

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)

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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

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 to 1Q-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.



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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			4Q-2016	1Q17 X 4Q16 (%)
	2017	2016	2017 x 2016 (%)		
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 (Mbbbl/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)

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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.

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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 Distribución 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.

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Exploration & Production Main Indicators

	US\$ million		
	Jan-Mar		
	2017	2016	2017 x 2016 (%)
Sales revenues	10,572	6,056	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 (Mbbbl/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 (Mbbbl/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.

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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.

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)		