PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
August 11, 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 August, 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 HALF OF 2017 RESULTS

Derived from consolidated interim financial information reviewed by independent auditors, prepared in accordance with International Financial Reporting Standards - IFRS.

Rio de Janeiro – August 10, 2017

Main financial highlights

- Net Income of R$ 4,765 million in 1H-2017, compared to a loss of R$ 876 million in 1H-2016, as a result of:
  Increase of R$ 9,554 million in export revenues due to higher volume and oil prices;
  Gain of R$ 6,977 million due to the sale of participation in Nova Transportadora do Sudeste (NTS);
  Reduction of 68% in exploratory costs and 16% in sales, general and administrative expenses;
  Reduction of 7% in oil products sales in the domestic market and lower import expenses;
  Expenses with adherence to Tax Settlement Programs (R$ 6,234 million);
  Higher production taxes due to a higher oil price; and
  Provision for losses with receivables related to Vitória 10.000 drillship (R$ 818 million).
- Net income of 2Q-2017 remained in the same level in relation to 2Q-2016, reflecting the lower oil products margins, the reduction in the sales volume and the lower operating expenses.
- Rise of 6% of the Adjusted EBITDA* to R$ 44,348 million in 1H-2017, reflecting lower operational expenses and import costs. Adjusted EBITDA Margin* was 33% in 1H-2017.
- In 1H-2017, Free Cash Flow* reached R$ 22,722 million, 70% higher than 1H-2016. This result reflects the combination of improvement in generation and reduction in investments. Free Cash Flow* in 2Q-2017 was positive for the ninth quarter in a row.
- Gross debt decreased 2%, from R$ 385,784 million as of December 31, 2016 to R$ 376,587 million and Net Debt* decreased 6%, from R$ 314,120 million as of December 31, 2016 to R$ 295,300 million as of June 30, 2017.
- In dollars, the decrease was of 7% (US$ 7,118 million) in Net Debt*, from US$ 96,381 million as of December 31, 2016 to US$ 89.263 million as of June 30, 2017. In addition, the liquidity management led to a weighted average maturity of outstanding debt to increase from 7.46 years as of December 31, 2016 to 7.88 years as of June 30, 2017.
- Reduction of the ratio between Net Debt* and LTM Adjusted EBITDA*, from 3.54 as of December 31, 2016 to 3.23 as of June 30, 2017. During the same period, Leverage* decreased from 55% to 53%.
- Petrobras employees as of June 30, 2017 were 63,152, a decrease of 18% compared to June 30, 2016, due to the voluntary separation incentive plan.

Main operating highlights

- Total crude oil and natural gas production reached 2,791 thousand boed in 1S-2017, being 2,671 thousand boed in Brazil, 6% higher than 1H-2016.
- In 2Q-2017, the FPSO P-66 started its operations in the Lula-South area, in the pre-salt of Santos basin and, in June, a record of operated production of crude oil and natural gas in the pre-salt area, of 1,686 thousand boed, was achieved. Furthermore, there were fewer expenses related to rig idleness.
- In 1H-2017, output of domestic oil products decreased by 7% when compared to 1H-2016, to 1,805 thousand bpd. Domestic oil product sales decreased 7% to 1,943 thousand bpd.
- The Company sustained its position of net exporter, with a balance of 401 thousand bpd in 1H-2017 (vs. 62 thousand bpd in 1H-2016) due to the increase in exports of 48% and reduction in imports of 25%, when compared to 1H-2016.
- Contributed to the decrease in the import volumes in 1H-2017, the higher share of domestic crude in the processed feedstock and of domestic natural gas in the sales mix.

*See definitions of Free Cash Flow, Adjusted EBITDA, LTM 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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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.

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

*Table 01 - Main Items and Consolidated Economic Indicators

	R$ million						
	Jan-Jun						
	2017	2016	2017 x 2016 (%)	2Q-2017	1Q-2017	2Q17 X 1Q17 (%)	2Q-2016
Sales revenues	135,361	141,657	(4)	66,996	68,365	(2)	71,320
Gross profit	45,155	43,829	3	21,369	23,786	(10)	22,821
Operating income (loss)	29,260	15,332	91	14,990	14,270	5	7,184
Net finance income (expense)	(16,590)	(14,754)	(12)	(8,835)	(7,755)	(14)	(6,061)
Consolidated net income (loss) attributable to the shareholders of Petrobras	4,765	(876)	644	316	4,449	(93)	370
Basic and diluted earnings (losses) per share attributable to the shareholders of Petrobras	0.37	(0.07)	629	0.03	0.34	(91)	0.03
Market capitalization (Parent Company)	167,538	138,434	21	167,538	193,926	(14)	138,434
Adjusted EBITDA*	44,348	41,643	6	19,094	25,254	(24)	20,450
Adjusted EBITDA margin* (%)	33	29	4	29	37	(8)	29
Gross margin* (%)	33	31	2	32	35	(3)	32
Operating margin* (%)	22	11	11	22	21	1	10
Net margin* (%)	4	(1)	5	–	7	(7)	1
Total capital expenditures and investments	22,993	29,028	(21)	11,451	11,542	(1)	13,435
Exploration & Production	18,300	25,705	(29)	9,088	9,213	(1)	11,935
Refining, Transportation and Marketing	1,875	1,777	6	1,059	816	30	825
Gas & Power	2,439	651	275	1,113	1,326	(16)	359
Distribution	148	220	(33)	77	71	8	121
Biofuel	33	325	(90)	15	18	(17)	54
Corporate	198	350	(43)	99	99	–	141
Average commercial selling rate for U.S. dollar	3.18	3.70	(14)	3.22	3.15	2	3.51
Period-end commercial selling rate for U.S. dollar	3.31	3.21	3	3.31	3.17	4	3.21
Variation of the period-end commercial selling rate for U.S. dollar (%)	1.5	(17.8)	19	4.4	(2.8)	7	(9.8)
Domestic basic oil products price (R$/bbl)	223.55	230.30	(3)	219.48	227.62	(4)	228.95
Brent crude (R$/bbl)	164.51	145.90	13	159.97	169.04	(5)	159.79
Brent crude (US$/bbl)	51.81	39.73	30	49.83	53.78	(7)	45.57
Domestic Sales Price							
Crude oil (U.S. dollars/bbl)	48.98	34.54	42	47.25	50.70	(7)	39.86
Natural gas (U.S. dollars/bbl)	37.61	30.07	25	38.90	36.18	8	29.90
International Sales price							
Crude oil (U.S. dollars/bbl)	45.03	44.37	1	43.77	46.21	(5)	47.24
Natural gas (U.S. dollars/bbl)	19.94	22.45	(11)	20.17	19.73	2	21.74
Total sales volume (Mbbl/d)							
Diesel	712	804	(11)	721	702	3	811
Gasoline	536	553	(3)	533	539	(1)	541
Fuel oil	53	72	(26)	50	56	(11)	64
Naphtha	145	142	2	125	165	(24)	172
LPG	231	227	2	238	224	6	236
Jet fuel	99	102	(3)	96	101	(5)	97
Others	167	183	(9)	170	164	4	188

Total oil products	1,943	2,083	(7)	1,933	1,951	(1)	2,109
Ethanol, nitrogen fertilizers, renewables and other products	105	111	(5)	112	99	13	111
Natural gas	335	338	(1)	350	319	10	316
Total domestic market	2,383	2,532	(6)	2,395	2,369	1	2,536
Crude oil, oil products and others exports	720	494	46	659	782	(16)	532
International sales	239	473	(49)	237	242	(2)	488
Total international market	959	967	(1)	896	1,024	(13)	1,020
Total	3,342	3,499	(4)	3,291	3,393	(3)	3,556

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

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2Q-2017 x 1Q-2017 Results*:

Gross Profit

Gross profit was R$ 21,369 million, a 10% decrease, mainly due to lower diesel and gasoline margins, lower volume of oil exports (due to stock sales occurred in 1Q-2017) and higher costs with imports of oil and natural gas. On the other hand, there were higher sales of diesel and natural gas.

Operating Income

Operating income increased 5%, reaching R$ 14,990 million, reflecting the gains with NTS sale and the adherence to the Tax Settlement Program (Program de Regularização Tributária – PRT) which reversed provision for losses in legal proceedings of previous periods. There were higher sales expenses, due to third parties payments for the use of the gas pipelines as a result of the NTS sale and increase in tax expenses, due to the PRT and Special Tax Settlement Program (PERT) enrollment, in addition to provision for losses with receivables from Vitória 10.000 drillship. General and administrative expenses remained flat.

Net Financial Expenses

Net financial expenses were 14% higher due to adherence to the Tax Settlement Programs (see Note 20.2 of the interim financial statements).

Net Result

The quarterly net income reached R$ 316 million, a decrease of 93%, due to higher income tax as a result of the PERT program.

Adjusted EBITDA**

Adjusted EBITDA was 24% lower mainly due to lower oil products margins and lower export volume. The Adjusted EBITDA Margin** was 29% in 2Q-2017.

Free Cash Flow**

The Free Cash Flow was positive for the ninth quarter in a row, reaching R$ 9,354 million, 30% lower than 1Q-2017, mainly due to the reduction of the operating cash flow by 15% and investments increase by 4%.

* Additional information related to operating
results 2Q-2017 x 1Q-2017, see item 6.
** See definitions of Free Cash Flow and Adjusted EBITDA, Adjusted EBITDA Margin in glossary and the respective reconciliations in Liquidity and Capital Resources and Reconciliation of Adjusted EBITDA.

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

Gross Profit

Gross profit increased 3% to R$ 45,155 million mainly due to lower oil and natural gas import costs and higher oil and oil products exports. The increase of domestic oil production in addition to higher domestic oil share in the processed feedstock, and of domestic natural gas in the sales mix contributed to the result.

On the other hand, there was reduction in the sale of oil products in the domestic market of 7%, 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 R$ 29,260 million, 91% higher due to the gains with NTS sale, lower expenses associated with employees, due to the voluntary separation plan's impact, the reduced costs with asset write-off of dry and/or subcommercial well and the decrease in drilling rigs idleness.

There was a reduction in operating expenses, despite the adherence to the Tax Settlement Programs (see Note 20.2 of the interim financial statement) and the provision for losses with receivables from Vitoria 10.000 drillship.

Net Finance Expense

Net finance expense of R$ 16,590 million, a R$ 1,836 million increase due to the lower foreign exchange losses of the U.S. dollar against the Euro and charges related to the Tax Settlement Programs.

Net Income (loss) attributable to the shareholders of Petrobras

Net income attributable to the shareholders of Petrobras was R$ 4,765 million in 1H-2017, compared to a net loss of R$ 876 million in 1H-2016, mainly due to increase in exports, lower import costs, reduction in operational expenses and adherence to the Tax Settlement Programs.

Adjusted EBITDA**

Adjusted EBITDA increased by 6% when compared to 1S-2016, to R$ 44,348 million, mainly due to lower costs associated with imports and operating expenses. The Adjusted EBITDA Margin** reached 33% in 1H-2017.

Free Cash Flow**

The higher operating cash flow and lower investments resulted in a positive Free Cash Flow of R$ 22,722 million, 70% higher than 1H-2016.

* Additional information about operating results
of 1H-2017 x 1H-2016, see item 7.
** 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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Table 02 - Exploration & Production Main Indicators

	R$ million						
	Jan-Jun						
	2017	2016	2017 x 2016 (%)	2Q-2017	1Q-2017	2Q17 X 1Q17 (%)	2Q-2016
Sales revenues	65,055	53,297	22	31,804	33,251	(4)	29,622
Brazil	63,598	50,394	26	31,109	32,489	(4)	28,185
Abroad	1,457	2,903	(50)	695	762	(9)	1,437
Gross profit	22,269	10,862	105	10,448	11,821	(12)	8,024
Brazil	21,794	9,907	120	10,265	11,529	(11)	7,549
Abroad	475	955	(50)	183	292	(37)	475
Operating expenses	(5,248)	(8,754)	40	(3,315)	(1,933)	(71)	(5,143)
Brazil	(4,205)	(7,983)	47	(2,395)	(1,810)	(32)	(4,585)
Abroad	(1,043)	(771)	(35)	(920)	(123)	(648)	(558)
Operating income (loss)	17,021	2,108	707	7,133	9,888	(28)	2,881
Brazil	17,589	1,924	814	7,871	9,718	(19)	2,965
Abroad	(568)	184	(409)	(738)	170	(534)	(84)
Net income (loss) attributable to the shareholders of Petrobras	11,371	1,557	630	4,871	6,500	(25)	2,162
Brazil	11,598	1,492	677	5,243	6,355	(17)	2,208
Abroad	(227)	65	(449)	(372)	145	(357)	(46)
Adjusted EBITDA of the segment*	32,844	21,110	56	15,014	17,830	(16)	11,893
Brazil	32,810	20,009	64	15,447	17,363	(11)	11,549
Abroad	34	1,101	(97)	(433)	467	(193)	344
EBITDA margin of the segment (%)*	50	40	11	47	54	(6)	40
Capital expenditures of the segment	18,300	25,705	(29)	9,088	9,213	(1)	11,935
Average Brent crude (R$/bbl)	164.51	145.90	13	159.97	169.04	(5)	159.79
Average Brent crude (US$/bbl)	51.81	39.73	30	49.83	53.78	(7)	45.57
Sales price - Brazil							
Crude oil (US$/bbl)	48.98	34.54	42	47.25	50.70	(7)	39.86
Sales price - Abroad							
Crude oil (US$/bbl)	45.03	44.37	1	43.77	46.21	(5)	47.24
Natural gas (US$/bbl)	19.94	22.45	(11)	20.17	19.73	2	21.74
Crude oil and NGL production (Mbbl/d)	2,237	2,145	4	2,225	2,248	(1)	2,223
Brazil	2,171	2,056	6	2,160	2,182	(1)	2,133
Abroad	42	63	(33)	42	42	–	63
Non-consolidated production abroad	24	26	(8)	23	24	(4)	27
Natural gas production (Mbbl/d)	554	565	(2)	551	557	(1)	581
Brazil	500	467	7	498	501	(1)	479
Abroad	54	98	(45)	53	56	(5)	102
Total production	2,791	2,710	3	2,776	2,805	(1)	2,804
Lifting cost - Brazil (US$/barrel)							
excluding production taxes	11.02	10.75	3	11.21	10.83	4	11.00
including production taxes	19.54	15.47	26	18.71	20.38	(8)	17.37
Lifting cost - Brazil (R$/barrel)							
excluding production taxes	34.87	38.68	(10)	36.09	33.65	7	37.64
including production taxes	62.03	55.05	13	61.34	62.73	(2)	58.93
Lifting cost – Abroad without production taxes (US$/barrel)	5.12	5.56	(8)	5.67	4.56	24	5.49
Production taxes - Brazil	11,603	6,612	75	5,401	6,202	(13)	4,453

Royalties	5,969	4,385	36	2,847	3,122	(9)	2,472
Special participation charges	5,540	2,137	159	2,507	3,033	(17)	1,938
Retention of areas	94	90	4	47	47	–	43
Production taxes - Abroad	281	518	(46)	148	133	11	244

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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

1H-2017 x 1H-2016	2Q-2017 x 1Q-2017
Gross Profit Gross profit increased due to higher oil prices and higher production in Brazil, partially offset by increase in production taxes.	The decrease in gross profit was a result of lower revenues, derived from lower oil prices, slightly offset by lower production taxes.
Operating Income Operating income reflects higher gross profit and lower expenses with assets write-off of dry and/or sub commercial wells and drilling rigs idleness.	Decrease in operating income due to lower gross profit and provisions for losses with receivables related to Vitória 10.000 drillship.
Operating Results	
Production Domestic crude oil and NGL production increased by 6% and domestic natural gas production by 7% due to ramp-ups and new wells in Lula, Sapinhoá, Parque das Baleias and Marlim Sul fields and the start-up of production on new systems: FPSOs Cid. de Caraguatatuba (Lapa field), Cid. de Saquarema and P-66 (Lula field). The production of oil and NGL abroad declined 33%, as a result of the sale of Petrobras Argentina in 2016, balanced by the start of production of new wells at Saint Malo and Lucius fields in the USA. Natural gas production abroad decreased 45% due to the sale of participation in PESA in 2016 and to the lower demand of Bolivian gas from Brazil.	Domestic crude oil and NGL production decreased by 1% mainly due to scheduled stops by Lula (FPSO Cidade de Mangaratiba), Barracuda e Caratinga (P-43), Albacora (P-25) e Marlim (P-37 e P-19). Domestic natural gas production remained stable. International crude oil and NGL production remained stable.
Lifting Cost Lifting cost increased mainly due to foreign exchange charges over the costs denominated in Brazilian Real. This result was partially offset by lower expenditures associated with maintenance, logistics	The indicator in US dollar increased due to higher costs associated with well intervention and maintenance of rigs.

services and personnel and higher production.

Additionally, higher production taxes were caused by higher oil prices.

Lifting cost abroad decreased 8% due to the sale of PESA in 2016, partially offset by the higher charter costs in the U.S.A, in the Cascade and Chinook fields.

On the other hand, there were lower production taxes caused by decrease in oil prices.

Lifting cost abroad increased 24% mainly in the U.S.A, due to submarine inspections in the Cascade and Chinook fields.

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*Table 03 - Refining, Transportation and Marketing Main Indicators

	R$ million						
	Jan-Jun						
	2017	2016	2017 x 2016 (%)	2Q-2017	1Q-2017	2Q17 X 1Q17 (%)	2Q-2016
Sales revenues	105,230	109,032	(3)	51,301	53,929	(5)	55,947
Brazil (includes trading operations abroad)	107,645	109,331	(2)	52,747	54,898	(4)	56,220
Abroad	2,840	6,192	(54)	1,877	963	95	3,306
Eliminations	(5,255)	(6,491)	19	(3,323)	(1,932)	(72)	(3,579)
Gross profit	14,017	28,067	(50)	6,639	7,378	(10)	14,081
Brazil	14,117	27,902	(49)	6,690	7,427	(10)	13,798
Abroad	(100)	165	(161)	(51)	(49)	(4)	283
Operating expenses	(4,119)	(6,227)	34	(1,997)	(2,122)	6	(3,736)
Brazil	(4,031)	(6,008)	33	(1,967)	(2,064)	5	(3,618)
Abroad	(88)	(219)	60	(30)	(58)	48	(118)
Operating income (loss)	9,898	21,840	(55)	4,642	5,256	(12)	10,345
Brazil	10,086	21,894	(54)	4,723	5,363	(12)	10,180
Abroad	(188)	(54)	(248)	(81)	(107)	24	165
Net income (loss) attributable to the shareholders of Petrobras	7,530	15,184	(50)	3,470	4,060	(15)	7,208
Brazil	7,654	15,234	(50)	3,523	4,131	(15)	7,048
Abroad	(124)	(50)	(148)	(53)	(71)	25	160
Adjusted EBITDA of the segment*	13,953	26,962	(48)	6,730	7,223	(7)	13,514
Brazil	14,048	26,899	(48)	6,760	7,288	(7)	13,299
Abroad	(95)	63	(250)	(30)	(65)	54	215
EBITDA margin of the segment (%)*	13	25	(11)	13	13	–	24
Capital expenditures of the segment	1,875	1,777	6	1,059	816	30	825
Domestic basic oil products price (R$/bbl)	223.55	230.30	(3)	219.48	227.62	(4)	228.95
Imports (Mbbl/d)	316	422	(25)	341	290	18	359
Crude oil import	116	160	(28)	139	93	49	122
Diesel import	5	23	(78)	10	–	-	–
Gasoline import	10	46	(78)	7	13	(46)	41
Other oil product import	185	193	(4)	185	184	1	196
Exports (Mbbl/d)	717	484	48	654	779	(16)	515
Crude oil export	548	324	69	487	609	(20)	341
Oil product export	169	160	6	167	170	(2)	174
Exports (imports), net	401	62	547	313	489	(36)	156
Refining Operations - Brazil (Mbbl/d)							
Oil products output	1,805	1,939	(7)	1,798	1,811	(1)	1,919
Reference feedstock	2,176	2,176	–	2,176	2,176	–	2,176
Refining plants utilization factor (%)	77	84	(7)	78	77	1	84
Processed feedstock (excluding NGL)	1,686	1,828	(8)	1,691	1,681	1	1,820
Processed feedstock	1,735	1,869	(7)	1,745	1,725	1	1,869
Domestic crude oil as % of total processed feedstock	94	90	4	93	95	(2)	91
Refining Operations - Abroad (Mbbl/d)							
Total processed feedstock	84	138	(39)	112	56	100	136
Oil products output	86	141	(39)	113	59	92	138
Reference feedstock	100	230	(57)	100	100	–	230
Refining plants utilization factor (%)	79	56	23	102	55	47	56

Refining cost - Brazil							
Refining cost (US$/barrel)	2.95	2.37	24	2.86	3.04	(6)	2.46
Refining cost (R$/barrel)	9.38	8.65	8	9.28	9.49	(2)	8.56
Refining cost - Abroad (US$/barrel)	4.53	4.00	13	4.18	5.22	(20)	4.00
Sales volume (includes sales to BR Distribuidora and third-parties)							
Diesel	656	766	(14)	663	648	2	769
Gasoline	465	500	(7)	462	469	(1)	487
Fuel oil	57	68	(16)	57	57	–	61
Naphtha	145	142	2	125	165	(24)	172
LPG	231	227	2	239	223	7	235
Jet fuel	112	117	(5)	109	114	(4)	110
Others	183	199	(8)	181	184	(1)	203
Total domestic oil products (mbbl/d)	1,848	2,020	(8)	1,836	1,860	(1)	2,038

* 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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REFINING, TRANSPORTATION AND MARKETING

1H-2017 x 1H-2016	2T-2017 x 1T-2017
Gross Profit	
Gross profit decreased due to lower sales margins, mainly of diesel and gasoline, influenced by increase in Brent and in domestic oil prices, as well as reduction in oil products sales volume in the domestic market.	Gross profit decreased due to lower prices of oil products sold that were not followed by cost reduction with acquisition/transfer of oil and oil products, due to stock sales of the previous quarter, at higher costs.
Operating Income	
Operating income decreased due to the lower gross profit, partially offset by lower selling expenses and impairment .	Operating income decreased due to the lower gross profit, partially offset by lower sales expenses.
Operating Performance	
Imports and Exports of Crude Oil and Oil Products	
Net crude oil exports increased as a result of domestic production growth and of decrease in processed volume in refineries, both domestic and imported.	Net crude oil exports decreased as a result of fewer stock sales in 2Q 2017 and higher crude imports, capturing market opportunities.
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.	The balance of net imports of oil products remained flat.
Refining Operations	
Processed feedstock was 7% 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 along with higher employee compensation costs attributable to the 2016 Collective Bargaining Agreement, partially compensated by lower expenses with third party services and materials.	Refining cost remained stable.

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Table 04 - Gas & Power Main Indicators

	R$ million						
	Jan-Jun						
	2017	2016	2017 x 2016 (%)	2Q-2017	1Q-2017	2Q17 X 1Q17 (%)	2Q-2016
Sales revenues	16,971	17,151	(1)	9,268	7,703	20	7,760
Brazil	16,921	15,996	6	9,240	7,681	20	7,163
Abroad	50	1,155	(96)	28	22	27	597
Gross profit	4,984	3,974	25	2,541	2,443	4	2,146
Brazil	4,981	3,792	31	2,545	2,436	4	2,065
Abroad	3	182	(98)	(4)	7	(157)	81
Operating expenses	3,561	(1,980)	280	4,449	(888)	601	(1,246)
Brazil	3,596	(1,939)	285	4,475	(879)	609	(1,222)
Abroad	(35)	(41)	15	(26)	(9)	(189)	(24)
Operating income (loss)	8,545	1,994	329	6,990	1,555	350	900
Brazil	8,577	1,853	363	7,020	1,557	351	843
Abroad	(32)	141	(123)	(30)	(2)	(1,400)	57
Net income (loss) attributable to the shareholders of Petrobras	5,624	1,302	332	4,603	1,021	351	545
Brazil	5,602	1,078	420	4,599	1,003	359	433
Abroad	22	224	(90)	4	18	(78)	112
Adjusted EBITDA of the segment*	3,139	3,489	(10)	883	2,256	(61)	1,642
Brazil	3,149	3,326	(5)	893	2,256	(60)	1,577
Abroad	(10)	163	(106)	(10)	–	-	65
EBITDA margin of the segment (%)*	18	20	(2)	10	29	(19)	21
Capital expenditures of the segment	2,439	651	275	1,113	1,326	(16)	359
Physical and financial indicators - Brazil							
Electricity sales (Free contracting market - ACL) - average MW	778	864	(10)	797	759	5	866
Electricity sales (Regulated contracting market - ACR) - average MW	3,058	3,172	(4)	3,058	3,058	–	3,172
Generation of electricity - average MW	2,352	2,224	6	2,682	2,017	33	1,616
Electricity price in the spot market - Differences settlement price (PLD) - R$/MWh	221	74	199	286	156	83	79
LNG imports (Mbbl/d)	26	54	(52)	37	16	131	33
Natural gas imports (Mbbl/d)	132	184	(28)	146	118	24	174

*

* 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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GAS & POWER

1H-2017 x 1H-2016	2Q-2017 x 1Q-2017
Gross Profit	
The increase of gross profit was due to lower acquisition costs, mainly due to a higher domestic natural gas supply, which resulted in lower natural gas an LNG imports.	The increase of gross profit was due to higher natural gas sales, mainly to the thermoelectric sector, partially offset by higher acquisition costs of natural gas, due to higher share of imported gas in the sales mix.
Operating Income	
Operating income increased due to the higher gross profit, as well as to gains with the sale of Company's interest in NTS.	Operating income increased due to the higher gross profit, as well as to gains with the sale of Company's interest in NTS. On the other hand this sale resulted in higher sales costs associated with the pipeline use.

Operating Performance

Physical and Financial Indicators

1H-2017 x 1H-2016	2Q-2017 x 1Q-2017
The increase of domestic gas supply led to reduction in imports of natural gas from Bolivia and LNG.	Natural gas sales increased, mainly due to higher thermoelectric demand, which led to higher imports from Bolivia and of LNG.

Table 05 - Distribution Main Indicators

	R$ million						
	Jan-Jun						
	2017	2016	2017 x 2016 (%)	2Q-2017	1Q-2017	2Q17 X 1Q17 (%)	2Q-2016
Sales revenues	41,239	49,449	(17)	20,327	20,912	(3)	24,218
Brazil	39,098	43,083	(9)	19,258	19,840	(3)	21,036
Abroad	2,141	6,366	(66)	1,069	1,072	–	3,182
Gross profit	2,869	3,744	(23)	1,326	1,543	(14)	1,804
Brazil	2,690	3,057	(12)	1,238	1,452	(15)	1,431
Abroad	179	687	(74)	88	91	(3)	373
Operating expenses	(1,952)	(3,524)	45	(967)	(985)	2	(1,537)
Brazil	(1,867)	(3,045)	39	(935)	(932)	–	(1,293)
Abroad	(85)	(479)	82	(32)	(53)	40	(244)
Operating income (loss)	917	220	317	359	558	(36)	267
Brazil	824	12	6767	304	520	(42)	138
Abroad	93	208	(55)	55	38	45	129
Net income (loss) attributable to the shareholders of Petrobras	604	159	280	235	369	(36)	184
Brazil	542	(38)	1526	198	344	(42)	58
Abroad	62	197	(69)	37	25	48	126
Adjusted EBITDA of the segment*	1,138	505	125	459	679	(32)	410
Brazil	1,043	230	353	414	629	(34)	249
Abroad	95	275	(65)	45	50	(10)	161
EBITDA margin of the segment (%)*	3	1	2	2	3	(1)	2
Capital expenditures of the segment	148	220	(33)	77	71	8	121
Market share – Brazil**							
Sales Volumes - Brazil (Mbbl/d)							
Diesel	290	314	(8)	295	285	3	317
Gasoline	190	191	–	191	190	1	187
Fuel oil	42	57	(27)	39	45	(13)	50
Jet fuel	50	50	–	48	53	(9)	47
Others	86	102	(15)	87	86	1	104
Total domestic oil products	659	715	(8)	659	658	–	706

*

* See definition of Adjusted EBITDA and Adjusted EBITDA Margin in Glossary and reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.
**Petrobras adopts in Brazil the Sindicom data, whose methodology is under review.

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DISTRIBUTION

1H-2017 x 1H-2016	2Q-2017 x 1Q-2017
Gross Profit	
The decrease in gross profit reflected lower sales volumes, caused by a reduction in economic activity in Brazil and reduced sales margins.	The decrease in gross profit reflected lower commercialization margins in gasoline, diesel and ethanol.
Operating Income	
Operating income increased, reflecting the losses suffered in 2016 with receivables from the electricity sector and with administrative and judicial claims, as well as the reversal, in 2017, of provision related to the voluntary separation incentive plan (PIDV 2016), as a result of cancellation of enrollments by some employees.	Operating income decreased mainly due to the reduction in gross profit and to lower reversal of losses with receivables from the electricity sector, partially offset by reversal of provision related to the voluntary separation incentive plan (PIDV 2016).
Operating Performance	
The decrease in sales volume was mainly due to lower sales to thermoelectric power plants.	Sales volume remained stable reflecting higher diesel sales, due to its seasonality and lower sales to thermoelectric power plants.

Liquidity and Capital Resources

Table 06 - Liquidity and Capital Resources

	R$ million				
	Jan-Jun				
	2017	2016	2Q-2017	1Q-2017	2Q-2016
Adjusted cash and cash equivalents* at the beginning of period	71,664	100,887	63,783	71,664	80,521
Government bonds and time deposits with maturities of more than 3 months at the beginning of period	(2,556)	(3,042)	(2,909)	(2,556)	(2,743)
Cash and cash equivalents at the beginning of period	69,108	97,845	60,874	69,108	77,778
Net cash provided by (used in) operating activities	42,878	39,415	19,653	23,225	22,108
Net cash provided by (used in) investing activities	(11,311)	(25,277)	(3,049)	(8,262)	(10,759)
Capital expenditures, investments in investees and dividends received	(20,156)	(26,079)	(10,299)	(9,857)	(11,153)
Proceeds from disposal of assets (divestment)	9,455	14	7,582	1,873	3
Investments in marketable securities	(610)	788	(332)	(278)	391
(=) Net cash provided by operating and investing activities	31,567	14,138	16,604	14,963	11,349
Net financings	(23,487)	(37,099)	(2,257)	(21,230)	(19,594)
Proceeds from long-term financing	43,988	32,679	30,960	13,028	25,464
Repayments	(67,475)	(69,778)	(33,217)	(34,258)	(45,058)
Dividends paid to non- controlling interest	(410)	(165)	(410)	–	(165)
Acquisition of non-controlling interest	(142)	189	(12)	(130)	43
Effect of exchange rate changes on cash and cash equivalents	1,334	(11,968)	3,171	(1,837)	(6,471)
Cash and cash equivalents at the end of period	77,970	62,940	77,970	60,874	62,940
Government bonds and time deposits with maturities of more than 3 months at the end of period	3,317	2,430	3,317	2,909	2,430
Adjusted cash and cash equivalents* at the end of period	81,287	65,370	81,287	63,783	65,370
Reconciliation of Free Cash Flow					
Net cash provided by (used in) operating activities	42,878	39,415	19,653	23,225	22,108
Capital expenditures, investments in investees and dividends received	(20,156)	(26,079)	(10,299)	(9,857)	(11,153)
Free cash flow*	22,722	13,336	9,354	13,368	10,955

As of June 30, 2017, the balance of cash and cash equivalents was R$ 77,970 million and the balance of adjusted cash and cash equivalents was R$ 81,287,287 million. Our principal uses of funds in 1H-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 R$ 42,878 million and with proceeds from financing of R$ 43,988 million and from divestments of R$ 9,455 million. The balance of adjusted cash and cash equivalents was positively impacted in 2016 by the application of the foreign exchange effect to the foreign financial investments.

Net cash provided by operating activities of R$ 42,878 million was mainly generated by (i) the reduction of import costs due to lower sales in Brazil, reflecting the higher share of national oil in the processed feedstock and national gas in the sales mix, and (ii) higher export volumes of crude oil and oil products and higher prices. These factors were partially offset by higher production taxes.

Capital expenditures, investments in investees and dividends received totaled R$ 20,156 million in 1H-2017, a decrease of 23% compared to 1H-2016, being 80% in E&P business segment.

Free Cash Flow* was positive, amounting to R$ 22,722 million in 1H-2017, 1.7 times 1H-2016.

From January to June 2017, proceeds from financing amounted to R$ 43,988 million. These funds were raised through commercial banking, capital markets transactions and development banks, and used to refinance the debt and pay capital expenditures. Global notes were issued in international capital markets in the amount of US$ 8 billion, with maturities at 2022, 2027 and 2044. The proceeds of those offerings, together with cash and new funding in other markets, of US$ 3.86 billion, were used for pay-down debt (tender offer and make whole) a US$ 7.36 billion value. In addition, the Company pre-paid debts of US$ 1.13 billion with BNDES, operations in the national and international capital markets of US$ 3,16 billions and a structured operation in the amount of US$ 0.13 billion.

Repayments of principal and interest totaled R$ 67,475 million in 1H-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	2017	2018	2019	2020	2021	2022 and thereafter	06.30.2017	12.31.2016
Principal	9,556	30,801	55,139	41,602	62,535	178,812	378,445	390,227
Interest	10,817	21,644	19,557	16,673	13,219	114,233	196,143	190,352
Total	20,373	52,445	74,696	58,275	75,754	293,045	574,588	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.

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Consolidated debt

Gross debt in Brazilian Reais decreased by 2% when compared to December 31, 2016, mainly as a result repayments of principal and interest offset by 1.5% real depreciation. Net debt reduced 6%.

Current debt and non-current debt include finance lease obligations of R$ 73 million and R$ 718 million as of June 30, 2017, respectively (R$ 59 million and R$ 736 million on December 31, 2016).

The weighted average maturity of outstanding debt reached 7.88 years as of June 30, 2017 (compared to 7.46 years as of December 31, 2016).

The ratio between net debt and the LTM Adjusted EBITDA* decreased from 3.54 as of December 31, 2016 to 3.23 as of June 30, 2017 due to the reduction in debt and increase in LTM Adjusted EBITDA.

Table 08 - Consolidated debt in reais

	R$ million		
	06.30.2017	12.31.2016	Δ%
Current debt	25,985	31,855	(18)
Non-current debt	350,602	353,929	(1)
Total	376,587	385,784	(2)
Cash and cash equivalents	77,970	69,108	13
Government securities and time deposits (maturity of more than 3 months)	3,317	2,556	30
Adjusted cash and cash equivalents*	81,287	71,664	13
Net debt*	295,300	314,120	(6)
Net debt/(net debt+shareholders' equity) – Leverage*	53%	55%	(2)
Total net liabilities*	726,767	733,281	(1)
(Net third parties capital / total net liabilities)	64%	66%	(2)
Net debt/LTM Adjusted EBITDA ratio*	3.23	3.54	(9)
Average interest rate (% p.a.)	6.1	6.2	(1)

Table 09 - Consolidated debt in dollar

	U.S.$ million		
	06.30.2017	12.31.2016	Δ%
Current debt	7,855	9,773	(20)
Non-current debt	105,980	108,597	(2)
Total	113,835	118,370	(4)
Net debt*	89,263	96,381	(7)
Weigthed average maturity of outstanding debt (years)	7.88	7.46	0.42

*

Table 10 - Consolidated debt by rate, currency and maturity

	R$ million		
	06.30.2017	12.31.2016	Δ%
Summarized information on financing			
By rate			
Floating rate debt	197,968	208,525	(5)

Fixed rate debt	177,828	176,464	1
Total	375,796	384,989	(2)
By currency			
Brazilian Real	74,592	78,788	(5)
US Dollars	276,344	276,876	–
Euro	16,754	21,637	(23)
Other currencies	8,106	7,688	5
Total	375,796	384,989	(2)
By maturity			
2017	13,956	31,796	(56)
2018	31,084	36,557	(15)
2019	54,559	68,112	(20)
2020	41,027	53,165	(23)
2021	61,963	61,198	1
2022 on	173,207	134,161	29
Total	375,796	384,989	(2)

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

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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 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 derived from dispositions; such as: disposal and write-offs of assets, the amount of cumulative translation adjustments reclassified to the income statement and re-measurement of remaining interest at fair value. 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.

Table 11 - Reconciliation of Adjusted EBITDA

	R$ million						
	Jan-Jun						
	2017	2016	2017 X 2016 (%)	2Q-2017	1Q-2017	2Q17 X 1Q17 (%)	2Q-2016
Net income (loss)	5,099	518	884	292	4,807		899
Net finance income (expense)	16,590	14,754	12	8,835	7,755	14	6,061
Income taxes	8,798						