

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)

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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 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

FINANCIAL REPORT

2017 RESULTS

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

Rio de Janeiro – March 19, 2018

Results

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

- o class action Agreement in the USA, in the amount of R\$ 11,198 million; and
- o 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:

- o Higher net exports of oil at higher prices;
- o Reduced personnel costs;
- o Lower expenses with dry wells and equipment idleness;
- o Gain from the sale of NTS in 2Q-2017; and
- o 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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B³: 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.

* 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			4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
	2017	2016	2017 x 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 & Production	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 (Mbbbl/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

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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			4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
	2017	2016	2017 x 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 (Mbb/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 (Mbb/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

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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

*

* 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

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.

4Q-2017 x 3Q-2017

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.

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.

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.

The production of crude oil, NGL and natural gas abroad declined due to PESA's sale in 2016.

Lifting Cost

Lifting cost increased mainly due to the foreign exchange effects related to expenses denominated in Brazilian Real.

The indicator in US dollar decreased due to the appreciation of the domestic currency in the costs .

Additionally, higher production taxes were caused by higher oil prices and increased pre-salt production.

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.

*Table 03 - Refining, Transportation and Marketing Main Indicators

	R\$ million						
	Jan-Dec			4Q-2017	3Q-2017	4Q17 X 3Q17 (%)	4Q-2016
	2017	2016	2017 x 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 (Mbb/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 (Mbb/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 (Mbb/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 (Mbb/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

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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 (mmbbl/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

2017 x 2016

4Q-2017 x
3Q-2017

Results

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.