176	2,176	–	2,176
Refining plants utilization factor (%)	77	81	(4)	77	78	(1)	78
Processed feedstock (excluding NGL)	1,685	1,772	(5)	1,683	1,687	–	1,688
Processed feedstock	1,736	1,819	(5)	1,739	1,733	–	1,740
Domestic crude oil as % of total processed feedstock	93	92	1	92	93	(1)	94
Refining Operations - Abroad (Mbbl/d)							
Total processed feedstock	94	126	(25)	115	91	26	109
Oil products output	94	128	(27)	113	90	26	112
Reference feedstock	100	200	(50)	100	100	–	200
Refining plants utilization factor (%)	88	65	23	109	87	22	51

Refining cost - Brazil							
Refining cost (US$/barrel)	2.90	2.58	12	2.76	2.95	(6)	2.92
Refining cost (R$/barrel)	9.26	8.89	4	8.98	9.30	(3)	9.63
Refining cost - Abroad (US$/barrel)	4.41	3.95	12	3.92	4.83	(19)	3.90
Sales volume (includes sales intersegments and to third-parties)							
Diesel	645	733	(12)	597	672	(11)	655
Gasoline	453	486	(7)	433	450	(4)	483
Fuel oil	67	63	5	77	76	1	67
Naphtha	134	151	(11)	113	133	(15)	164
LPG	236	234	1	230	251	(8)	232
Jet fuel	114	115	(1)	119	116	2	114
Others	187	199	(6)	193	188	2	185
Total domestic oil products (mbbl/d)	1,836	1,981	(7)	1,762	1,886	(7)	1,900

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

REFINING, TRANSPORTATION AND MARKETING

Results

2017 x 2016

Gross profit decreased mainly due to reduction of margins, mainly diesel and gasoline, higher Brent and domestic oil prices, as well as reduction in oil products sales volume in the domestic market. The operating profit also reduced, although there has been reduction in expenses associated with sales, voluntary separation plan and impairment.

4Q-2017 x 3Q-2017

The increase in gross profit is due to higher revenues in the domestic market, mainly with gasoline and LPG, impacted by the pricing policy, as well as higher oil products exports. On the other hand, the appreciation of Brent had a lower impact on costs due to inventories formed at lower prices. Operating income increased less due to the impact of impairment.

Operating Performance

Imports and Exports of Crude Oil and Oil Products

Net crude oil exports increased because 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 sales along with the increase in market share of our competitors in the Brazilian market.

Net crude oil exports decreased because of ongoing exports.

The improvement in the net balance of oil products was due to the reduction in imports, mainly of diesel and naphtha, and in the increase of exports, mainly of diesel and gasoline.

Refining Operations

Processed feedstock was lower, mainly due to increase in imports by third parties.

Processed feedstock remained stable.

Refining Cost

Refining cost was higher mainly reflecting a decrease in processed feedstock.

Refining cost decreased to lower personnel expenses and third party services.

Table 04 - Gas & Power Main Indicators

	R$ million						
	Jan-Dec						
	2017	2016	2017 x 2016 (%)	4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
Sales revenues	39,549	32,809	21	11,456	11,122	3	7,802
Brazil	39,410	31,374	26	11,420	11,069	3	7,772
Abroad	139	1,435	(90)	36	53	(32)	30
Gross profit	11,431	8,980	27	3,562	2,885	23	2,486
Brazil	11,396	8,754	30	3,542	2,873	23	2,481
Abroad	35	226	(85)	20	12	67	5
Operating expenses	(2,158)	(4,894)	56	(3,804)	(1,915)	(99)	(244)
Brazil	(1,998)	(4,828)	59	(3,688)	(1,906)	(93)	(258)
Abroad	(160)	(66)	(142)	(116)	(9)	(1189)	14
Operating income (loss)	9,273	4,086	127	(242)	970	(125)	2,242
Brazil	9,398	3,926	139	(146)	967	(115)	2,223
Abroad	(125)	160	(178)	(96)	3	(3300)	19
Net income (loss) attributable to the shareholders of Petrobras	6,113	2,557	139	(176)	665	(126)	1,318
Brazil	6,096	2,269	169	(135)	629	(121)	1,275
Abroad	17	288	(94)	(41)	36	(214)	43
Adjusted EBITDA of the segment*	6,485	7,934	(18)	1,757	1,589	11	2412
Brazil	6,476	7,745	(16)	1,743	1,584	10	2,415
Abroad	9	189	(95)	14	5	-	(3)
EBITDA margin of the segment (%)*	16	24	(8)	15	14	1	31
Capital expenditures of the segment**	3,602	2,426	48	574	578	(1)	1,439
Physical and financial indicators - Brazil							
Electricity sales (Free contracting market - ACL) - average MW	788	835	(6)	776	819	(5)	804
Electricity sales (Regulated contracting market - ACR) - average MW	3,058	3,172	(4)	3,058	3,058	–	3,172
Generation of electricity - average MW	3,165	2,252	41	3,863	4,068	(5)	2,686
Electricity price in the spot market - Differences settlement price (PLD) - R$/MWh	320	107	199	398	435	(9)	163
Avaliability of Brazilian natural gas (Mbbl/d)	338	277	22	346	336	3	316
LNG imports (Mbbl/d)	30	37	(19)	34	32	6	22
Natural gas imports (Mbbl/d)	149	176	(15)	161	169	(5)	158

*

* See definition of Adjusted EBITDA and Adjusted EBITDA Margin in Glossary and reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.
** The higher capital expenditure on Gas & Power segment is due to the implementation of Rota 3 Pipeline Project and to the reclassification of investments in the Pre-Salt pipelines, which were considered in the E&P segment until 2016.

GAS & POWER

Results

2017 x 2016	4Q-2017 x 3Q-2017
Gross profit was higher due to increase in natural gas sales and in the participation of national gas in the sales mix. Those factors, aligned with to the gain with the sale of Company's interest in NTS resulted in higher operating income, partially offset by lower impairment.	The increase of gross profit was due to higher margins with energy, natural gas and LPG sales. Despite this, there was operating loss due to decrease in impairment.

Operating Performance

Physical and Financial Indicators

The increase in the national gas supply led to reduction in imports of natural gas from Bolivia and of LNG.	The increased supply of domestic gas made it possible to reduce imports of Bolivian natural gas.
Electric generation rose due to the reduction in hydrologic volume, which led to higher prices in the spot market.	The reduction of energy sales in the Free Contracting Environment (ACL) occurred due to the seasonal demand and the reduction of energy generation was a reflection of the improvement of the hydrological conditions.

Table 05 - Distribution Main Indicators

	R$ million						
	Jan-Dec						
	2017	2016	2017 x 2016 (%)	4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
Sales revenues	88,050	97,101	(9)	24,136	22,675	6	23,352
Brazil	83,674	85,878	(3)	22,973	21,603	6	21,001
Abroad	4,376	11,223	(61)	1,163	1,072	8	2,351
Gross profit	6,599	7,538	(12)	1,862	1,868	–	2,021
Brazil	6,231	6,355	(2)	1,770	1,771	–	1,781
Abroad	368	1,183	(69)	92	97	(5)	240
Operating expenses	(4,047)	(7,246)	44	(1,145)	(950)	(21)	(1,895)
Brazil	(3,811)	(6,134)	38	(1,054)	(890)	(18)	(1,762)
Abroad	(236)	(1,112)	79	(91)	(60)	(52)	(133)
Operating income (loss)	2,552	292	774	717	918	(22)	126
Brazil	2,420	221	995	716	880	(19)	19
Abroad	132	71	86	1	38	(97)	107
Net income (loss) attributable to the shareholders of Petrobras	1,663	220	656	452	607	(26)	89
Brazil	1,568	196	700	443	583	(24)	11
Abroad	95	24	296	9	24	(63)	78
Adjusted EBITDA of the segment*	3,065	1,103	178	881	1046	(16)	209
Brazil	2,906	674	331	866	997	(13)	147
Abroad	159	429	(63)	15	49	(69)	62
EBITDA margin of the segment (%)*	3	1	2	4	5	–	1
Capital expenditures of the segment	345	477	(28)	116	81	43	147
Market share - Brazil	29.9%	31.1%	(1.2)%	29.7%	30.4%	(0.7)%	30.5%
Sales Volumes - Brazil (Mbbl/d)							
Diesel	296	315	(6)	291	314	(7)	299
Gasoline	186	191	(4)	179	185	(3)	195
Fuel oil	52	53	–	61	64	(6)	53
Jet fuel	52	50	2	53	52	2	51
Others	85	101	(16)	85	82	4	92
Total domestic oil products	671	710	(5)	669	697	(4)	690

*

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

DISTRIBUTION

2017 x 2016

Results

The decrease in gross profit reflected the drop in sales and market share, mainly due to the lower volume sold to the thermoelectric plants, as well as the greater competition of regional players, partially offset by the increase in margins. The operating income increased mainly reflecting the lower losses with receivables from the electricity sector, with administrative and judicial claims, as well as the reversal of expenses with voluntary separation plan, provisioned in 2016

Operating Performance

The market share reduction is due to the decrease in the diesel sales volume, mainly to thermoelectric plants, result of the maintenance of the policy to keep the margins and maximize profitability, which led to a higher sales selectivity. Besides that, there was an increase in competition in the oil products markets, associated with lower direct consumer market.

4Q-2017 x 3Q-2017

Gross profit remained stable, reflecting the increase in sales margins offset by the reduction in sales volume. The operating income reduced due to the effects of adherence to a tax settlement agreement, associated with the reversal of tax credits provision in JET A1 commercialization in Bahia, due to the change in legislation, both occurred in the last quarter.

The reduction in market share is explained by the drop in sales of diesel, mainly in the consumer segment. It was verified, an increase in competition, associated with the reduction of the direct consumer market.

Liquidity and Capital Resources

Table 06 - Liquidity and Capital Resources

	R$ million				
	Jan-Dec				
	2017	2016	4Q-2017	3Q-2017	4Q-2016
Adjusted cash and cash equivalents* at the beginning of period	71,664	100,887	80,175	81,287	72,602
Government bonds and time deposits with maturities of more than 3 months at the beginning of period	(2,556)	(3,042)	(5,744)	(3,317)	(2,542)
Cash and cash equivalents at the beginning of period	69,108	97,845	74,431	77,970	70,060
Net cash provided by (used in) operating activities	86,467	89,709	19,567	24,022	23,579
Net cash provided by (used in) investing activities	(35,218)	(40,064)	(12,308)	(11,599)	(6,896)
Capital expenditures, investments in investees and dividends received	(42,403)	(48,137)	(12,959)	(9,288)	(11,791)
Proceeds from disposal of assets (divestment)	9,907	7,231	449	3	4,829
Investments in marketable securities	(2,722)	842	202	(2,314)	66
(=) Net cash provided by operating and investing activities	51,249	49,645	7,259	12,423	16,683
Net financings	(50,919)	(66,609)	(14,975)	(12,457)	(17,568)
Proceeds from long-term financing	86,467	64,786	14,385	28,094	21,079
Repayments	(137,386)	(131,395)	(29,360)	(40,551)	(38,647)
Dividends paid to non- controlling interest	(538)	(239)	(59)	(69)	(74)
Acquisition of non-controlling interest	69	122	263	(52)	88
Proceeds from sale of interest without loss of control	4,906	–	4,906	–	–
Effect of exchange rate changes on cash and cash equivalents	619	(11,656)	2,669	(3,384)	(81)
Cash and cash equivalents at the end of period	74,494	69,108	74,494	74,431	69,108
Government bonds and time deposits with maturities of more than 3 months at the end of period	6,237	2,556	6,237	5,744	2,556
Adjusted cash and cash equivalents* at the end of period	80,731	71,664	80,731	80,175	71,664
Reconciliation of Free Cash Flow					
Net cash provided by (used in) operating activities	86,467	89,709	19,567	24,022	23,579
Capital expenditures, investments in investees and dividends received	(42,403)	(48,137)	(12,959)	(9,288)	(11,791)
Free cash flow*	44,064	41,572	6,608	14,734	11,788

As of December 31, 2017, the balance of cash and cash equivalents was R$ 74,494 million and the balance of adjusted cash and cash equivalents was R$ 80,731 million, positively impacted by the application of British Treasury bonds in December and by the effect of exchange rate variation on foreign investments. The funds provided by net cash of operating activities of R$ 86,467 million, funding of R$ 86,467 million, receipts from the sale of assets of R$ 9,907 million and of BR Distribuidora's IPO of R$ 4,906 million were allocated to comply with debt service and financing of investments in the business areas.

Although the reduction in diesel and gasoline sales, due to the fall in market share, has been compensated by the increase in volume and export margin, the higher judicial deposits resulted in the net cash provided by operating activities of R$ 86,467 million, 4% lower than 2016.

Capital expenditures totaled R$ 42,403 million in 2017, a decrease of 12% compared to 2016, being 84% in E&P business segment.

Free Cash Flow* was positive, amounting to R$ 44,064 million in 2017, 6% higher than 2016.

In 2017, proceeds from financing amounted to R$ 86,467 million: with highlights to (i) Global notes were issued in international capital markets in the amount of R$ 32,574 million (US$ 10,218 million), with maturities at 2022, 2025, 2027, 2028 and 2044; (ii) issuance of corporate bonds in the local market with maturities at 2022 and 2024 in the amount of R$ 4.989 million and (iii) funds raised in domestic and international banking market of R$ 41,645 million with average maturities of approximately 5 years.

In addition, the Company paid debts (principal and interest) in the total amount of R$ 137,386 million, mainly attributable to: (i) repurchase of R$ 24,356 million (US$ 7,569 million) of Petrobras's existing series of global notes with maturities between 2018 and 2021, with payment of a premium to the bondholders of R$ 1,067 million ; (ii) pre-payment of banking loans in the amount of R$ 52,000 million with national and international banks; ; (iii) pre-payment of finance debt with export credit agencies, in the amount of R$ 2,963 million; and (iv) pre-payment of debt with BNDES (R$ 9,531 million).

The Company also rolled-over debts, especially through: (i) exchange of R$ 21,217 million (US$ 6,768 million) in Global notes issued in international capital markets, with maturities between 2019 and 2021 to new Global notes in the amount of R$ 23,815 million (US$ 7,597 million) with maturities at 2025 and 2028; and (ii) exchange of some debts in the domestic and international banking market maturing from 2018 to 2020, to new similar financings amounting to R$ 13,577 million (US$ 4,257 million) with maturities ranging from 2020 to 2024.

Repayments of principal and interest totaled R$ 137,386 million in 2017 and the nominal cash flow (cash view), including principal and interest payments, by maturity, is set out in R$ million, below:

Table 07 - Nominal cash flow including principal and interest payments

	Consolidated							
Maturity	2018	2019	2020	2021	2022	2023 and thereafter	12.31.2017	12.31.2016
Principal	18,275	21,732	32,581	42,761	60,148	190,135	365,632	390,227
Interest	20,029	19,336	17,858	15,820	13,233	114,611	200,887	190,352
Total	38,304	41,068	50,439	58,581	73,381	304,746	566,519	580,579

*

* See reconciliation of Adjusted Cash and Cash Equivalents in Net debt and definition of Adjusted Cash and Cash Equivalents and Free Cash Flow in glossary.

13

Consolidated debt

Gross debt in Brazilian Reais decreased by 6% when compared to December 31, 2016, mainly as a result repayments of principal and interest, net debt decreased 11% and the average maturity of the debt was 8.62 years (7.46 years as of December 31, 2016).

Current debt and non-current debt include finance lease obligations of R$ 84 million and R$ 675 million as of December 31, 2017, respectively (R$ 59 million and R$ 736 million on December 31, 2016).

The ratio between net debt and the Adjusted EBITDA* decreased from 3.54 as of December 31, 2016 to 3.67 as of December 31, 2017 due to the class action agreement impact on the Adjusted EBITDA.

Table 08 - Consolidated debt in reais

	R$ million		
	12.31.2017	12.31.2016	Δ%
Current debt	23,244	31,855	(27)
Non-current debt	338,239	353,929	(4)
Total	361,483	385,784	(6)
Cash and cash equivalents	74,494	69,108	8
Government securities and time deposits (maturity of more than 3 months)	6,237	2,556	144
Adjusted cash and cash equivalents*	80,731	71,664	13
Net debt*	280,752	314,120	(11)
Net debt/(net debt+shareholders' equity) - Leverage	51%	55%	(4)
Total net liabilities*	750,784	733,281	2
(Net third parties capital / total net liabilities)	64%	66%	(2)
Net debt/Adjusted EBITDA ratio*	3.67	3.54	4
Average interest rate (% p.a.)	6.1	6.2	(1)
Net debt/Operating Cash Flow ratio*	3.25	3.50	(7)

Table 09 - Consolidated debt in dollar

	U.S.$ million		
	12.31.2017	12.31.2016	Δ%
Current Debt	7,026	9,773	(28)
Non-Current Debt	102,249	108,597	(6)
Total	109,275	118,370	(8)
Net Debt	84,871	96,381	(12)
Weighted average maturity of outstanding debt (years)	8.62	7.46	1.16

*

Table 10 - Consolidated debt by rate, currency and maturity

	R$ million		
	12.31.2017	12.31.2016	Δ%
Summarized information on financing			
By rate			

Floating rate debt	176,943	208,525	(15)
Fixed rate debt	183,781	176,464	4
Total	360,724	384,989	(6)
By currency			
Brazilian Real	71,129	78,788	(10)
US Dollars	263,614	276,876	(5)
Euro	17,773	21,637	(18)
Other currencies	8,208	7,688	7
Total	360,724	384,989	(6)
By maturity			
Untill 1 year	23,160	31,796	(27)
1 to 2 Years	21,423	36,557	(41)
2 to 3 Years	31,896	68,112	(53)
3 to 4 Years	42,168	53,165	(21)
4 to 5 Years	59,594	61,198	(3)
5 Years on	182,483	134,161	36
Total	360,724	384,989	(6)

* See definition of Adjusted Cash and Cash Equivalents, Net Debt, Total Net Liabilities, Adjusted EBITDA, OCF and Leverage in glossary and reconciliation in Reconciliation of Adjusted EBITDA and OCF.

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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). Petrobras presents the EBITDA according to Instrução CVM nº 527 of October 4, 2012, adjusted by items not considered as part of Company’s primary business, which include results in equity-accounted investments, impairment, cumulative foreign exchange adjustments reclassified to the income statement and results from disposal and write-offs of assets.

The LTM Adjusted EBITDA reflects the sum of the last twelve months of Adjusted EBITDA and represents an alternative measure to our net cash provided by operating activities. This measure is used to calculate the metric Net Debt/LTM Adjusted EBITDA, which is established in the Business Plan 2018-2022, to support management’s assessment of liquidity and leverage.

EBITDA, Adjusted EBITDA and LTM Adjusted EBITDA are not 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. These measures must be considered in conjunction with other measures and indicators for a better understanding of the Company's operational performance and financial conditions.

Table 11 - Reconciliation of Adjusted EBITDA

	R$ million						
	Jan-Dec						
	2017	2016	2017 X 2016 (%)	4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
Net income (loss)	377	(13,045)	103	(5,372)	650	(926)	2,760
Net finance income (expense)	31,599	27,185	16	7,598	7,411	3	5,309
Income taxes	5,797	2,342	148	(3,156)	155	(2,136)	2,467
Depreciation, depletion and amortization	42,478	48,543	(12)	10,445	10,885	(4)	11,229
EBITDA	80,251	65,025	23	9,515			