PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
May 08, 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 May, 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

Rio de Janeiro

May 8th, 2018

1Q-2018 Results*:

Derived from unaudited 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.

The main functional currency of the Petrobras Group is the Brazilian Real, which is the functional currency of the parent company and its Brazilian subsidiaries, and the presentation currency of the Petrobras Group is the U.S. dollar. Therefore, financial records are maintained in Brazilian reais and income and expenses are translated into U.S. dollars using the average exchange rates prevailing during the period, as set out in IAS 21 – "The effects of foreign exchanges rates".

When the real appreciates relative to the U.S. dollar, the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. When the real depreciates relative to the U.S. dollar, the effect is to generally decrease revenues and expenses when expressed in U.S. dollars. In 1Q-2018, the average Brazilian Real depreciated by 3% in relation to U.S. dollar when compared to 1Q-2017. The foreign translation effects on the Company's results are shown in item VII - Foreign exchange translation effects on results of operations in 1Q-2017.

Gross Profit

Gross profit was US$ 8,254 million in 1Q-2018, a 9% increase compared to US$ 7,563 million in 1Q-2017, mainly due to the increase in Brent prices, which resulted in higher margins of oil exports. In addition, the pricing policy contributed to an increase in oil products margins. There were also higher volumes and margins of natural gas sales. On the other hand, exports and domestic sales volumes of oil products dropped, led by the reduction of oil production and of the domestic demand, and the improvement of Brent prices resulted in higher production taxes. Gross Margin** was 36% in 1Q-2018, in line with 1Q-2017.

Operating income and expenses

Operating income was US$ 5,492 million in 1Q-2018, a 21% increase from US$ 4,538 million in 1Q-2017, mainly due to the gains with sale of Exploration & Production assets (Lapa, Iara and Carcará). Further, 1Q-2018 result was impacted by the increase in sale expenses, derived from the payment of tariffs to the third-party gas pipeline company Nova Transportadora do Sudeste S.A. (NTS), which used to be a subsidiary before the sale in 2Q-2017, and by the losses with the fair value adjustment of the put option acquired to hedge part of oil production.

Net Finance Income (Expense)

The net finance expense was US$ 2,235 million in 1Q-2018 million, a 9% decrease compared to US$ 2,465 million in 1Q-2017 as a result of lower financing expenses, due to prepayment of debt, of foreign exchange gains driven by depreciation of the Brazilian Real against the U.S. dollar over the average positive exposure in U.S. dollar and of foreign exchange gains driven by the depreciation of U.S. dollar against the Pound Sterling over the net positive exposure in Pound Sterling in 1Q-2018.

Net income (loss) attributable to the shareholders of Petrobras

Net income attributable to the shareholders of Petrobras was US$ 2,145 million in 1Q-2018, a 51% increase compared to US$ 1,417 million in 1Q-2017. The result improved mainly due to increase in Brent prices and gains with divestments.

Adjusted EBITDA**

Adjusted EBITDA was flat at US$ 7,914 million in 1Q-2018, from US$ 8,030 million in 1Q-2017, mainly as a result of foreign translation effects. The Adjusted EBITDA Margin** reached 34% in 1Q-2018, compared to 37% in 1Q-2017.

Net cash provided by operating activities and Free Cash Flow **

Free cash flow was US$ 4,005 million in 1Q-2018, a reduction of 6% when compared to US$ 4,250 million in 1Q-2017, due to the decrease of the net cash provided by operating activities, mainly as a consequence of the payment of the first installment of the class action settlement and of the premium for contracting put options to protect the price of part of the oil production.

* Additional information about operating results of 1Q-2018 x 1Q-2017, see “Additional Information” item II.
** See definitions of Free Cash Flow, Gross Margin, 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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PETRÓLEO BRASILEIRO S.A. – PETROBRAS

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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.

I. Summary financial information and Consolidated Economic Indicators

	US$ million		
	Jan-Mar		
	2018	2017	(%)
Sales revenues	22,958	21,737	6
Gross profit	8,254	7,563	9
Operating income (loss)	5,492	4,538	21
Net finance income (expense)	(2,235)	(2,465)	9
Consolidated net income (loss) attributable to the shareholders of Petrobras	2,145	1,417	51
Basic and diluted earnings (losses) per share attributable to the shareholders of Petrobras	0.16	0.11	45
Adjusted EBITDA *	7,914	8,030	(1)
Adjusted EBITDA margin* (%)	34	37	(3)
Gross margin* (%)	36	35	1
Operating margin* (%)	24	21	3
Net margin* (%)	9	7	2
Total capital expenditures*	3,067	3,672	(16)
Exploration & Production	2,757	2,930	(6)
Refining, Transportation and Marketing	182	257	(29)
Gas & Power	65	424	(85)
Distribution	26	23	13
Biofuel	6	6	–
Corporate	31	32	(3)
Average commercial selling rate for U.S. dollar (R$/U.S.$)	3.24	3.15	3
Period-end commercial selling rate for U.S. dollar (R$/U.S.$)	3.32	3.17	5
Variation of the period-end commercial selling rate for U.S. dollar (%)	0.5	(2.8)	3
Domestic basic oil products price (U.S.$/bbl)	78.78	72.42	9
Brent crude (U.S.$/bbl)	66.76	53.78	24
Domestic Sales price			
Crude oil (U.S.$/bbl)	62.27	50.70	23
Natural gas (U.S.$/bbl)	40.10	36.18	11
International Sales price			
Crude oil (U.S.$/bbl)	60.18	46.21	30
Natural gas (U.S.$/bbl)	25.01	19.73	27
Total sales volume (Mbbl/d)			

Diesel	668	702	(5)
Gasoline	468	539	(13)
Fuel oil	49	56	(13)
Naphtha	97	165	(41)
LPG	218	224	(3)
Jet fuel	107	101	6
Others	161	164	(2)
Total oil products	1,768	1,951	(9)
Ethanol, nitrogen fertilizers, renewables and other products	63	99	(36)
Natural gas	340	319	7
Total domestic market	2,171	2,369	(8)
Crude oil, oil products and other exports	688	782	(12)
International sales**	269	242	11
Total international market	957	1,024	(7)
Total	3,128	3,393	(8)

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* See definition of Capital Expenditures, Adjusted EBITDA, Adjusted EBITDA Margin, Gross Margin, Operating Margin and Net Margin in glossary and the reconciliation in Reconciliation of Adjusted EBITDA.
** Sales from operations outside of Brazil, including trading and excluding exports.

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ADDITIONAL INFORMATION

II. Results of Operations of 1Q-2018 compared to 1Q-2017

The main functional currency of the Petrobras Group is the Brazilian real, which is the functional currency of the parent company and its Brazilian subsidiaries. As the presentation currency of the Petrobras Group is the U.S. dollar, the results of operations in Brazilian reais are translated into U.S. dollars using the average exchange rates prevailing during the period, as set out in IAS 21 – "The effects of foreign exchanges rates". For detailed information about foreign exchange translation effects on the Company's income statement, see item VII "Foreign exchange translation effects on results of operations of 1Q-2018".

Sales revenues were US$ 22,958 million in 1Q-2018, a 6% increase (US$ 1,221 million) when compared to US$ 21,737 million in 1Q-2017, mainly due to:

- Higher export revenues (US$ 490 million), driven by higher international prices of crude oil and oil products, partially offset by the decrease in crude oil volume exported;
- Higher domestic revenues (US$ 243 million), mainly as a result of:
  - Higher revenues of natural gas (US$ 280 million), due to higher sales and prices.
  - Higher oil products revenues (US$ 227 million), mainly reflecting an increase in average realization prices of diesel, gasoline and liquefied petroleum gas in accordance with their price policies, as well as higher prices of other oil products following the increase in international prices. These effects were partially offset by the decrease in oil products sales volume due to drop in market share, mainly for diesel and gasoline, as well as lower sales of naphtha to Braskem.
- Higher revenues from operations abroad (US$ 488 million) following higher international prices.

Cost of sales was US$ 14,704 million in 1Q-2018, a 4% increase (US$ 530 million) compared to US$ 14,174 million in 1Q-2017, mainly due to:

- Higher production taxes expenses due to the increase in international prices;
- Higher crude oil import costs, as a result of increased share of imports on processed feedstock, despite the lower sales volumes;
- Increased costs from operations abroad, following higher international prices; and
- Lower oil products import costs, mainly for naphtha and gasoline, as a result of lower sales in the domestic market.

Selling expenses were US$ 1,273 million in 1Q-2018, a 68% increase (US$ 513 million) compared to US$ 760 million in 1Q-2017, mainly due to:

- Higher transportation charges, due to the payment of tariffs by the use of third parties gas pipelines, following the sale of Nova Transportadora do Sudeste (NTS) in 2Q 2017; and
- The increased impairment of trade and other receivables, primarily relating to companies from the electricity sector.

General and administrative expenses were US$ 660 million in 1Q-2018, a 10% decrease (US$ 73 million) compared to US$ 733 million in 1Q-2017, mainly due to lower expenses with outsourced administrative services.

Exploration costs were US$ 136 million in 1Q-2018, a 45% increase (US$ 42 million) compared to US$ 94 million in 1Q-2017, mainly due to provisions related to contractual penalties of local content requirements.

Other taxes were US$ 148 million in 1Q-2018, a US$ 56 million increase compared to US$ 92 million in 1Q-2017, mainly as a result of the Company's decision to join VAT (ICMS) State Tax Amnesty Programs.

Other income and expenses totaled US$ 392 million in expenses in 1Q-2018, a 68% decrease (US$ 847 million) compared to the US$ 1,239 million in expenses in 1Q-2017, mainly due to:

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Gain on sale and write-off of assets, mainly driven by the sale of Lapa and Iara fields (US$ 689 million) and by the contingent payment received by the sale of Carcará (US$ 300 million);

- Compensation for dismissal of Liquigas disposal (US$ 88 million) according to the termination clause within the sale and purchase agreement of this transaction; and
- Negative variation of the market value of commodities put options related to the hedge of part of crude oil production (US$ 217 million).

Net finance expense (income) was US$ 2,235 million in 1Q-2018, a 9% decrease (US$ 230 million) when compared to US$ 2,465 million in 1Q-2017, mainly due to:

- Lower finance expenses (US$ 86 million), mainly due to:

(i) Lower financing expenses in Brazil, due to pre-payment of debts (US$ 96 million).

Lower foreign exchange and inflation indexation charges (US$ 102 million) generated by:

(i) Foreign exchange gains of US$ 54 million driven by the impact of a 0.5% depreciation of the Brazilian Real against the U.S. dollar over the average positive exposure in U.S. dollar in 1Q-2018, compared to the foreign exchange losses of US$ 63 million due to the 2.8% appreciation of the Brazilian Real against the U.S. dollar over the average negative exposure in U.S. dollar in 1Q-2017 (US$ 117 million);

(ii) Foreign exchange gains of US$ 48 million driven by the impact of a 3.7% depreciation of the U.S. dollar against the Pound Sterling over the net positive exposure in Pound Sterling in 1Q-2018, compared to the foreign exchange losses of US$ 20 million due to the 1.2% depreciation on the net debt in 1Q-2017 (US$ 68 million);

(iii) Foreign exchange losses of US$ 110 million driven by the impact of a 2.4% depreciation of the U.S. dollar against the Euro on the Company's net debt in 1Q-2018, compared to the foreign exchange losses of US$ 94 million driven by the impact of a 1.4% depreciation on the Company's net debt in Euro in 1Q-2017 (US$ 16 million); and

(iv) Higher reclassification of cumulative foreign exchange variation expense from Shareholders' Equity to Net Income due to occurred exports designated for cash flow hedge accounting (US$ 46 million).

Positive results in equity-accounted investments of US$ 158 million in 1Q-2018, a 19% decrease (US$ 37 million) compared to US$ 195 million in 1Q-2017, mainly due to the result in associates of the petrochemical sector.

Income taxes expenses were US$ 1,219 million in 1Q-2018, a 65% increase compared to US$ 737 million in 1Q-2017, as a result of higher taxable income of the period. For more information about income taxes expenses. See Note 19.6 to the unaudited Company´s interim consolidated financial statements.

Loss related to non-controlling interests were US$ 51 million in 1Q-2018, a decrease of 55% in comparison with US$ 114 million in 1Q-2017, mainly reflecting the impact of the foreign exchange depreciation of the Brazilian Real on debt of structured entities in U.S. dollars, partially offset by the positive result of BR Distribuidora.

* For detailed information about foreign exchange translation effects on the Company's income statement, see item VII "Foreign exchange translation effects on results of operations of 1Q-2018".

Exploration & Production Summary financial information and Main Indicators

	US$ million		
	Jan-Mar		
	2018	2017	(%)
Sales revenues	12,550	10,572	19
Brazil	12,296	10,330	19
Abroad	254	242	5
Gross profit	5,121	3,758	36
Brazil	4,995	3,665	36
Abroad	126	93	35
Operating expenses	263	(614)	143
Brazil	314	(575)	155
Abroad	(51)	(39)	(31)
Operating income (loss)	5,384	3,144	71
Brazil	5,309	3,090	72
Abroad	75	54	39
Net income (Loss) attributable to the shareholders of Petrobras	3,556	2,067	72
Brazil	3,505	2,021	73
Abroad	51	46	11
Adjusted EBITDA of the segment *	6,984	5,669	23
Brazil	6,825	5,521	24
Abroad	159	148	7
EBITDA margin of the segment (%)*	56	54	2
Capital expenditures * of the segment	2,757	2,930	(6)
Average Brent crude (US$/bbl)	66.76	53.78	24
Sales price - Brazil			
Crude oil (US$/bbl)	62.27	50.70	23
Sales price - Abroad			
Crude oil (US$/bbl)	60.18	46.21	30
Natural gas (US$/bbl)	25.01	19.73	27
Crude oil and NGL production (Mbbl/d)	2,146	2,248	(5)
Brazil	2,085	2,182	(4)
Abroad	40	42	(5)
Non-consolidated production abroad	21	24	(13)
Natural gas production (Mbbl/d)	534	557	(4)
Brazil	497	501	(1)
Abroad	37	56	(34)
Total production	2,680	2,805	(4)
Lifting cost - Brazil (US$/barrel)			
excluding production taxes	11.51	10.83	6
including production taxes	23.58	20.38	16
Lifting cost – abroad without production taxes (US$/barrel)	4.91	4.56	8
Production taxes - Brazil	2,457	1,972	25
Royalties	1,143	993	15
Special participation charges	1,300	964	35

Rental of areas	14	15	(7)
Production taxes - Abroad	5	10	(50)

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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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III. RESULT BY BUSINESS SEGMENT*

a) EXPLORATION & PRODUCTION (E&P)

1Q-2018 x 1Q-2017

Gross Profit

Gross profit rose due to higher oil prices, partially offset by the reduction of production and increase in production taxes.

Operating income and expense

Operating income was higher due to increase in gross profit and to gains with the sale of Exploration & Production assets (Lapa, Iara and Carcará).

Operating Performance

Production

Crude oil, NGL and natural gas production reduced, mainly due to the end of the Extended Well Test of Buzios field, the maintenance stoppage of Floting Production Storage and Offloading (FPSO) unit Capixaba, the sale of Lapa field and the stop of production in P-25 wells.

Lifting Cost

Lifting cost increased mainly as a result of the drop in production and well interventions.

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

* Biofuels and Corporate segments are disclosed only in segment information tables.

Refining, Transportation and Marketing Summary financial information and Main Indicators

	US$ million		
	Jan-Mar		
	2018	2017	(%)
Sales revenues	17,060	17,147	(1)
Brazil (includes trading operations abroad)	17,698	17,455	1
Abroad	727	306	138
Eliminations	(1,365)	(614)	(122)
Gross profit	1,904	2,346	(19)
Brazil	1,912	2,362	(19)
Abroad	(8)	(16)	50
Operating expenses	(731)	(675)	(8)
Brazil	(723)	(657)	(10)
Abroad	(8)	(18)	56
Operating income (loss)	1,173	1,671	(30)
Brazil	1,190	1,705	(30)
Abroad	(17)	(34)	50
Net income (loss) attributable to the shareholders of Petrobras	943	1,291	(27)
Brazil	953	1,314	(27)
Abroad	(10)	(23)	57
Adjusted EBITDA of the segment *	1,808	2,296	(21)
Brazil	1,810	2,317	(22)
Abroad	(2)	(21)	90
EBITDA margin of the segment (%)*	11	13	(2)
Capital expenditures * of the segment	182	257	(29)
Domestic basic oil products price (US$/bbl)	78.78	72.42	9
Imports (Mbbl/d)	179	290	(38)
Crude oil import	82	93	(12)
Diesel import	–	–	
Gasoline import	3	13	(77)
Other oil product import	94	184	(49)
Exports (Mbbl/d)	686	779	(12)
Crude oil export	496	609	(19)
Oil product export	190	170	12
Exports (imports), net	507	489	4
Refining Operations - Brazil (Mbbl/d)			
Output of oil products	1,679	1,811	(7)
Reference feedstock	2,176	2,176	–
Refining plants utilization factor (%)	72	77	(5)
Feedstock processed (excluding NGL)	1,569	1,681	(7)
Feedstock processed	1,623	1,725	(6)
Domestic crude oil as % of total feedstock processed	94	95	(1)
Refining Operations - Abroad (Mbbl/d)			
Total feedstock processed	109	56	95
Output of oil products	102	59	73
Reference feedstock	100	100	–
Refining plants utilization factor (%)	101	55	46
Refining cost - Brazil			
Refining cost (US$/barrel)	2.96	3.04	(3)

Refining cost - Abroad (US$/barrel)	4.55	5.22	(13)
Sales volume (includes sales to BR Distribuidora and third-parties)			
Diesel	586	648	(10)
Gasoline	396	469	(16)
Fuel oil	50	57	(13)
Naphtha	97	165	(41)
LPG	217	223	(3)
Jet fuel	122	114	7
Others	179	184	(3)
Total domestic oil products (Mbbl/d)	1,648	1,860	(11)

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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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b) REFINING, TRANSPORTATION AND MARKETING (RTM)

1Q-2018 x 1Q-2017

Gross Profit

Gross profit decreased mainly due to the decrease in diesel and gasoline margins, influenced by rise in crude oil costs, as well as reduction in oil products sales volume in the domestic market, mainly gasoline, due to higher ethanol market penetration.

Operating Income and expense

Operating income decreased due to the lower gross profit.

Operating Performance

Imports and Exports of Crude Oil and Oil Products

Net crude oil exports decreased as a result of reduction in production.

The increase in net oil products exports is due to lower imports, especially of naphtha and gasoline, and increase in diesel exports as a consequence of the reduction in domestic sales.

Refining Operations

Processed feedstock was lower, mainly due to increase in imports by third parties and, for gasoline, loss of market to ethanol.

Refining Cost

Refining cost was lower mainly reflecting foreign translation effects.

Gas & Power Summary financial information and Main Indicators

	US$ million		
	Jan-Mar		
	2018	2017	(%)
Sales revenues	2,836	2,449	16
Brazil	2,828	2,442	16
Abroad	8	7	14
Gross profit	1,038	777	34
Brazil	1,037	775	34
Abroad	1	2	(50)
Operating expenses	(794)	(282)	(182)
Brazil	(791)	(279)	(184)
Abroad	(3)	(3)	–
Operating income (loss)	244	495	(51)
Brazil	246	496	(50)
Abroad	(2)	(1)	(100)
Net income (Loss) attributable to the shareholders of Petrobras	148	325	(54)
Brazil	154	319	(52)
Abroad	(6)	6	(200)
Adjusted EBITDA of the segment *	406	718	(43)
Brazil	407	718	(43)
Abroad	(1)	–	-
EBITDA margin of the segment (%) *	14	29	(15)
Capital expenditures * of the segment	65	424	(85)
Physical and financial indicators			
Electricity sales (Free contracting market - ACL) - average MW	903	759	19
Electricity sales (Regulated contracting market - ACR) - average MW	2,788	3,058	(9)
Generation of electricity - average MW	1,966	2,017	(3)
Electricity price in the spot market - Differences settlement price (PLD) - US$/MWh	57	50	16
Domestic natural gas available (Mbbl/d)	324	330	(2)
Imports of LNG (Mbbl/d)	151	16	844
Imports of natural gas (Mbbl/d)	140	118	19

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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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c) GAS & POWER (G&P)

1Q-2018 x 1Q-2017

Gross Profit

Gross profit increased due to growth of natural gas sales, at higher prices.

Operating income and expense

Operating income decreased due to the higher sales expenses as a consequence of the sale of Company's interest in NTS in the 2Q17 and of the increase in the impairment of trade and other receivables of the electrical sector.

Operating Performance

Physical and Financial Indicators

There were higher imports of LNG and natural gas from Bolivia due to the increase in sales to the thermoelectric and non-thermoelectric segments.

The thermoelectric generation remained stable. Mild temperatures contributed to the decrease of the dispatch for electric reason while the higher difference settlement price influenced the increase in merit generation.

Distribution Summary financial information and Main Indicators

	US$ million		
	Jan-Mar		
	2018	2017	(%)
Sales revenues	7,220	6,649	9
Brazil	6,858	6,308	9
Abroad	362	341	6
Gross profit	485	491	(1)
Brazil	456	462	(1)
Abroad	29	29	−
Operating expenses	(318)	(313)	(2)
Brazil	(299)	(296)	(1)
Abroad	(19)	(17)	(12)
Operating income (loss)	167	178	(6)
Brazil	159	166	(4)
Abroad	8	12	(33)
Net Income (Loss) attributable to the shareholders of Petrobras	83	118	(30)
Brazil	78	110	(29)
Abroad	5	8	(38)
Adjusted EBITDA of the segment*	204	217	(6)
Brazil	191	201	(5)
Abroad	13	16	(19)
EBITDA margin of the segment (%)*	3	3	−
Capital expenditures* of the segment	26	23	13
Sales Volumes - Brazil (Mbbl/d)			
Diesel	288	285	1
Gasoline	170	190	(12)
Fuel oil	38	45	(16)
Jet fuel	54	53	2
Others	75	85	(12)
Total domestic oil products	625	658	(5)

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

d) DISTRIBUTION

1Q-2018 x 1Q-2017

Gross Profit

The decrease in gross profit was due to the foreign exchange translation effects, partially offset by the increase in the average margins as a result of the economic activity improvement in Brazil, which was, however, still not totally reflected in the sales volumes gains.

Operating income and expense

The decrease in operating income reflected the provisioning for expenses with the 2016 voluntary separation plan, which was resumed.

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IV. Liquidity and Capital Resources

	U.S.$ million	
	Jan-Mar	
	2018	2017
Adjusted cash and cash equivalents* at the beginning of period	24,404	21,989
Government bonds and time deposits with maturities of more than 3 months at the beginning of period	(1,885)	(784)
Cash and cash equivalents at the beginning of period	22,519	21,205
Net cash provided by (used in) operating activities	6,849	7,384
Net cash provided by (used in) investing activities	197	(2,626)
Acquisition of PP&E and intangibles assets	(3,058)	(3,187)
Investments in investees	(7)	(11)
Proceeds from disposal of assets - Divestment	2,313	596
Divestment (Investment) in marketable securities	728	(88)
Dividends received	221	64
(=) Net cash provided by operating and investing activities	7,046	4,758
Net financings	(9,437)	(6,751)
Proceeds from financing	5,938	4,142
Repayments	(15,375)	(10,893)
Dividends paid	–	–
Dividends paid to non-controlling interest	–	–
Investments by non-controlling interest	37	(41)
Proceeds from sale of interest without loss of control	–	–
Effect of exchange rate changes on cash and cash equivalents	(199)	42
Cash and cash equivalents at the end of period	19,966	19,213
Government bonds and time deposits with maturities of more than 3 months at the end of period	1,175	918
Adjusted cash and cash equivalents* at the end of period	21,141	20,131
Reconciliation of Free cash flow		
Net cash provided by (used in) operating activities	6,849	7,384
Acquisition of PP&E and intangibles assets, investments in investees and dividends received	(2,844)	(3,134)
Free cash flow*	4,005	4,250

As of March 31, 2018, the balance of cash and cash equivalents was US$ 19,966 million and the balance of adjusted cash and cash equivalents was US$ 21,141 million. The resources from cash provided by operating activities of US$ 6,849 million, proceeds from financing of US$ 5,938 million, proceeds from divestments of US$ 2,313 million were used for repayment of financing (and interest payments) and for capital expenditures.

Net cash provided by operating activities decreased to US$ 6,849 million, as a result of the payment of the first installment of the class action settlement and the premium for contracting put options to protect the price of part of the oil production, partially compensated by higher margins of exports and in the domestic market.

Acquisition of PP&E and intangibles assets, investments in investees and dividends received totaled US$ 2,844 million in 1Q-2018 (96% in E&P business segment), a reduction of 9%.

The above mentioned factors led to a decrease of 6% in Free cash flow, which totaled US$ 4,005 million in 1Q-2018.

From January to March 2018, proceeds from financing amounted to US$ 5,938 million, with highlights to: (i) Global notes issued in international capital markets in the amount of US$ 1,962 million, with maturities at 2029; and (ii) funds raised from the domestic and international banking market, with approximately 6.5 years average terms, in the total amount of US$ 3,924 million .

In addition, the Company paid debts (principal and interest) in the total amount of US$ 15,375 million, mainly attributable to: (i) repurchase of US$ 5,833 million of Petrobras's existing series of global notes with maturities between 2019 and 2021, with premium paid to bond holders amounting to US$ 420 million; (ii) pre-payment of banking loans in the amount of US$ 6,292 million with national and international banks; and (iii) pre-payment of debt with BNDES (US$ 245 million).

Repayments of principal and interest totaled US$ 15,375 million in 1Q-2018 and the nominal cash flow (cash view), including principal and interest payments, by maturity, is set out in US$ million, below:

Maturity	2018	2019	2020	2021	2022	2023 and thereafter	Balance at March 31, 2018	Balance at December 31, 2017
Principal	2,234	2,929	8,339	8,800	18,005	63,229	103,536	110,530
Interest	4,402	5,882	5,590	5,134	4,469	36,007	61,485	60,728
Total	6,636	8,811	13,929	13,934	22,474	99,236	165,021	171,258

*

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

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V. Consolidated debt

As of March 31, 2018, the total debt in U.S. dollars decreased 6% when compared to December 31, 2017. The net debt in U.S. dollars reduced 4% when compared to December 31, 2017, mainly as a result of repayments of principal and interest.

Current debt and non-current debt include finance lease obligations of US$ 26 million and US$ 202 million as of March 31, 2018, respectively (US$ 25 million and US$ 204 million on December 31, 2017).

The weighted average maturity of outstanding debt reached 9.26 years as of March 31, 2018 (compared to 8.62 years as of December 31, 2017).The Average interest rate increased from 6,1% in December 31, 2017 to 6,2% in March, 2018.

The ratio between net debt and the LTM Adjusted EBITDA* decreased from 3.53 as of December 31, 2017 to 3.40 as of March 31, 2018. The ratio between net debt and the LTM OCF reduced from 3.20 as of December 31, 2017 to 3.11 as of March 31, 2018.

	U.S.$ million		
	03.31.2018	12.31.2017	Δ%
Current debt	4,656	7,026	(34)
Non-current debt	97,932	102,249	(4)
Total	102,588	109,275	(6)
Cash and cash equivalents	19,966	22,519	(11)
Government securities and time deposits (maturity of more than 3 months)	1,175	1,885	(38)
Adjusted cash and cash equivalents *	21,141	24,404	(13)
Net debt *	81,447	84,871	(4)
Net debt/(net debt+shareholders' equity) - Leverage *	49%	51%	(2)
Total net liabilities *	226,815	226,962	–
(Net third parties capital / total net liabilities)	63%	64%	(1)
Net debt/LTM Adjusted EBITDA ratio *	3.40	3.53	(4)
Average interest rate (% p.a.)	6.2	6.1	1
Total debt net of cash and cash equivalents/ LTM OCF ratio*	3.11	3.20	(3)
Weighted average maturity of outstanding debt (years)	9.26	8.62	