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)

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____

INTERIM FINANCIAL

STATEMENTS

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March 31, 2017and 2016 with report of independent

registered public accounting firm

Petróleo Brasileiro S.A. – Petrobras

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Petróleo Brasileiro S.A. – Petrobras

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Petróleo Brasileiro S.A. - Petrobras

We have reviewed the interim consolidated statement of financial position of Petróleo Brasileiro S.A. – Petrobras and subsidiaries (the "Company") as of March 31, 2017, and the related interim consolidated statements of income, comprehensive income, cash flows and changes in shareholders´ equity for the three-month period ended March 31, 2017. These interim consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the interim consolidated financial statements referred to above for them to be in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We draw attention to Note 3 of the interim consolidated financial statements, which describes that: i) no additional information has been identified through this date which could materially impact the estimation methodology adopted for the write off recorded on September 30, 2014; and ii) the internal investigations being conducted by outside legal counsel under the supervision of a Special Committee created by the Company and the investigation conducted by the Securities and Exchange Commission are still on going, nevertheless to date no additional impact to those already disclosed in the interim financial statements has been identified. We also draw attention to Note 28.4 of the interim consolidated financial statements which describes class actions filed against the Company, for which it is unable to make a reliable estimate of loss.

The consolidated financial statements of the Company as of and for the year ended December 31, 2016, were audited by other accountants whose report dated March 21, 2017, expressed an unqualified opinion on those consolidated financial statements. Such consolidated financial statements were not audited by us and, accordingly, we do not express an opinion or any form of assurance on the information set forth in the accompanying consolidated statement of financial position as of December 31, 2016. Additionally, the interim consolidated statements of income, comprehensive income, cash flows and changes in shareholders´ equity for the three-month period ended March 31, 2016, were not reviewed or audited by us, and accordingly, we do not express an opinion or any form of assurance on them.

/s/

KPMG Auditores Independentes

Rio de Janeiro, Brazil

May 11, 2017

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Petróleo Brasileiro S.A. – Petrobras
Interim Consolidated Statement of Financial Position
March 31, 2017 and December 31, 2016

(Expressed in millions of US Dollars, unless otherwise indicated)

Assets	Note	03.31.2017	12.31.2016	Liabilities	Note	03.31.2017	12.31.2016
Current assets				Current liabilities			
Cash and cash equivalents	6	19,213	21,205	Trade payables	14	4,711	5,762
Marketable securities	6	918	784	Finance debt	15	11,016	9,755
Trade and other receivables, net	7	4,432	4,769	Finance lease obligations	16.1	21	18
Inventories, net	8	8,260	8,475	Income taxes payable	19.1	75	127
Recoverable income taxes	19.1	670	602	Other taxes payable	19.1	3,743	3,628
Other recoverable taxes	19.1	1,908	1,900	Payroll and related charges		1,900	2,197
Advances to suppliers		141	166	Pension and medical benefits	20	900	820
Others		1,804	1,140	Others		2,008	2,104
		37,346	39,041			24,374	24,411
Assets classified as held for sale	9.3	4,965	5,728	Liabilities related to assets classified as held for sale	9.3	393	492
		42,311	44,769			24,767	24,903
Non-current assets				Non-current liabilities			
Long-term receivables				Finance debt	15	103,857	108,371
Trade and other receivables, net	7	4,580	4,551	Finance lease obligations	16.1	230	226
Marketable securities	6	225	90	Deferred income taxes	19.3	249	263
Judicial deposits	28.2	4,426	3,999	Pension and medical benefits	20	22,566	21,477
Deferred income taxes	19.3	3,137	4,307	Provisions for legal proceedings	28.1	3,758	3,391
Other tax assets	19.1	3,212	3,141	Provision for decommissioning costs	18	10,553	10,252
Advances to suppliers		1,154	1,148	Others		518	550
Others		3,294	3,184			141,731	144,530
		20,028	20,420				
				Total liabilities		166,498	169,433
				Shareholders' equity			
Investments	10	3,377	3,052	Share capital (net of share issuance costs)	21.1	107,101	107,101
Property, plant and equipment	11	179,660	175,470	Capital transactions		628	628
Intangible assets	12	3,345	3,272	Profit reserves		54,561	53,143
		206,410	202,214	Accumulated other comprehensive (deficit)	21.2	(80,918)	(84,093)
				Attributable to the shareholders of Petrobras		81,372	76,779

			Non-controlling interests	851	771
			Total equity	82,223	77,550
Total assets	248,721	246,983	Total liabilities and shareholder's equity	248,721	246,983

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A. – Petrobras
Interim Consolidated Statement of Income
March 31, 2017 and 2016

(Expressed in millions of US Dollars, unless otherwise indicated)

	Note	Jan-Mar/2017	Jan-Mar/2016
Sales revenues	22	21,737	17,989
Cost of sales		(14,174)	(12,616)
Gross profit		7,563	5,373
Income (expenses)			
Selling expenses		(760)	(959)
General and administrative expenses		(733)	(678)
Exploration costs	13	(94)	(293)
Research and development expenses		(107)	(129)
Other taxes		(92)	(139)
Other expenses, net	23	(1,239)	(1,091)
		(3,025)	(3,289)
Income before finance income (expense), results in equity-accounted investments and income taxes		4,538	2,084
Finance income		297	227
Finance expenses		(1,890)	(1,572)
Foreign exchange gains (losses) and inflation indexation charges		(872)	(878)
Net finance income (expense)	25	(2,465)	(2,223)
Results in equity-accounted investments	10	195	99
Net income (loss) before income taxes		2,268	(40)
Income taxes	19.4	(737)	(57)
Net income (loss) for the period		1,531	(97)
Net income (loss) attributable to:			
Shareholders of Petrobras		1,417	(318)
Non-controlling interests		114	221
Net income (loss) for the period		1,531	(97)
Basic and diluted earning (loss) per weighted-average of common and preferred share - in U.S. dollars	21.2	0.11	(0.02)

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A. – Petrobras
Interim Consolidated Statement of Comprehensive Income
March 31, 2017 and 2016

(Expressed in millions of US Dollars, unless otherwise indicated)

	Jan-Mar/2017	Jan-Mar/2016
Net Income (Loss) for the period	1,531	(97)
Items that may be reclassified subsequently to the statement of income:		
Unrealized gains / (losses) on available-for-sale securities		
Recognized in shareholders' equity	(13)	-
	(13)	–
Unrealized gains / (losses) on cash flow hedge - highly probable future exports		
Recognized in shareholders' equity	1,736	5,630
Reclassified to the statement of income	774	742
Deferred income tax	(853)	(2,166)
	1,657	4,206
Unrealized gains on cash flow hedge - others		
Recognized in shareholders' equity	1	-
	1	–
Cumulative translation adjustments (*)		
Recognized in shareholders' equity	1,361	4,463
Reclassified to the statement of income	37	-
	1,398	4,463
Share of other comprehensive income in equity-accounted investments		
Recognized in shareholders' equity	118	191
Reclassified to the statement of income	22	–
	140	191
Total other comprehensive income:	3,183	8,860
Total comprehensive income	4,714	8,763
Comprehensive income attributable to:		
Shareholders of Petrobras	4,593	8,568
Non-controlling interests	121	195
Total comprehensive income	4,714	8,763

(*) Includes US$ 14 (US$ 138 in the first quarter of 2016) of cumulative translation adjustments in associates and joint ventures.

The notes form an integral part of these financial statements.

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Petróleo Brasileiro S.A. – Petrobras
Interim Consolidated Statement of Cash Flows
March 31, 2017 and 2016

(Expressed in millions of US Dollars, unless otherwise indicated)

	Jan-Mar/2017	Jan-Mar/2016
Cash flows from Operating activities		
Net income (loss) for the period	1,531	(97)
Adjustments for:		
Pension and medical benefits (actuarial expense)	692	513
Results in equity-accounted investments	(195)	(99)
Depreciation, depletion and amortization	3,423	3,235
Impairment of assets (reversal)	(7)	75
Exploratory expenditures write-offs	8	148
Gains and losses on disposals/write-offs of assets	39	26
Foreign exchange, indexation and finance charges	2,497	2,238
Deferred income taxes, net	475	(361)
Allowance (reversals) for impairment of trade and others receivables	(2)	129
Inventory write-down to net realizable value	23	301
Reclassification of cumulative translation adjustment and other comprehensive income	59	–
Revision and unwinding of discount on the provision for decommissioning costs	192	148
Decrease (Increase) in assets		
Trade and other receivables, net	481	917
Inventories	386	(428)
Judicial deposits	(302)	(98)
Other assets	(144)	(202)
Increase (Decrease) in liabilities		
Trade payables	(1,046)	(965)
Other taxes payable	95	(568)
Pension and medical benefits	(156)	(112)
Income taxes paid	(84)	(69)
Other liabilities	(581)	(303)
Net cash provided by operating activities	7,384	4,428
Cash flows from Investing activities		
Capital expenditures	(3,187)	(3,753)
Decrease in investments in investees	(11)	(69)
Proceeds from disposal of assets - Divestment	596	3
Divestment (Investment) in marketable securities	(88)	102
Dividends received	64	4
Net cash used in investing activities	(2,626)	(3,713)
Cash flows from Financing activities		
Investments by non-controlling interest	(41)	37
Financing and loans, net:		
Proceeds from financing	4,142	1,845
Repayment of principal	(9,223)	(4,373)

Repayment of interest	(1,670)	(1,949)
Net cash used in financing activities	(6,792)	(4,440)
Effect of exchange rate changes on cash and cash equivalents	42	522
Net decrease in cash and cash equivalents	(1,992)	(3,203)
Cash and cash equivalents at the beginning of the year	21,205	25,058
Cash and cash equivalents at the end of the period	19,213	21,855

The notes form an integral part of these financial statements.

Petróleo Brasileiro S.A. – Petrobras
Interim Consolidated Statement of Changes in Shareholders' Equity
March 31, 2017 and 2016

(Expressed in millions of US Dollars, unless otherwise indicated)

	Share capital (net of share issuance costs)			Accumulated other comprehensive income (deficit) and deemed cost				Profit Reserves			
	Share Capital	Share issuance costs	Capital Transactions	Cumulative translation adjustment	Cash flow hedge - highly probable future exports	Actuarial gains (losses) on defined benefit pension plans	Other comprehensive income (loss) and deemed cost	Legal	Statutory	Tax incentives	Profit retenti
	107,380	(279)	321	(71,220)	(20,288)	(7,362)	(1,293)	7,919	2,182	720	47,156
Balance at January 1, 2016		107,101	321				(100,163)				57,977
Realization of deemed cost	-	-	-	-	-	-	(1)	-	-	-	-
Capital transactions	-	-	4	-	-	-	-	-	-	-	-
Net income (loss)	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	4,489	4,206	-	191	-	-	-	-
Appropriations:											
Dividends	-	-	-	-	-	-	-	-	-	-	-
	107,380	(279)	325	(66,731)	(16,082)	(7,362)	(1,103)	7,919	2,182	720	47,156
Balance at March 31, 2016		107,101	325				(91,278)				57,977
	107,380	(279)	628	(60,248)	(11,297)	(11,600)	(948)	7,919	2,182	720	42,322
Balance at January 1, 2017		107,101	628				(84,093)				
Realization of deemed cost	-	-	-	-	-	-	(1)	-	-	-	-
Capital transactions	-	-	-	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	1,391	1,657	-	128	-	-	-	-
	107,380	(279)	628	(58,857)	(9,640)	(11,600)	(821)	7,919	2,182	720	42,322
Balance at March 31, 2017		107,101	628				(80,918)				53,143

The notes form an integral part of these financial statements.

Petróleo Brasileiro S.A. – Petrobras
Notes to the financial statements
(Expressed in millions of US Dollars, unless otherwise indicated)

1. The Company and its operations

Petróleo Brasileiro S.A. - Petrobras is a company controlled by the Brazilian government dedicated, directly or through its subsidiaries (referred to jointly as "Petrobras", "the Company", or "Petrobras Group"), either independently or through joint ventures or similar arrangements with third parties, to prospecting, drilling, refining, processing, trading and transporting crude oil from producing onshore and offshore oil fields and from shale or other rocks, as well as oil products, natural gas and other liquid hydrocarbons. In addition, Petrobras carries out energy related activities, such as research, development, production, transport, distribution and trading of all forms of energy, as well as other related or similar activities. The Company's head office is located in Rio de Janeiro – RJ, Brazil.

2. Basis of preparation of unaudited interim financial statements

These unaudited consolidated interim financial statements have been prepared and presented in accordance with IAS 34 – "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB). The information is presented in U.S. dollars.

These unaudited interim financial statements present the significant changes in the period, avoiding repetition of certain notes to the financial statements previously reported. Hence it should be read together with the Company's audited annual financial statements for the year ended December 31, 2016, which include the full set of notes.

Petrobras has selected the U.S. Dollar as its presentation currency. The financial statements have been translated from the functional currency (Brazilian Real) into the presentation currency (U.S. Dollar) in accordance with IAS 21 – "The effects of changes in foreign exchange rates". All assets and liabilities are translated into U.S. dollars at the closing exchange rate at the date of the financial statements; income and expenses, as well as cash flows are translated into U.S. dollars using the average exchange rates prevailing during the period. All exchange differences arising from the translation of the consolidated financial statements from the functional currency into the presentation currency are recognized as cumulative translation adjustments (CTA) within accumulated other comprehensive income in the consolidated statements of changes in shareholders' equity.

Brazilian Real x U.S. Dollar	Mar 2017	Mar 2016	Jun 2016	Sep 2016	Dec 2016
Quarterly average exchange rate	3.15	3.91	3.51	3.25	3.29
Period-end exchange rate	3.17	3.56	3.21	3.25	3.26

The Company's Board of Directors in a meeting held on May 11, 2017 authorized the issuance of this consolidated interim financial information.

2.1. Accounting estimates

The preparation of interim financial information requires the use of estimates and assumptions for certain assets, liabilities and other transactions. These estimates and assumptions include: oil and gas reserves and their impacts to other parts of the financial statements, the main assumptions and cash-generating units identified for impairment testing of assets, pension and medical benefits liabilities, provisions for legal proceedings, dismantling of areas and environmental remediation, deferred income taxes, cash flow hedge accounting and allowance for impairment of trade receivables. Although our management uses assumptions and judgments that are periodically reviewed, the actual results could differ from these estimates.

For further information on accounting estimates, see note 5 to the Company's annual financial statements for the year ended December 31, 2016.

3. The "Lava Jato (Car Wash) Operation" and its effects on the Company

In the third quarter of 2014, the Company wrote off US$ 2,527 of capitalized costs representing estimated amounts that Petrobras overpaid for the acquisition of property, plant and equipment in prior years. For further information see note 3 to the Company's December 31, 2016 audited consolidated financial statements.

In preparing its financial statements for the period ended March 31, 2017, the Company considered all available information and did not identify any additional information in the investigations related to the "Lava Jato" (Car Wash) Operation by the Brazilian authorities or by the independent law firms conducting an internal investigation that could materially impact or change the methodology adopted to recognize the write-off taken in the third quarter of 2014. The Company continues to monitor the investigations for additional information and will review their potential impacts on the adjustment made.

Petróleo Brasileiro S.A. – Petrobras
Notes to the financial statements
(Expressed in millions of US Dollars, unless otherwise indicated)

To the extent that any of the proceedings resulting from the Lava Jato investigation involve new leniency agreements with cartel members or plea agreements with individuals pursuant to which they agree to return funds, Petrobras may be entitled to receive a portion of such funds and will recognize them as other income when received. Nevertheless, the Company is unable to reliably estimate further recoverable amounts at this moment. Any recoverable amount will be recognized as income when received or when their economic benefits become virtually certain.

Accordingly, the Company recognized through 2016 the accumulated amount of US$ 203 as compensation for damages relating to the "Lava Jato" Operation (US$ 131 in 2016 and US$ 72 in 2015). In the first quarter of 2017, there was no amount received with respect to the Lava Jato Operation.

We have been formally recognized as a victim of the crimes identified under the Lava Jato investigation by the Brazilian Federal Prosecutor's Office, the lower court hearing the case and also by the Brazilian Supreme Court. As a result, we have entered into 32 criminal proceedings as an assistant to the prosecutor. In addition, we have entered into five criminal proceedings as an interested party. We have also renewed our commitment to continue cooperating with authorities to clarify the issues and report them regularly to our investors and to the public in general.

4. Basis of consolidation

The consolidated interim financial information includes the interim information of Petrobras, its subsidiaries, its assets and liabilities within joint operations and consolidated structured entities.

There were no significant changes in the Company's basis of consolidation of entities in the period ended March 31, 2017 when compared to December 31, 2016.

5. Summary of significant accounting policies

The same accounting policies and methods of computation were followed in these consolidated interim financial statements as those followed in the preparation of the annual financial statements of the Company for the year ended December 31, 2016.

Formal Notice from CVM – Hedge accounting

Since mid-May 2013, the Company has designated cash flow hedging relationships, as described in note 33.2 to the Company's audited consolidated financial statements for the year ended December 31, 2016, in which (a) the hedged items are portions of our highly probable future monthly export revenues in U.S. dollars, (b) the hedging instruments are portions of our long term debt obligations denominated in U.S. dollars, and (c) the risk hedged is the effect of changes in exchange rates between the U.S. dollar and our functional currency, the real. Further information on this policy is presented in note 30.2.

In March 2017, the Company received an official communication from Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários – CVM) requiring the restatement of the Company's financial statements for all periods since the beginning of hedge accounting policy application involving hedging relationships to account for the effects of the existing hedge between its long-term debt obligations denominated in U.S. dollars and its highly probable U.S. dollar denominated future export revenues. The Company reaffirms that its accounting policy has been correctly applied and has taken all measures to safeguard its interests. The effects of this communication are currently suspended awaiting the CVM's Collegiate Body evaluation on the merits of the appeals.

Petróleo Brasileiro S.A. – Petrobras
Notes to the financial statements
(Expressed in millions of US Dollars, unless otherwise indicated)

6. Cash and cash equivalents and Marketable securities

Cash and cash equivalents

	03.31.2017	12.31.2016
Cash at bank and in hand	374	591
Short-term financial investments		
- In Brazil		
Brazilian interbank deposit rate investment funds and other short-term deposits	3,317	1,180
Other investment funds	52	131
	3,369	1,311
- Abroad		
Time deposits	3,745	3,085
Automatic investing accounts and interest checking accounts	8,162	9,780
U.S. Treasury bills	2,319	5,217
Other financial investments	1,244	1,221
	15,470	19,303
Total short-term financial investments	18,839	20,614
Total cash and cash equivalents	19,213	21,205

Short-term financial investments in Brazil comprise investments in funds holding Brazilian Federal Government Bonds that mature in three months or less from the date of their acquisition. Short-term financial investments abroad comprise time deposits that mature in three months or less from the date of their acquisition, highly-liquid automatic investment accounts, interest checking accounts and other short-term fixed income instruments, including U.S. Treasury bills.

Marketable securities

	03.31.2017	12.31.2016
	In Brazil	In Brazil
Trading securities	918	784
Available-for-sale securities	131	–
Held-to-maturity securities	94	90
Total	1,143	874
Current	918	784
Non-current	225	90

Trading securities refer mainly to investments in Brazilian Federal Government Bonds. These financial investments have maturities of more than three months and are mostly classified as current assets due to their maturity or the expectation of their realization in the short term.

Available-for-for sale securities refer substantially to São Martinho's common shares granted to the wholly-owned subsidiary Petrobras Biocombustível S.A.- PBIO (24 million of shares) in exchange and in proportion to the shares that PBIO held in Nova Fronteira. Further information on this transaction is presented in note 9.1.

Petróleo Brasileiro S.A. – Petrobras
Notes to the financial statements
(Expressed in millions of US Dollars, unless otherwise indicated)

7. Trade and other receivables

7.1. Trade and other receivables, net

	03.31.2017	12.31.2016
Trade receivables		
Third parties	6,275	6,499
Related parties		
Investees (note 17.1)	540	555
Receivables from the electricity sector (note 7.4)	5,113	4,922
Petroleum and alcohol accounts -receivables from Brazilian Government	261	268
Other receivables	2,367	2,502
	14,556	14,746
Allowance for impairment of trade and other receivables	(5,544)	(5,426)
Total	9,012	9,320
Current	4,432	4,769
Non-current	4,580	4,551

7.2. Trade receivables overdue - Third parties

	03.31.2017	12.31.2016
Up to 3 months	278	403
From 3 to 6 months	51	67
From 6 to 12 months	137	411
More than 12 months	2,984	2,650
Total	3,450	3,531

7.3. Changes in the allowance for impairment of trade and other receivables

	03.31.2017	12.31.2016
Opening balance	5,426	3,656
Additions (*)	46	1,325
Write-offs	–	(9)
Reversals	(48)	(171)
Cumulative translation adjustment	120	625
Closing balance	5,544	5,426
Current	2,087	2,010
Non-current	3,457	3,416

(*) In 2016, additions include: US$ 345 from electricity sector and US$ 621 from losses on advances to suppliers, as well as assumed debt and termination costs relating to the agreement with the Ecovix shipyard.

Petróleo Brasileiro S.A. – Petrobras
Notes to the financial statements
(Expressed in millions of US Dollars, unless otherwise indicated)

7.4. Trade receivables – electricity sector (isolated electricity system in the northern region of Brazil)

	As of 12.31.2016	Sales	Amounts received	Transfers (*)	Recognition allowance for impairment, net of reversals	Inflation indexation	CTA	As of 03.31.2017
Related parties (Eletrobras Group)								
AME (**)	2,475	99	(163)	38	8	71	69	2,597
Ceron(***)	369	–	(5)	–	–	11	10	385
Others	95	9	(13)	–	1	4	5	101
Subtotal	2,939	108	(181)	38	9	86	84	3,083
Third parties								
Cigás	143	188	(160)	(38)	–	2	6	141
Celpa (****)	–	23	(49)	–	26	–	–	–
Others	4	40	(38)	–	–	–	–	6
Subtotal	147	251	(247)	(38)	26	2	6	147
Trade receivables, net	3,086	359	(428)	–	35	88	90	3,230
Trade receivables - Eletrobras Group	4,922	108	(181)	38	–	86	140	5,113
(-) Allowance for impairment	(1,983)	–	–	–	9	–	(56)	(2,030)
Subtotal	2,939	108	(181)	38	9	86	84	3,083
Trade receivables - Third parties	515	251	(247)	(38)	–	2	17	500
(-) Allowance for impairment	(368)	–	–	–	26	–	(11)	(353)
Subtotal	147	251	(247)	(38)	26	2	6	147
Trade receivables - Total	5,437	359	(428)	–	–	88	157	5,613
(-) Allowance for impairment	(2,351)	–	–	–	35	–	(67)	(2,383)
Trade receivables, net	3,086	359	(428)	–	35	88	90	3,230

(*) Transfer of overdue receivables from Cigás to AME, pursuant to the purchase and sale agreement of natural gas (upstream and downstream) entered into by Petrobras, Cigás and AME.
(**) Amazonas Distribuidora de Energia

(***) Centrais Elétricas do Norte
(****) Centrais Elétricas do Pará

The Company supplies fuel oil, natural gas, and other products to entities that operate in the isolated electricity system in the northern region of Brazil, such as thermoelectric power plants controlled by Eletrobras, state-owned natural gas distribution companies and independent electricity producers (Produtores Independentes de Energia – PIE). The isolated electricity system provides the public service of electricity distribution in the northern region of Brazil, as the Brazilian National Interconnected Power Grid (Sistema Interligado Nacional) has not yet met the demand for electricity due to technical or economic reasons.

A significant portion of the funds used by those companies to pay for products supplied by the Company came from the Fuel Consumption Account (Conta de Consumo de Combustível – CCC), which provides funds to cover a portion of the costs related to the supply of fuel to thermoelectric power plants located in the northern region of Brazil (operating in the isolated electricity system). However, as a result of changes in the CCC regulations over time, principally relating to the Provisional Measure 579/2012 which significantly changed the sources of funds that were used to cover the cost of electricity generated in the Isolated Electricity System, funds transferred from the CCC to these electricity companies have not been sufficient for them to meet their financial obligations and, as a result, some have not been able to pay the total amount for the products supplied by the Company, increasing the default rate of those customers to the Company.

The Company intensified negotiations with the state-owned natural gas distribution companies, the independent electricity producers (PIEs), other private companies and entities controlled by Eletrobras. As a result, on December 31, 2014, the Company entered into a debt acknowledgement agreement with subsidiaries of Eletrobras with respect to the balance of its receivables as of November 30, 2014. Eletrobras acknowledged it owed US$ 2,202 to the Company, of which US$ 1,889 were collateralized by payables from the Brazilian Energy Development Account (Conta de Desenvolvimento Energético CDE) to the CCC. This amount has been adjusted by the Selic interest rate (Brazilian short-term interest rate) on a monthly basis. Under this agreement, the first of 120 monthly installments was paid in February 2015 and these payments have continued.

The contractual amortization clauses established in the debt acknowledgement agreement determine the payment of 15% of the amount of renegotiated debt within 36 months and the remaining 85% to be paid in 84 installments beginning in January 2018. Therefore, the Company expects the balance of trade receivables from the electricity sector will decrease from 2018 onwards as the amounts to be received will be higher than sales and inflation indexation on debt acknowledgement agreements.

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In order to mitigate an increase in default rates, on September 1, 2015 the Brazilian National Electricity Agency (Agência Nacional de Energia Elétrica - ANEEL) enacted the Normative Instruction 679 enabling the Company to receive funds directly from the CCC, as these funds would be paid directly from the CCC for products supplied in the prior month with a limit of 75% of the average payments made by the CCC in the previous three months.

The Company had expected that the abovementioned rule would have strengthened the financial situation of the companies in the electricity sector. However, this had not occurred and the level of these defaults had increased. Accordingly, in 2015 and 2016 the Company recognized US$ 564 and US$ 345, respectively, as allowance for impairment of trade receivables (net of reversals) with respect to uncollateralized outstanding receivables.

Accordingly, the Company has adopted the following measures:

- judicial collection of overdue receivables with respect to natural gas supplied to Amazonas Distribuidora de Energia (AME), Eletrobras and Cigás;
- judicial collection of overdue receivables with respect to fuel oil supplied by the wholly-owned subsidiary BR Distribuidora to companies of Eletrobras Group (Amazonas, Acre, Rondônia and Roraima);
- suspension of fuel oil supply on credit, except when legally enforced;
- The wholly-owned subsidiary Petrobras Distribuidora registered entities controlled by Eletrobras as delinquent companies in the Brazilian Central Bank files and as delinquent companies in ANEEL files;
- Petrobras parent company registered AME as a delinquent company in ANEEL files.

In the first quarter of 2017, the Company accounted for a reversal of allowances for impairment of trade receivables previously recognized in the amount of US$ 35 mainly due to overdue receivables paid by CELPA - Centrais Elétricas do Pará. In the same period in 2016, the Company wrote-down US$ 139 as allowance for impairment of trade receivables (net of reversals).

8. Inventories

	03.31.2017	12.31.2016
Crude oil	3,294	3,524
Oil products	2,605	2,649
Intermediate products	699	700
Natural gas and LNG (*)	96	134
Biofuels	182	211
Fertilizers	74	26
Total products	6,950	7,244
Materials, supplies and others	1,322	1,243
Total	8,272	8,487
Current	8,260	8,475
Non-current	12	12

(*) Liquified Natural Gas

The amount of inventories is presented net of US$ 6 reducing inventories to net realizable value (US$ 28 as of December 31, 2016), mainly due to changes in international prices of crude oil and oil products. In the first quarter of 2017, the Company recognized as cost of sales US$ 23 reducing inventories to net realizable value, net of reversals (US$ 301 in the first quarter of 2016).

A portion of the crude oil and/or oil products inventories have been pledged as security for the Terms of Financial Commitment (TFC) signed by Petrobras and Petros in the amount of US$ 2,098 (US$ 1,979 as of December 31, 2016), as set out in note 20.1.

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9. Disposal of Assets and other changes in organizational structure

9.1. Disposal of Assets

Disposal of distribution assets in Chile

On July 22, 2016, the Company signed a sale and purchase agreement with the Southern Cross Group for the sale of 100% of Petrobras Chile Distribución Ltda (PCD), held through Petrobras Caribe Ltda.

This transaction was concluded on January 4, 2017 and the net proceeds from this sale were US$ 470, of which US$ 90 were received via distribution of dividends after taxes on December 9, 2016 and the remaining US$ 380 were paid by Southern Cross Group at the transaction closing. Accordingly, the Company recognized a gain of US$ 0.8 as other expenses, net, in the first quarter of 2017, taking into account the impairment of US$ 82 at December 31, 2016.

In addition, a US$ 79 loss was recycled from shareholders' equity to other expenses, net within the income statement, reflecting the reclassification of cumulative translation adjustments resulting from the depreciation of the Chilean Peso against the U.S Dollar from the time of the acquisition of this investment to its disposal (see note 21.2).

Disposal of interest in Nova Transportadora do Sudeste (NTS) and related changes in organizational structure

After a corporate restructuring intended to concentrate the transportation assets of the southeastern region in Nova Transportadora do Sudeste -NTS (Rio de Janeiro, Minas Gerais and São Paulo), the Company's Board of Directors approved on September 22, 2016 the sale of a 90% interest in NTS to Brookfield Infrastructure Partners (BIP) and its affiliates, through a Private Equity Investment Fund (FIP) whose other shareholders are British Columbia Investment Management Corporation (BCIMC), CIC Capital Corporation (wholly-owned subsidiary of China Investment Corporation - CIC) and GIC Private Limited (GIC).

The following changes in organizational structure occurred as part of this process:

- The Extraordinary General Meeting of NTS, held on October 21, 2016, approved an increase to its share capital in the amount of US$ 711, based on an independent expert report dated on October 14, 2016, through net assets of the Company's subsidiary Transportadora Associada de Gás S.A. - TAG. This capital increase requires the approval of the National Petroleum, Natural Gas and Biofuels Agency - ANP through the issuance of Permissions of Provisional Operation (Autorizações de Operação Provisórias);
- The Extraordinary General Meeting of the TAG, held on October 21, 2016, approved a reduction to its share capital, via a capital surplus, in the amount of its investment in NTS (US$ 800) and transfer of all of its interest in NTS to Petrobras, as occurred on October 24, 2016 pursuant to the Permissions of Provisional Operation (Autorizações de Operação Provisórias), as occurred on October 24, 2016.

This transaction prescribes the maintenance of charge capacity and also the same terms of five Firm Gas Transportation Agreements including 100% ship-or-pay clauses. These agreements have terms of 20 years from 2016 and their rates are indexed to the Brazilian General Market Price Index (IGP-M) and regulated by ANP.

At March 31, 2017, the related assets and liabilities remained classified as held for sale as the completion of this transaction was still subject to certain customary conditions precedent, including the approvals by relevant regulators.

On April 4, 2017, after performing all conditions precedent and adjustments provided for in the purchase and sale agreement, this transaction was completed in the amount of US$ 5.08 billion upon the payment of US$ 4.23 billion on this date, of which US$ 2.59 billion refers to an escrow account in the amount of US$ 100 pledged as collateral for charges associated with pipelines repair, and to the sale of shares and US$ 1.64 billion refers to the issuance of convertible debentures by NTS, maturing in 10 years, as a replacement of the debt to PGT. The remaining balance (US$ 850 million, also referring to the sale of shares) will be paid in the fifth year, bearing annual interests at a fixed rate, as established in the purchase and sale agreement.

The Company estimates a gain before taxes on this transaction amounting to US$ 2.1 billion, to be recognized in the second quarter of 2017. The estimated amount is subject to price adjustments according to the purchase and sale agreement.

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Disposal of Liquigás

On November 17, 2016 the Company's Board of Directors approved the disposal of its wholly-owned subsidiary Liquigás Distribuidora S.A. to Companhia Ultragaz S.A., a subsidiary of Ultrapar Participações S.A. The amount of this transaction is indexed to the CDI rate (Brazilian interbank interest rate), from the signing to the closing date, and remains subject to adjustments based on Liquigás' working capital changes, net debt and market value of its inventories, from December 31, 2015 to the transaction closing.

In January 2017, this sale was approved at Ultrapar's and Petrobras' Shareholders' Meetings in the amount of US$ 828.

At March 31, 2017, the related assets and liabilities remained classified as held for sale because some of the conditions precedent were not yet performed, including the approval by the Brazilian Antitrust Regulator (CADE).

Disposal of Guarani

On December 28, 2016, the Company's wholly-owned subsidiary Petrobras Biocombustível S.A. (PBIO) disposed of its interests in the associate Guarani S.A. (45.97% of share capital) to Tereos Participations SAS, an entity of the French group Tereos.

On February 3, 2017, this transaction was concluded pursuant to the payment of US$ 203, after all conditions precedent were performed by Tereos Participations SAS. At December 31, 2016, an impairment loss amounting to US$ 118 was accounted for.

Additionally, a gain of US$ 42 was recycled from shareholders' equity to other expenses, net within the income statement, reflecting the reclassification of cumulative translation adjustment resulting from the appreciation of Mozambican Metical against the Brazilian Real from the acquisition of this investment to its disposal (see note 21.2). This gain was partially offset by a US$ 22 loss also recycled from shareholders' equity to other expenses, net, reflecting cumulative losses relating to cash flow hedge accounting.

Disposal of Suape and Citepe petrochemical plants

On December 28, 2016, the Company's Board of Directors approved the disposal of its interests in the wholly-owned subsidiaries Companhia Petroquímica de Pernambuco (PetroquímicaSuape) and Companhia Integrada Têxtil de Pernambuco (Citepe) to Grupo Petrotemex S.A. de C.V. and Dak Americas Exterior, S.L., both subsidiaries of Alpek, S.A.B. de C.V., which is a company from Grupo Alfa S.A.B. de C.V. (a Mexican public company), in the amount of US$ 385, which will be totally disbursed at the transaction closing. This amount is still subject to adjustments relating to working capital, net debt and recoverable taxes.

On February 21, 2017, the operation was approved at the Grupo Alfa's Board of Directors Meeting and, on March 27, 2017, at Petrobras' Shareholders' Meeting. However, this transaction closing remains subject to the approval of the Brazilian Antitrust Regulator (CADE), as well as to the fulfillment of certain other customary conditions precedent. Therefore, the respective assets and liabilities remained classified as held for sale at March 31, 2017.

Strategic alliance with Total

On December 21, 2016, the Company entered into a master agreement with Total, in connection with the Strategic Alliance established in the Memorandum of Understanding signed on October 24, 2016. Accordingly, certain assets were classified as held for sale at December 31, 2016 due to the share of interests established in this agreement, as described below:

- Transfer of the Company’s 22.5% stake in the concession area named as Iara, comprising Sururu, Berbigão and West of Atapu fields, which are subject to unitization agreements with Entorno de Iara (an area under the Assignment Agreement in which the Company holds 100% interests and is located in the Block BM-S-11). The Company will continue to operate the block;
- Transfer of the Company’s 35% stake in the concession area of Lapa field, located in the Block BM-S-9. Total will also become the operator and the Company will retain a 10% interest in this area; and
- Transfer of the Company’s 50% interests in the power plants Celso Furtado and Rômulo Almeida. In 2016, the Company recognized an impairment loss on this transaction in the amount of US$ 47.

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On February 28, 2017, the Company and Total signed purchase and sale agreements with respect to the aforementioned assets. Total will pay to the Company the amount of US$ 1,675 billion in cash for assets and services, as well as contingent payments in the amount of US$ 150, associated with the production volume in Iara field. In addition, a long-term line of credit in the amount of US$ 400 will be provided by Total, which may be used to fund the Company's investments in the Iara fields.

The aforementioned agreements adds up to the ones already executed on December 21, 2016, such as: (i) option for Petrobras to purchase a 20% interest in block 2 of the Perdido Foldbelt area, in the Mexican sector of the Gulf of Mexico, (ii) joint exploration studies in the exploratory areas of Equatorial Margin and in Santos Basin; and (iii) Technological partnership agreement in the areas of digital petrophysics, geological processing and subsea production systems.

These transactions are still subject to approval by the relevant authorities, to the potential exercise of preemptive rights by current Iara partners, as well as other customary conditions precedent. Accordingly, the related assets and liabilities remained classified as held for sale at March 31, 2017.

9.2. Other changes in organizational structure

Merger of Nova Fronteira Bioenergia

On December 15, 2016, the Company's wholly-owned subsidiary Petrobras Biocombustível S.A. (PBIO) entered into an agreement with São Martinho group which establishes the merger of PBIO's interests in Nova Fronteira Bioenergia S.A. (49%) into São Martinho.

On February 23, 2017, this transaction was concluded as São Martinho granted to PBIO an additional 24 million of its common shares, corresponding to 6.593% of its voting and total paid in capital, in exchange and in proportion to the shares that PBIOs held in Nova Fronteira. These shares will not be subject to any kind of lock-up and their sale will occur in 4 years through a structured process.

9.3. Assets classified as held for sale

	03.31.2017					12.31.2016
	E&P	Distribution	RT&M	Gas & Power	Total	Total
Assets classified as held for sale (*)						
Cash and Cash Equivalents	–	–	9	–	9	109
Trade receivables	–	–	147	–	147	205
Inventories	–	–	122	–	122	172
Investments	–	–	5	–	5	378
Property, plant and equipment	1,102	1	303	2,961	4,367	4,420
Others	–	–	284	31	315	444
Total	1,102	1	870	2,992	4,965	5,728

Liabilities on assets classified as held for sale(*)						
Trade Payables	10	–	58	12	80	135
Finance debt	–	–	12	–	12	14
Provision for decommissioning costs	60	–	–	–	60	52
Others	–	–	81	160	241	291
Total	70	–	151	172	393	492

(*) As of March 31, 2017, the amounts mainly refer to assets and liabilities transferred following the approvals of the disposal of Nova Transportadora do Sudeste, Liquigás, Petroquímica Suape and Citepe, interest in the concession areas named as Iara and Lapa, as well as interests in the thermoelectric power generation plants Rômulo Almeida and Celso Furtado. At December 31, 2016, the amounts also comprise assets and liabilities transferred following the approvals of the disposals of PCD and Guarani.

9.4. Civil action filed by the Brazilian Federal Audit Court (TCU)

On March 15, 2017, after the Company's revision of its divestments decision-making methodology, the Brazilian Federal Audit Court (Tribunal de Contas da União – TCU) dismissed the civil action filed on December 7, 2016, which prohibited Petrobras from commencing additional divestment projects. This decision enabled the Company to progress with two ongoing deals (sale of interests in Baúna and Tartaruga Verde fields and Saint Malo field located in U.S. Gulf of Mexico) and also to commence new divestment projects based on the revised methodology. However, the Company suspended its intention to sell interests in Baúna and Tartaruga Verde fields due to a judicial injunction ordered by the Brazilian Federal Court in the state of Sergipe preventing the contract signing, and also suspended its intention to sell interest in the Saint Malo field, as this transaction have not achieved the expected outcomes.

On March 30, 2017, the Company's Executive Board approved the new divestment portfolio, consisting of projects that will follow the revised divestment methodology since their beginning, in compliance with the TCU's decision.

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10. Investments

10.1. Investments in associates and joint ventures

	Balance at 12.31.2016	Investments	Restructuring, capital decrease and others	Results in equity-accounted investments	CTA	OCI	Dividends	Balance at 03.31.2017
Joint Ventures								
Petrobras Oil & Gas B.V. - PO&G	1,428	-	-	13	-	-	(50)	1,391
State-controlled natural gas distributors	330	-	-	19	9	-	(4)	354
Compañia Mega S.A. - MEGA	36	-	-	6	-	-	-	42
Petrochemical joint ventures	25	-	-	2	-	-	-	27
Other joint ventures	103	41	-	(36)	4	-	-	112
Associates								
Petrochemical associates	1,064	-	-	204	(1)	118	-	1,385
Other associates	50	-	(3)	1	2	-	-	50
Other investees	16	-	-	-	-	-	-	16
Total	3,052	41	(3)	209	14	118	(54)	3,377
Results in investees transferred to assets held for sale				(14)				
Results in equity-accounted investments				195				

10.2. Investments in listed companies

	Thousand-share lot			Quoted stock exchange prices (US$ per share)		Market value	
	03.31.2017	12.31.2016	Type	03.31.2017	12.31.2016	03.31.2017	12.31.2016

Associate							
Braskem S.A.	212,427	212,427	Common	9.47	9.20	2,011	1,955
Braskem S.A.	75,762	75,762	Preferred A	10.02	10.51	759	796
						2,770	2,751

The market value of these shares does not necessarily reflect the realizable value upon sale of a large block of shares.

Investment in publicly traded associate (Braskem S.A.)

Braskem's shares are publicly traded on stock exchanges in Brazil and abroad. As of March 31, 2017, the quoted market value of the Company's investment in Braskem was US$ 2,770 based on the quoted values of both Petrobras' interest in Braskem's common stock (47% of the outstanding shares), and preferred stock (22% of the outstanding shares). However, there is extremely limited trading of the common shares, since non-signatories of the shareholders' agreement hold only approximately 3% of the common shares.

Given the operational relationship between Petrobras and Braskem, at December 31, 2016, the recoverable amount of the investment for impairment testing purposes was determined based on value in use, considering future cash flow projections and the manner in which the Company can derive value from this investment via dividends and other distributions to arrive at its value in use. As the recoverable amount was higher than the carrying amount, no impairment losses were recognized for this investment.

The main assumptions on which cash flow projections were based to determine Braskem's value in use are set out in note 14 to the Company's audited consolidated financial statements for the year ended December 31, 2016.

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11. Property, plant and equipment

11.1. By class of assets

	Land, buildings and improvement	Equipment and other assets	Assets under construction (*)	Exploration and development costs (oil and gas producing properties)	Total
Balance at January 1, 2016	6,100	73,893	37,610	43,694	161,297
Additions	110	917	11,846	203	13,076
Additions to / review of estimates of decommissioning costs	-	-	-	937	937
Capitalized borrowing costs	-	-	1,724	-	1,724
Write-offs	(64)	(140)	(1,371)	(43)	(1,618)
Transfers (***)	387	4,519	(15,863)	5,912	(5,045)
Depreciation, amortization and depletion	(428)	(7,520)	-	(5,862)	(13,810)
Impairment recognition	(319)	(3,891)	(439)	(1,932)	(6,581)
Impairment reversal	-	768	-	179	947
Cumulative translation adjustment	1,196	10,178	5,062	8,107	24,543
Balance at December 31, 2016	6,982	78,724	38,569	51,195	175,470
Cost	9,999	127,539	38,569	80,662	256,769
Accumulated depreciation, amortization and depletion	(3,017)	(48,815)	-	(29,467)	(81,299)
Balance at December 31, 2016	6,982	78,724	38,569	51,195	175,470
Additions	-	96	2,852	7	2,955
Additions to / review of estimates of decommissioning costs	-	-	-	14	14
Capitalized borrowing costs	-	-	486	-	486
Write-offs	(1)	(3)	(55)	(1)	(60)
Transfers (***)	72	1,856	(2,885)	1,125	168
Depreciation, amortization and depletion	(106)	(1,723)	-	(1,517)	(3,346)
Impairment recognition	-	-	(16)	-	(16)
Cumulative translation adjustment	193	1,609	780	1,407	3,989
Balance at March 31, 2017	7,140	80,559	39,731	52,230	179,660
Cost	10,342	132,015	39,731	83,976	266,064
Accumulated depreciation, amortization and depletion	(3,202)	(51,456)	-	(31,746)	(86,404)
Balance at March 31, 2017	7,140	80,559	39,731	52,230	179,660
	40	20			

Weighted average useful life in years	(25 to 50)	(3 to 31)	Units of production method
	(except land)	(**)	

(*) See note 27 for assets under construction by business area.
(**) Includes exploration and production assets depreciated based on the units of production method.
(***) In 2017 includes transfers from intangibles assets and in 2016 also includes transfers to assets held for sale.

As of March 31, 2017, property, plant and equipment include assets under finance leases of US$ 127 (US$ 125 as of December 31, 2016).

11.2. Concession for exploration of oil and natural gas - Assignment Agreement ("Cessão Onerosa")

Petrobras and the Brazilian Federal Government entered into the Assignment Agreement in 2010, which grants the Company the right to carry out prospection and drilling activities for oil, natural gas and other liquid hydrocarbons located in the pre-salt area limited to the production of five billion barrels of oil equivalent in up to 40 years and renewable for a further five years subject to certain conditions. As of March 31, 2017, the Company's property, plant and equipment include the amount of US$ 23,611 related to the Assignment Agreement (US$ 22,954 as of December 31, 2016).

Petrobras has already declared commerciality in fields of all six blocks in the scope of this agreement: Franco (Búzios), Florim (Itapu), Nordeste de Tupi (Sépia), Entorno de Iara (Norte de Berbigão, Sul de Berbigão, Norte de Sururu, Sul de Sururu, Atapu), Sul de Guará (Sul de Sapinhoá) and Sul de Tupi (Sul de Lula).

The agreement establishes that the review procedures of the agreement will commence immediately after the declaration of commerciality for each area and must be based on reports by independent experts engaged by Petrobras and ANP. The review of the Assignment Agreement will be concluded after the assessment of all the areas.

If the review of the Assignment Agreement determines that the value of acquired rights is greater than the amount initially paid, the Company may be required to pay the difference to the Brazilian Federal Government, or may proportionally reduce the total volume of barrels acquired under the agreement. If the review determines that the value of the acquired rights is lower than initially paid by the Company, the Brazilian Federal Government will reimburse the Company for the difference by delivering cash or bonds or equivalent means of payment, subject to budgetary regulations.

The formal review procedures for each block are based on costs incurred over the exploration phase and estimated costs and production for the development period. The review of the Assignment Agreement may result in changes in: (i) the amount of the agreement; (ii) the total volume (in barrels of oil) to be produced; (iii) the term of the agreement; and (iv) the minimum percentages of local content.

Currently, the settlement form and the final amount to be established for this agreement are not defined. The beginning of negotiation with the Brazilian Federal Government still depends on the conclusion of the appraisals by independent experts engaged by both parties, and the issuance of the respective reports.

With respect to the negotiation with the Brazilian Federal Government, on October 21, 2016 the Company's Board of Directors approved the creation of the minority shareholders committee responsible for monitoring the agreement review process and providing support to the board's decisions through opinions about related matters. This committee is composed of two members nominated by the minority shareholders and an independent member with recognized expertise in technical-financial analysis of investment projects.

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12. Intangible assets

12.1. By class of assets

		Software			
			Developed		
	Rights and Concessions	Acquired	in-house	Goodwill	Total
Balance at January 1, 2016	2,438	80	290	284	3,092
Addition	11	15	59	-	85
Capitalized borrowing costs	-	-	5	-	5
Write-offs	(160)	-	(1)	-	(161)
Transfers	(15)	(4)	(1)	(99)	(119)
Amortization	(22)	(35)	(98)	-	(155)
Impairment recognition	(3)	-	-	-	(3)
Cumulative translation adjustment	429	12	52	35	528
Balance at December 31, 2016	2,678	68	306	220	3,272
Cost	2,875	487	1,209	220	4,791
Accumulated amortization	(197)	(419)	(903)	-	(1,519)
Balance at December 31, 2016	2,678	68	306	220	3,272
Addition	2	4	15	-	21
Capitalized borrowing costs	-	-	1	-	1
Write-offs	(2)	-	-	-	(2)
Transfers	(1)	-	-	-	(1)
Amortization	(5)	(7)	(25)	-	(37)
Cumulative translation adjustment	75	2	9	5	91
Balance at March 31, 2017	2,747	67	306	225	3,345
Cost	2,954	503	1,257	225	4,939
Accumulated amortization	(207)	(436)	(951)	-	(1,594)
Balance at March 31, 2017	2,747	67	306	225	3,345
Estimated useful life in years	(*)	5	5	Indefinite	

(*) Mainly comprised of assets with indefinite useful lives, which are reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment.

13. Exploration and evaluation of oil and gas reserves

The exploration and evaluation activities include the search for oil and gas reserves from obtaining the legal rights to explore a specific area to the declaration of the technical and commercial viability of the reserves.

Changes in the balances of capitalized costs directly associated with exploratory wells pending determination of proved reserves and the balance of amounts paid for obtaining rights and concessions for exploration of oil and natural gas (capitalized acquisition costs) are set out in the following table:

Capitalized Exploratory Well Costs / Capitalized Acquisition Costs (*)	03.31.2017	12.31.2016
Property plant and equipment		
Opening Balance	5,133	5,201
Additions to capitalized costs pending determination of proved reserves	201	1,009
Capitalized exploratory costs charged to expense	–	(1,054)
Transfers upon recognition of proved reserves	(46)	(966)
Cumulative translation adjustment	137	943
Closing Balance	5,425	5,133
Intangible Assets	2,295	2,236
Capitalized Exploratory Well Costs / Capitalized Acquisition Costs	7,720	7,369

(*) Amounts capitalized and subsequently expensed in the same period have been excluded from this table.

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Exploration costs recognized in the statement of income and cash used in oil and gas exploration and evaluation activities are set out in the following table:

Exploration costs recognized in the statement of income	Jan-Mar/2017	Jan-Mar/2016
Geological and geophysical expenses	85	80
Exploration expenditures written off (includes dry wells and signature bonuses)	8	148
Other exploration expenses	1	65
Total expenses	94	293

Cash used in :	Jan-Mar/2017	Jan-Mar/2016
Operating activities	87	145
Investment activities	207	292
Total cash used	294	437

14. Trade payables

	03.31.2017	12.31.2016
Third parties in Brazil	2,896	3,280
Third parties abroad	1,451	2,019
Related parties	364	463
Balance in current liabilities	4,711	5,762

15. Finance debt

The Company obtains funding through debt financing for capital expenditures to develop crude oil and natural gas producing properties, construct vessels and pipelines, construct and expand industrial plants, among other uses.

The Company has covenants that were not in default at March, 31 2017 in its loan agreements and notes issued in the capital markets requiring, among other obligations, the presentation of interim financial statements within 90 days of the end of each quarter (not reviewed by Independent Registered Public Accounting Firm) and audited financial statements within 120 days of the end of each fiscal year. Non compliance with these obligations do not represent immediate events of default and the grace period in which the Company has to deliver these financial statements ranges from 30 to 60 days, depending on the agreement. The Company also has covenants with respect to debt level in some of its loan agreements with the Brazilian Development Bank (Banco Nacional de Desenvolvimento - BNDES).

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A roll-forward schedule of non-current debt is set out as follows:

	Export Credit Agencies	Banking Market	Capital Market	Others	Total
Non-current					
In Brazil					
Opening balance at January 1, 2016	–	24,697	1,725	17	26,439
Additions (new funding obtained)	–	448	–	–	448
Interest incurred during the period	–	302	–	–	302
Foreign exchange/inflation indexation charges	–	(1,408)	54	1	(1,353)
Transfer from long-term to short-term	–	(7,254)	(135)	(2)	(7,391)
Transfer to liabilities associated with assets classified as held for sale	–	(7)	–	–	(7)
Cumulative translation adjustment (CTA)	–	4,389	337	3	4,729
Balance as of December 31, 2016	–	21,167	1,981	19	23,167
Abroad					
Opening balance at January 1, 2016	4,645	30,967	48,819	612	85,043
Additions (new funding obtained)	–	7,392	9,758	–	17,150
Interest incurred during the period	4	17	52	9	82
Foreign exchange/inflation indexation charges	(165)	(1,133)	(609)	(21)	(1,928)
Transfer from long-term to short-term	(980)	(4,326)	(10,145)	(115)	(15,566)
Transfer to liabilities associated with assets classified as held for sale	–	–	(302)	–	(302)
Cumulative translation adjustment (CTA)	163	768	(227)	21	725
Balance as of December 31, 2016	3,667	33,685	47,346	506	85,204
Total Balance as of December 31, 2016	3,667	54,852	49,327	525	108,371
Non-current					
In Brazil					
Opening balance at January 1, 2017	–	21,168	1,981	20	23,169
Additions (new funding obtained)	–	56	–	–	56
Interest incurred during the period	–	84	–	–	84
Foreign exchange/inflation indexation charges	–	(30)	10	–	(20)
Transfer from long-term to short-term	–	(1,327)	(47)	(1)	(1,375)
Cumulative translation adjustment (CTA)	–	594	57	1	652
Balance as of March 31, 2017	–	20,545	2,001	20	22,566
Abroad					
Opening balance at January 1, 2017	3,667	33,684	47,346	505	85,202
Additions (new funding obtained) (*)	–	–	4,052	–	4,052
Interest incurred during the period	1	6	265	2	274
Foreign exchange/inflation indexation charges	(26)	(226)	127	(1)	(126)
Transfer from long-term to short-term	(275)	(423)	(7,668)	(14)	(8,380)
Cumulative translation adjustment (CTA)	22	225	21	1	269

Balance as of March 31, 2017	3,389	33,266	44,143	493	81,291
Total Balance as of March 31, 2017	3,389	53,811	46,144	513	103,857

(*) Mainly comprises global notes issued in January 2017, in the amount of US$ 4 billion, with maturities of 5 and 10 years. The net proceeds of this issuance were entirely used to repurchase global notes previously issued.

Current	03.31.2017	12.31.2016
Short-term debt	329	358
Current portion of long-term debt	8,850	7,779
Accrued interest	1,837	1,618
Total	11,016	9,755

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15.1. Summarized information on current and non-current finance debt

Maturity in	2017	2018	2019	2020	2021	2022 and onwards	Total (*)	Fair value
Financing in Brazilian Reais (R$):	2,564	2,642	4,501	6,205	3,450	5,468	24,830	22,250
Floating rate debt	2,092	2,052	4,029	5,752	3,001	3,834	20,760	
Fixed rate debt	472	590	472	453	449	1,634	4,070	
Average interest rate	10.5%	8.2%	7.8%	6.7%	6.1%	5.2%	7.6%	
Financing in U.S.Dollars (US$):	5,232	7,317	12,703	7,329	14,493	33,816	80,890	87,715
Floating rate debt	4,418	6,313	11,186	5,625	2,475	12,349	42,366	
Fixed rate debt	814	1,004	1,517	1,704	12,018	21,467	38,524	
Average interest rate	4.8%	5.4%	5.4%	5.8%	5.4%	6.6%	6.0%	
Financing in R$ indexed to US$:	100	115	112	112	112	310	861	879
Floating rate debt	18	22	19	19	19	16	113	
Fixed rate debt	82	93	93	93	93	294	748	
Average interest rate	5.9%	5.5%	5.5%	5.6%	5.8%	6.7%	5.9%	
Financing in Pound Sterling (£):	32	10	–	–	–	2,147	2,189	2,183
Fixed rate debt	32	10	–	–	–	2,147	2,189	
Average interest rate	6.2%	6.2%	–	–	–	6.3%	6.2%	
Financing in Japanese Yen (¥):	93	92	–	–	–	–	185	203
Floating rate debt	93	92	–	–	–	–	185	
Average interest rate	0.5%	0.5%	–	–	–	–	0.5%	
Financing in Euro (€):	45	1,227	725	210	798	2,906	5,911	6,226
Floating rate debt	–	–	–	162	–	–	162	
Fixed rate debt	45	1,227	725	48	798	2,906	5,749	
Average interest rate	4.0%	4.2%	4.3%	4.5%	4.6%	4.7%	4.4%	
Financing in other currencies:	7	–	–	–	–	–	7	7
Fixed rate debt	7	–	–	–	–	–	7	
Average interest rate	14.0%	–	–	–	–	–	14.0%	
Total as of March 31, 2017	8,073	11,403	18,041	13,856	18,853	44,647	114,873	119,463
Average interest rate	6.0%	5.9%	5.9%	6.0%	5.5%	6.4%	6.2%	
Total as of December 31, 2016	9,755	11,216	20,898	16,313	18,777	41,167	118,126	118,768
Average interest rate	6.1%	6.0%	5.9%	5.9%	5.4%	6.4%	6.2%	

* The average maturity of outstanding debt as of March 31, 2017 is 7,61 years (7.46 years as of December 31, 2016).

The fair value of the Company's finance debts is mainly determined and categorized into a fair value hierarchy as follows:

Level 1 – quoted prices in active markets for identical liabilities, when applicable, amounting to US$ 47,390 as of March 31, 2017 (US$ 46,510 as of December 31, 2016); and

Level 2 – discounted cash flows based on discount rate determined by interpolating spot rates considering financing debts indexes proxies, taking into account their currencies and also the Petrobras' credit risk, amounting to US$ 72,073 as of March 31, 2017 (US$ 72,258 as of December 31, 2016).

The sensitivity analysis for financial instruments subject to foreign exchange variation is set out in note 30.2.

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15.2. Capitalization rate used to determine the amount of borrowing costs eligible for capitalization

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization was the weighted average of the borrowing costs applicable to the borrowings that were outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. In the first quarter of 2017, the capitalization rate was 6.21% p.a. (5.26% p.a. in the first quarter of 2016).

15.3. Lines of credit

Company	Financial institution	Date	Maturity	Amount Available (Lines of Credit)	Used	Balance
Abroad						
Petrobras	JBIC	7/16/2013	12/31/2018	1,500	–	1,500
PGT BV	CHINA EXIM	10/24/2016	Not defined	1,000	–	1,000
PGT BV	SACE	12/22/2016	12/22/2017	300	–	300
PGT BV				2,800	–	2,800
In Brazil						
Petrobras	FINEP	4/16/2014	12/26/2017	80	76	4
PNBV	BNDES	9/3/2013	3/26/2018	3,118	724	2,394
Transpetro	BNDES	1/31/2007	Not defined	709	224	485
Transpetro	Banco do Brasil	7/9/2010	4/10/2038	50	23	27
Transpetro	Caixa Econômica Federal	11/23/2010	Not defined	104	–	104
Total				4,061	1,047	3,014

15.4. Collateral

Most of the Company’s debt is unsecured, but certain specific funding instruments to promote economic development are collateralized. In addition, financing agreements with China Development Bank (CDB) maturing in 2019 and 2026 are also collateralized based on future oil exports for specific buyers limited to 300 thousand barrels per day up to 2019 and 100 thousand barrels per day from 2020 to 2026. This collateral may not exceed the amount of the related debt.

The loans obtained by structured entities are collateralized based on the projects’ assets, as well as liens on receivables of the structured entities. Bonds issued by the Company in the capital market are unsecured.

The global notes issued by the Company in the capital market through its wholly-owned subsidiary Petrobras Global Finance B.V. – PGF are unsecured. However, Petrobras fully, unconditionally and irrevocably guarantees these notes, as set out in note 34.

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16. Leases

16.1. Future minimum lease payments / receipts – finance leases

	Receipts			Payments		
Estimated lease payments / receivable	Future value	Annual interest	Present value	Future value	Annual interest	Present value
2017	164	(93)	71	36	(20)	16
2018-2021	793	(422)	371	178	(90)	88
2022 and thereafter	1,375	(354)	1,021	435	(288)	147
As of March 31, 2017	2,332	(869)	1,463	649	(398)	251
Current			91			21
Non-current			1,372			230
As of March 31, 2017			1,463			251
Current (*)			91			18
Non-current (*)			1,383			226
As of December 31, 2016			1,474			244

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16.2. Future minimum lease payments – operating leases

Operating leases mainly include oil and gas production units, drilling rigs and other exploration and production equipment, vessels and support vessels, helicopters, land and building leases.

2017	8,167
2018	8,268
2019	7,385
2020	7,170
2021	6,927
2022 and thereafter	54,119
As of March 31, 2017	92,036
As of December 31, 2016	96,918

As of March 31, 2017, the balance of estimated future minimum lease payments under operating leases includes US$ 50,011 (US$ 49,671 as of December 31, 2016) with respect to assets under construction, for which the lease term has not commenced.

In the first quarter of 2017, the Company recognized expenditures of US$ 2,682 (US$ 2,065 in the first quarter of 2016) for operating leases installments.

17. Related-party transactions

The Company has a related-party transactions policy, which is applicable to all the Petrobras Group, in accordance with the Company's by laws.

In order to ensure the goals of the Company and align them with transparency of processes and corporate governance best practices, this policy provides for assumptions to guide Petrobras and its workforce while entering into related-party transactions and dealing with potential conflicts of interest on these transactions, such as: (i) related-party transactions must be executed on an arm's length basis; (ii) must be completely and accurately presented in the Company's reports, in accordance with applicable rules and; (iii) the Audit Committee must prior assess transactions between the Company and its associates, the Brazilian Federal Government (including its agencies or similar bodies and controlled entities), as well as transactions with entities controlled by key management personnel or by their close family members.

Transactions with the Brazilian Federal Government, including its agencies or similar bodies and controlled entities, which are in the scope of Board of Directors approval, must be preceded by the Minority Shareholders Committee assessment and must have prior approval of, at least, 2/3 of board members.

The Related-Party Transactions Policy also aims to ensure an adequate and diligent decision-making process for the Company’s key management.

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17.1. Transactions with joint ventures, associates, government entities and pension plans

The Company has engaged, and expects to continue to engage, in the ordinary course of business in numerous transactions with joint ventures, associates, pension plans, as well as with the Company's controlling shareholder, the Brazilian federal government, which includes transactions with banks and other entities under its control, such as financing and banking, asset management and others.

The balances of significant transactions are set out in the following table:

	Jan-Mar/2017	03.31.2017		Jan-Mar/2016	12.31.2016	
	Income (expense)	Assets	Liabilities	Income (expense)	Assets	Liabilities
Joint ventures and associates						
State-controlled gas distributors	472	257	88	469	246	69
Petrochemical companies	1,198	87	7	640	131	27
Other associates and joint ventures	141	196	284	157		