PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
November 14, 2016

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 November, 2016

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______

THIRD QUARTER OF 2016 RESULTS

Derived from interim financial information reviewed by independent auditors, stated in millions of U.S. dollars, prepared in accordance with International Financial Reporting Standards IFRS issued by the International Accounting Standards Board IASB.

Rio de Janeiro November 10, 2016

Main financial highlights 3Q-2016 x 2Q-2016

Net loss of US$ 5,380 million in the 3Q-2016, compared to net income of US$ 106 million in the 2Q-2016, as a result of:

Impairment of assets and investment in associates of US$ 4,710 million, due to the review of assumptions, such as Brent prices and long term exchange rates, and the portfolio of investments in the context of the 2017-2021 Business and Management Plan finalized and approved in 3Q-2016 , as well as the appreciation of the *real* and the increase in discount rates;

Reclassification of foreign exchange losses, due to the sale of Petrobras Argentina (PESA);

Higher expenses with the new Voluntary Separation Incentive Plan;

Provision for expenses with settlements of individual securities actions against Petrobras in New York;

Provision for assumption of debts and losses related to advance for suppliers for the construction of FPSO hulls; and

These facts were partially offset by the positive effect of the revision of decommissioning costs in oil and gas production areas, lower expenses with drilling rigs idleness and capital gains with the sale of PESA.

Positive free cash flow* for the sixth quarter in a row, amounting to US$ 5,065 million in the 3Q-2016, 65% higher when compared to the 2Q-2016 due to the increase in operating cash generation in 32% and the maintenance of investment levels, and 3.5x higher when compared to the Jan-Set/2015 period.

Adjusted EBITDA* of US$6,653 million in the 3Q-2016, 15% above 2Q-2016 due to the increase in production and exports of oil and lower expenditures with imports, amounting US$ 17,836 million on Jan-Sep/2016, 3% lower compared to Jan-Sep/2015.

Gross debt decreased 3% in U.S. dollars, from US$ 126,262 million in December 31, 2015 to US$ 122,656 million at September 30, 2016, a reduction of US$ 3,606 million. Net debt* remained relatively flat in the period, from US$ 100,425 million in December 31, 2015 to US$ 100,291 million at September 30, 2016.

The ratio between net debt and the Last Twelve Months (LTM) Adjusted EBITDA* increased from 4.41 as of December 31, 2015 to 4.50 as of September 30, 2016 and the leverage decreased from 60% to 55% in the same period.

* See definitions of Free cash flow, Adjusted EBITDA, LTM Adjusted EBITDA and Net Debt in glossary and the respective reconciliations in Liquidity and Capital Resources, Reconciliation of Adjusted EBITDA, Debt and LTM Adjusted EBITDA.

Main operating highlights 3Q-2016 x 2Q-2016

Total crude oil and natural gas production was 2,869 thousand barrels of oil equivalent per day (boed), an increase of 2% compared to the 2Q-2016.

In September, we broke several production records, among which oil and gas production in Brazil (2,753 kboed) and operated oil and gas production as operator in the pre-salt (1,464 kboed).

Domestic oil products output decreased 3% to 1,862 thousand barrels per day (bpd), while domestic sales decreased 1% to 2,088 thousand bpd.

Crude oil and oil products exports increased 9%, reaching to 562 thousand bpd.

www.petrobras.com.br/ir

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BM&F BOVESPA: PETR3, PETR4

NYSE: PBR, PBRA

BCBA: APBR, APBRA

LATIBEX: XPBR, XPBRA

This release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to risks and uncertainties. The forward-looking statements, which address the Company s expected business and financial performance, among other matters, contain words such as believe, expect, estimate, anticipate, optimistic, intend, plan, aim, will, may, should, could, would, likely, and similar expressions cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. There is no assurance that the expected events, trends or results will actually occur. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.

The Company s actual results could differ materially from those expressed or forecast in any forward-looking statements as a result of a variety of assumptions and factors. These factors include, but are not limited to, the following: (i) failure to comply with laws or regulations, including fraudulent activity, corruption, and bribery; (ii) the outcome of ongoing corruption investigations and any new facts or information that may arise in relation to the Lava Jato Operation ; (iii) the effectiveness of the Company s risk management policies and procedures, including operational risk; and (iv) litigation, such as class actions or proceedings brought by governmental and regulatory agencies. A description of other factors can be found in the Company s Annual Report on Form 20-F for the year ended December 31, 2015, and the Company s other filings with the U.S. Securities and Exchange Commission.

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Main Items and Consolidated Economic Indicators

	US$ million						
	Jan-Sep						
	2016	2015	2016 x 2015 (%)	3Q-2016	2Q-2016	3Q16 X 2Q16 (%)	3Q-2015
Sales revenues	60,002	75,167	(20)	**21,693**	20,320	7	23,179
Gross profit	19,062	22,842	(17)	**7,187**	6,502	11	6,695
Operating income (loss)	731	9,321	(92)	**(3,401)**	2,048	(266)	1,702
Net finance income (expense)	(6,143)	(7,158)	14	**(2,193)**	(1,727)	(27)	(3,226)
Consolidated net income (loss) attributable to the shareholders of Petrobras	(5,592)	971	(676)	**(5,380)**	106	(5,175)	(1,062)
Basic and diluted earnings (losses) per share	(0.43)	0.07	(714)	**(0.41)**			(0.09)
Adjusted EBITDA *	17,836	18,320	(3)	**6,653**	5,789	15	4,369
Gross margin (%)	32	30	2	**33**	32	1	29
Operating margin (%)	1	12	(11)	**(16)**	10	(26)	7
Net margin (%)	(9)	1	(10)	**(25)**	1	(26)	(5)
Total capital expenditures and investments	11,590	17,644	(34)	**3,776**	3,827	(1)	5,443
Exploration & Production	10,125	14,621	(31)	**3,203**	3,400	(6)	4,536
Refining, Transportation and Marketing	860	1,984	(57)	**382**	235	63	626
Gas & Power	280	632	(56)	**103**	102	1	149
Distribution	94	181	(48)	**34**	35	(3)	54
Biofuel	91	18	406	**7**	15	(53)	5
Corporate	140	208	(33)	**47**	40	18	73
Average commercial selling rate for U.S. dollar (R$/U.S.$)	3.55	3.17	12	**3.25**	3.51	(7)	3.54
Period-end commercial selling rate for U.S. dollar (R$/U.S.$)	3.25	3.97	(18)	**3.25**	3.21	1	3.97
Variation of the period-end commercial selling rate for U.S. dollar (%)	(16.9)	49.6	(67)	**1.1**	(9.8)	11	28.1
Domestic basic oil products price (U.S.$/bbl)	65.05	71.79	(9)	**70.46**	65.19	8	64.86
Brent crude (U.S.$/bbl)	41.77	55.39	(25)	**45.85**	45.57	1	50.26
Domestic Sales price							
Crude oil (U.S.$/bbl)	37.12	45.04	(18)	**41.77**	39.86	5	39.76
Natural gas (U.S.$/bbl)	32.26	37.45	(14)	**32.21**	29.90	8	35.47
International Sales price							
Crude oil (U.S.$/bbl)	43.76	58.25	(25)	**42.38**	47.24	(10)	55.69
Natural gas (U.S.$/bbl)	21.98	23.68	(7)	**20.51**	21.74	(6)	25.84
Total sales volume (Mbbl/d)							

Diesel	804	928	(13)	**804**	811	(1)	953
Gasoline	542	550	(1)	**521**	541	(4)	540
Fuel oil	67	106	(37)	**57**	64	(11)	97
Naphtha	146	143	2	**156**	172	(9)	137
LPG	234	234		**248**	236	5	243
Jet fuel	102	111	(8)	**101**	97	4	113
Others	189	182	4	**201**	188	7	199
Total oil products	2,084	2,254	(8)	**2,088**	2,109	(1)	2,282
Ethanol, nitrogen fertilizers, renewables and other products	114	123	(7)	**121**	111	9	134
Natural gas	334	438	(24)	**325**	316	3	418
Total domestic market	2,532	2,815	(10)	**2,534**	2,536		2,834
Crude oil, oil products and others exports	522	502	4	**579**	532	9	511
International sales	435	519	(16)	**360**	488	(26)	544
Total international market	957	1,021	(6)	**939**	1,020	(8)	1,055
Total	3,489	3,836	(9)	**3,472**	3,556	(2)	3,889

* See definition of Adjusted EBITDA in glossary and the respective reconciliation in Reconciliation of Adjusted EBITDA.

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Jan-Sep/2016 x Jan-Sep/2015 Results*:

Virtually all revenues and expenses of our Brazilian operations are denominated and payable in Brazilian *Reais*. When the Brazilian *Real* depreciates relative to the U.S. dollar, as it did in the Jan-Sep/2016 period (a 12% depreciation), revenues and expenses decrease when translated into U.S. dollars. The depreciation of the Brazilian *Real* against the U.S. dollar affects the line items discussed below in different ways.

Gross Profit

Gross profit decreased by 17% to US$ 19,062 million in Jan-Sep/2016 when compared to Jan-Sep/2015, mainly due to the effect of foreign exchange translation (depreciation of the Brazilian Real against the U.S. dollar). Excluding this effect, gross profit decreased by 6% when expressed in Brazilian Reais, due to lower sales revenues, as a result of a 8% drop in the domestic oil products sales volume, partially offset by higher diesel and gasoline margins. In addition, the lower crude oil and oil products export prices also contributed to the decrease in income, lower activity abroad due to the disposal of PESA, as well as a fall in electricity generation and prices and a reduction in domestic natural gas sales volumes.

The company experienced lower import costs and government take in Brazil, mainly due to lower crude prices and sales, and lower international operations due to the sale of PESA. However, higher depreciation expenses occurred as a result of a decrease in reserves estimates (mainly due to lower crude oil prices), which were partially offset by a lower carrying amount of assets that were impacted by impairment losses taken in 2015.

Operating income

Operating income reached US$ 731million in Jan-Sep/2016, a 92% decrease when compared to Jan-Sep/2015. This result reflects the decrease in gross profit, impairments, reclassification of foreign exchange losses (cumulative translation adjustments   CTA, due to the PESA sale), higher expenses with drilling rigs idleness and the increase of expenses with the new PIDV and judicial contingencies, including provisions for expenses with settlements agreements to individual actions against Petrobras in New York and provisions for debts assumptions with related to advance for suppliers for the construction of FPSO hulls.

In addition, there was a positive effect of the revision of decommissioning costs in oil and gas production areas in 3Q-2016.

Net Financial Expenses

Net financial expenses of US$ 6,143 million, US$ 1,015 lower when compared to Jan-Sep/2015 due to the lower negative impact of the foreign exchange variation, partially offset by higher interest expenses as a result of the depreciation of the *real* against the dollar.

Net income (loss) attributable to the shareholders of Petrobras

Net loss attributable to the shareholders of Petrobras of US$ 5,592 million in Jan-Sep/2016, mainly due to the impairment of assets and investment in associates R$ 5,250 million.

Adjusted EBITDA and Free Cash Flow **

Adjusted EBITDA decreased 3% compared to Jan-Sep/2015, amounting to US$ 17,836 due to higher gasoline and diesel margins and lower expenditures with imports and government take. The Adjusted EBITDA Margin reached 30% in Jan-Sep/2016. The higher operational cash flow and lower investments resulted in a positive free cash flow* of US$ 8,748 million, 3.5 times higher than Jan-Sep/2015. This result contributes to the Company s deleveraging objective.

* Additional information about operating results of Jan-Sep/2016 x Jan-Sep/2015, see item 4.

** See definitions of Free cash flow and Adjusted EBITDA in glossary and the respective reconciliations in Liquidity and Capital Resources and Reconciliation of Adjusted EBITDA.

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RESULT BY BUSINESS SEGMENT

EXPLORATION & PRODUCTION

Jan-Sep/2016 x Jan-Sep/2015

Gross Profit

The decrease in gross profit is due to lower production in Brazil and abroad and the fall in Brent prices. Additionally, gross profit was impacted by higher depreciation charges, partially offset by lower government take.

Operating income

Besides the reduction in gross profit, the decrease in operating income was mainly caused by the increase in impairment and in expenses related to drilling rigs idleness, the new PIDV expenses and provision for debt assumptions related to advances for suppliers for the construction of FPSO hulls, partially offset by the positive effect of revision in decommissioning costs in oil and gas production areas.

Operating Performance

Production

Domestic crude oil and NGL production decreased by 1% mainly due to the increase in scheduled stoppages in 1Q-2016. As an offset, production was started-up in FPSO Cid. Maricá (Lula Lula Alto area) and FPSO Cid. Saquarema (Lula Lula Central area) and new systems were ramped-up, notably FPSO Cid. Itaguaí (Lula Iracema Norte area), FPSO Cid. Mangaratiba (Lula Iracema South area) and P-58 (Jubarte).

Natural gas production increased 2% mainly due to the start-up and ramp-up of the above mentioned systems.

Crude oil and NGL production abroad decreased 16% mainly as a result of the sale of assets in Austral Basin fields (Argentina), in Mar/2015, pursuant to the conclusion of the sale of PESA.

Gas production abroad remained practically flat in the period due to the increase in gas production in the USA, reflecting production ramp-up of Hadrian South field s, which was offset by the sale of PESA

Lifting Cost

Lifting cost denominated in U.S. dollars decreased due to lower expenses with well interventions and with engineering and subsea maintenance, as well as to the higher share of pre-salt production, with lower unit cost.

Additionally, government take decreased as a result of lower oil prices.

Lifting cost abroad decreased due to the sale of the Austral Basin fields and PESA, with higher operating costs, as well as the increase in production in the USA, with relatively lower costs.

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Exploration & Production Main Indicators

	US$ million Jan-Sep		
	2016	**2015**	**2016 x 2015 (%)**
Sales revenues	23,758	28,438	(16)
Brazil	22,680	26,992	(16)
Abroad	1,078	1,446	(25)
Gross profit	5,446	8,756	(38)
Brazil	5,093	8,262	(38)
Abroad	353	494	(29)
Operating expenses	(6,224)	(2,894)	(115)
Brazil	(5,794)	(2,670)	(117)
Abroad	(430)	(224)	(92)
Operating income (loss)	(778)	5,862	(113)
Brazil	(698)	5,594	(112)
Abroad	(80)	268	(130)
Net income (Loss) attributable to the shareholders of Petrobras	(419)	3,755	(111)
Brazil	(348)	3,470	(110)
Abroad	(71)	285	(125)
Adjusted EBITDA of the segment *	9,955	11,737	(15)
Brazil	9,634	11,005	(12)
Abroad	321	732	(56)
EBITDA margin of the segment (%)	42	41	1
Capital expenditures of the segment	10,125	14,621	(31)
Average Brent crude (US$/bbl)	41.77	55.39	(25)
Sales price - Brazil			
Crude oil (US$/bbl)	37.12	45.04	(18)
Sales price - Abroad			

Crude oil (US$/bbl)	43.76	58.25	(25)
Natural gas (US$/bbl)	21.98	23.68	(7)
Crude oil and NGL production (Mbbl/d)	2,196	2,232	(2)
Brazil	2,111	2,132	(1)
Abroad	59	70	(16)
Non-consolidated production abroad	26	30	(13)
Natural gas production (Mbbl/d)	567	558	2
Brazil	479	469	2
Abroad	88	89	(1)
Total production	2,763	2,790	(1)
Lifting cost Brazil (US$/barrel)			
excluding production taxes	10.78	12.40	(13)
including production taxes	15.58	19.62	(21)
Lifting cost abroad without production taxes (US$/barrel)	5.43	7.73	(30)
Production taxes - Brazil	2,913	4,794	(39)
Royalties	2,032	2,693	(25)
Special participation charges	843	2,061	(59)
Rental of areas	38	40	(5)
Production taxes - Abroad	190	229	(17)

* See reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.

REFINING, TRANSPORTATION AND MARKETING

Jan-Sep/2016 x Jan-Sep/2015

Gross Profit

Gross profit increased 6% in the period, mainly due to the effects of foreign exchange translation (12% depreciation of the Brazilian Real against the U.S. dollar). Excluding these effects, gross profit increased 20% in Brazilian *Reais* due to the decrease in crude oil purchase/transfer costs, tracking lower Brent prices, the lower share of imported oil on the feedstock processed and the lower share of imported oil products in our sales mix, mainly diesel. On the other hand, there was a reduction in oil export prices. In addition, the lower economic activity and the increase in diesel imports by competitors led to a reduction in domestic oil products sales.

Operating Income

Operating income decreased 3% in the period, mainly due to the effects of foreign exchange translation (12% depreciation of the Brazilian Real against the U.S. dollar). Excluding these effects, operating income increased in Brazilian *Reais* due to the higher gross profit, partially offset by higher impairments and higher expenses with the new PIDV.

Operating Performance

Imports and Exports of Crude Oil and Oil Products

Improvement in the crude oil balance due to lower imports, as a result of the decreased volume processed and a higher share of domestic crude oil on feedstock processed.

The reduction in oil products imports, especially diesel as a result of lower domestic demand along with the increase in imports by competitors - reducing the deficit on the net balance of oil products.

Refining Operations

Processed feedstock was 8% lower, mainly due to lower domestic demand. The impact from scheduled stoppages in REPLAN, REPAR and REFAP were partially offset by higher production in RNEST, as a result of the improvement in operational efficiency.

Refining Cost

Refining cost in USD decreased by 2%. When measured in *reais*, refining cost increased by 8% mainly reflecting higher labor costs due to the wage increases related to the 2015 Collective Bargaining Agreement, along with a decrease in processed feedstock.

Refining, Transportation and Marketing Main Indicators

	US$ million Jan-Sep		
	2016	2015	2016 x 2015 (%)
Sales revenues	46,141	57,609	(20)
Brazil (includes trading operations abroad)	46,573	56,349	(17)
Abroad	2,325	3,210	(28)
Eliminations	(2,757)	(1,950)	(41)
Gross profit	11,066	10,489	6
Brazil	11,009	10,273	7
Abroad	57	216	(74)
Operating expenses	(4,056)	(3,267)	(24)
Brazil	(3,990)	(3,147)	(27)
Abroad	(66)	(120)	45
Operating income (loss)	7,011	7,222	(3)
Brazil	7,018	7,126	(2)
Abroad	(7)	96	(107)
Net income (loss) attributable to the shareholders of Petrobras	4,836	5,098	(5)
Brazil	4,843	5,005	(3)
Abroad	(7)	93	(108)
Adjusted EBITDA of the segment *	10,485	9,119	15
Brazil	10,449	8,976	16
Abroad	36	143	(75)
EBITDA margin of the segment (%)	23	16	7
Capital expenditures of the segment	860	1,984	(57)
Domestic basic oil products price (US$/bbl)	65.05	71.79	(9)
Imports (Mbbl/d)	400	590	(32)
Crude oil import	158	298	(47)
Diesel import	16	100	(84)
Gasoline import	33	33	

Other oil product import	193	159	21
Exports (Mbbl/d)	510	501	2
Crude oil export	356	351	1
Oil product export	154	150	3
Exports (imports), net	110	(89)	224
Refining Operations - Brazil (Mbbl/d)			
Output of oil products	1,913	2,049	(7)
Reference feedstock	2,176	2,176	
Refining plants utilization factor (%)	83	90	(8)
Feedstock processed (excluding NGL)	1,800	1,962	(8)
Feedstock processed	1,846	2,002	(8)
Domestic crude oil as % of total feedstock processed	91	86	6
Refining Operations - Abroad (Mbbl/d)			
Total feedstock processed	132	136	(3)
Output of oil products	134	148	(9)
Reference feedstock	200	230	(13)
Refining plants utilization factor (%)	57	57	
Refining cost - Brazil			
Refining cost (US$/barrel)	2.47	2.52	(2)
Refining cost - Abroad (US$/barrel)	3.96	4.01	(1)
Sales volume (includes sales to BR Distribuidora and third-parties)			
Diesel	760	893	(15)
Gasoline	486	494	(2)
Fuel oil	62	95	(35)
Naphtha	146	143	2
LPG	235	234	
Jet fuel	116	127	(9)
Others	205	206	
Total domestic oil products (Mbbl/d)	2,010	2,192	(8)

* See reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.

GAS & POWER

Jan-Sep/2016 x Jan-Sep/2015

Gross Profit

Gross profit decreased 7% in Jan-Sep/2016 when compared to Jan-Sep/2015, mainly due to the effects of foreign exchange translation (12% depreciation of the Brazilian *Real* against the U.S. dollar). Excluding these effects, gross profit increased in Brazilian *Reais* due to lower acquisition costs, mainly reflecting the reduction of natural gas and LNG imports. This effect was partially offset by lower natural gas sales and by lower revenues with electricity generation due to the improvement of hydrological conditions in Brazil.

Operating income

Operating income decreased 46% in Jan-Sep/2016 when compared to Jan-Sep/2015, mainly due to the effects of foreign exchange translation (12% depreciation of the Brazilian *Real* against the U.S. dollar). Excluding these effects, operating income decreased 34% in Brazilian *Reais* mainly due to the higher sales expenses due to the provisions for losses with trade receivables from electricity sector in 2016 and reversals in 1Q-2015, as well as impairment charges.

Operating Performance

Physical and Financial Indicators

Electricity sales to the Brazilian free contracting market (*Ambiente de Contratação Livre ACL*) were 4% lower, due to the termination of contracts.

Decreased electricity sales volumes to the Brazilian regulated market (*Ambiente de Contratação Regulada ACR*) was due to the termination of the contract for 205 average MW, which occurred at the Existing Electricity Auction in 1H-2015.

The 75% decrease in electricity prices in the spot market (PLD) reflects the lower projections for electricity generation, due to improved hydrological conditions.

The lower volumes in electricity generation was due to the decision of the Electrical Sector Monitoring Committee (CMSE) for not utilizing plants with unitary variable costs above the established limits, and to the better hydrological conditions and the lower projections for electricity generation.

There was a reduction in natural gas sales, mainly due to lower thermoelectrical demand, enabling the reduction of 63% on LNG imports and 9% on Bolivian natural gas.

Gas & Power Main Indicators

	US$ million Jan-Sep		
	2016	**2015**	**2016 x 2015 (%)**
Sales revenues	7,032	10,369	(32)
Brazil	6,641	9,962	(33)
Abroad	391	407	(4)
Gross profit	1,856	1,996	(7)
Brazil	1,795	1,927	(7)
Abroad	61	69	(12)
Operating expenses	(1,365)	(1,092)	(25)
Brazil	(1,341)	(1,072)	(25)
Abroad	(24)	(20)	(20)
Operating income (loss)	491	904	(46)
Brazil	454	855	(47)
Abroad	37	49	(24)
Net income (Loss) attributable to the shareholders of Petrobras	331	616	(46)
Brazil	264	548	(52)
Abroad	67	68	(1)
Adjusted EBITDA of the segment *	1,557	1,783	(13)
Brazil	1,502	1,719	(13)
Abroad	55	64	(14)
EBITDA margin of the segment (%)	22	17	5
Capital expenditures of the segment	280	632	(56)
Physical and financial indicators			
Electricity sales (Free contracting market - ACL) - average MW	845	878	(4)
Electricity sales (Regulated contracting market - ACR) - average MW	3,172	3,194	(1)
Generation of electricity - average MW	2,106	4,830	(56)
Electricity price in the spot market - Differences settlement price (PLD) - US$/MWh	25	101	(75)
Imports of LNG (Mbbl/d)	42	112	(63)
Imports of natural gas (Mbbl/d)	183	202	(9)

* See reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.

DISTRIBUTION

Jan-Sep/2016 x Jan-Set/2016

Gross Profit

Gross profit decreased 20% in Jan-Sep/2016 when compared to Jan-Sep/2015 period. Excluding foreign exchange translation effects (12% depreciation of the Brazilian Real against the U.S. dollar), gross profit decreased 9% in Brazilian *Reais* due to lower sales volumes in Brazil, caused by the lower economic activity and lower fuel demand by fuel oil thermoelectric plants.

Operating income

In Brazil, the decrease in operating income tracked the variation on gross profit. Abroad, there was impairment on distribution assets in Chile as a result of divestment.

Operating Performance

Market Share - Brazil

The decrease in market share was mainly due to lower sales to thermal power plants (-57%). In addition, there was a repositioning of margins due to the profitability maximization strategy.

Distribution Main Indicators

	US$ million		
	Jan-Sep		
	2016	**2015**	**2016 x 2015 (%)**
Sales revenues	20,836	26,017	(20)
Brazil	18,343	22,859	(20)
Abroad	2,493	3,158	(21)
Gross profit	1,556	1,944	(20)
Brazil	1,291	1,655	(22)
Abroad	265	289	(8)
Operating expenses	(1,509)	(1,602)	6
Brazil	(1,225)	(1,378)	11
Abroad	(284)	(224)	(27)
Operating income (loss)	47	342	(86)
Brazil	66	276	(76)
Abroad	(19)	66	(129)
Net Income (Loss) attributable to the shareholders of Petrobras	39	221	(82)
Brazil	63	164	(62)
Abroad	(24)	57	(142)
Adjusted EBITDA of the segment *	263	480	(45)
Brazil	160	385	(58)
Abroad	103	95	8
EBITDA margin of the segment (%)	1	2	(1)
Capital expenditures of the segment	94	181	(48)
Market share - Brazil	31.4%	35.4%	(4)
Sales Volumes - Brazil (Mbbl/d)			
Diesel	320	381	(16)
Gasoline	190	203	(6)
Fuel oil	52	92	(43)
Jet fuel	50	57	(12)

Others	99	96	3
Total domestic oil products	711	829	(14)

* See reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.

Liquidity and Capital Resources

	U.S.$ million				
	Jan-Sep				
	2016	**2015**	**3Q-2016**	**2Q-2016**	**3Q-2015**
Adjusted cash and cash equivalents* at the beginning of period	25,837	25,957	**20,366**	22,626	29,536
Government bonds and time deposits with maturities of more than 3 months at the beginning of period	(779)	(9,302)	**(757)**	(771)	(3,375)
Cash and cash equivalents at the beginning of period	25,058	16,655	**19,609**	21,855	26,161
Net cash provided by (used in) operating activities	18,905	19,336	**8,226**	6,251	6,147
Net cash provided by (used in) investing activities	(9,209)	(9,000)	**(2,430)**	(3,066)	(3,260)
Capital expenditures and investments in investees	(10,157)	(16,825)	**(3,161)**	(3,178)	(5,067)
Proceeds from disposal of assets (divestment)	739	215	**735**	1	4
Investments in marketable securities	209	7,610	**(4)**	111	1,803
(=) Net cash flow	9,696	10,336	**5,796**	3,185	2,887
Net financings	(13,737)	(741)	**(3,678)**	(5,582)	(3,288)
Proceeds from long-term financing	12,496	15,830	**3,396**	7,255	3,545
Repayments	(26,233)	(16,571)	**(7,074)**	(12,837)	(6,833)
Acquisition of non-controlling interest	2	119	**(47)**	12	(54)
Effect of exchange rate changes on cash and cash equivalents	563	(1,231)	**(98)**	139	(568)
Cash and cash equivalents at the end of period	21,582	25,138	**21,582**	19,609	25,138
Government bonds and time deposits with maturities of more than 3 months at the end of period	783	1,099	**783**	757	1,099
Adjusted cash and cash equivalents* at the end of period	22,365	26,237	**22,365**	20,366	26,237
Reconciliation of Free cash flow					
Net cash provided by (used in) operating activities	18,905	19,336	**8,226**	6,251	6,147
Capital expenditures and investments in investees	(10,157)	(16,825)	**(3,161)**	(3,178)	(5,067)
Free cash flow*	8,748	2,511	**5,065**	3,073	1,080

As of September 30, 2016, the balance of cash and cash equivalents was US$ 21,582 million and the balance of adjusted cash and cash equivalents was US$ 22,365 million. Our principal uses of funds in 2016 were debt service and capital expenditures. We partially met these requirements with cash provided by operating activities of US$ 18,905 million and with proceeds from long-term financing of US$ 12,496 million.

Net cash provided by operating activities decreased by 2% to US$ 18,905 million in Jan-Sep/2016 when compared to Jan-Sep/2015, mainly due to a depreciation of the Brazilian Real against the U.S. dollar. Excluding foreign currency translation effects, net cash provided by operating activities increased by 8% when expressed in Brazilian *Reais*, mainly generated by higher diesel and gasoline margins, lower government take in Brazil and lower crude oil, oil products and natural gas imports costs, along with a higher share of domestic crude oil on processed feedstock. These effects were partially offset by lower crude oil and oil product exports prices and decreased sales volume in Brazil due to lower economic activity.

Capital expenditures and investments in investees totaled US$ 10,157 million in Jan-Sep/2016 (87% in E&P business segment), a 39% decrease when compared to Jan-Sep/2015. Crude oil and natural gas production remained flat despite this decrease.

Free cash flow* was positive, amounting to US$ 8,748 million in Jan-Sep/2016, 3.5 times higher compared to Jan-Sep/2015.

From January to September 2016, proceeds from long-term financing amounted to US$ 12,496 million, of which US$ 9.75 billion refer to the global notes issued in international capital markets, with maturities of 5 and 10 years. The proceeds of those offerings were used to tender for US$ 9,3 billion of Petrobras s existing global notes. In addition, the Company entered into a sale and leaseback operation with the Industrial and Commercial Bank of China (ICBC) in the amount of US$ 1 billion. The average maturity of the outstanding debt was 7.33 years as of September 30, 2016 (7.14 years as of December 31, 2015).

Repayments of interest and principal totaled US$ 26,233 million in Jan-Sep/2016 and the nominal cash flow (cash view), including principal and interest payments, by maturity, is set out in US$ million as follows:

Maturity	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 and thereafter**	**Balance at September 30, 2016**	**Balance at December 31, 2015**
Principal	3,664	7,862	13,514	21,370	16,599	60,701	123,710	127,354
Interest	2,098	7,130	6,756	5,884	4,533	34,926	61,326	59,038
Total	**5,762**	**14,992**	**20,270**	**27,254**	**21,132**	**95,627**	**185,036**	**186,392**

* 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.

Consolidated debt

As of September 30, 2016, the gross debt in U.S. dollars decreased 3% despite the higher debt denominated in *reais* due to the effects of its appreciation. The net debt in U.S. dollars remained relatively flat when compared to December 31, 2015.

Current debt and non-current debt include finance lease obligations of US$ 17 million and US$ 97 million on September 30, 2016, respectively (US$ 19 million and US$ 78 million on December 31, 2015).

The ratio between net debt and the Last Twelve Months (LTM) Adjusted EBITDA* increased from 4.41 as of December 31, 2015 to 4.50 as of September 30,2016.

	U.S.$ million		
	09.30.2016	**12.31.2015**	**D%**
Current debt	11,429	14,702	(22)
Non-current debt	111,227	111,560	
Total	**122,656**	**126,262**	**(3)**
Cash and cash equivalents	21,582	25,058	(14)
	783	779	1

Government securities and time deposits (maturity of more than 3 months)			
Adjusted cash and cash equivalents *	**22,365**	**25,837**	**(13)**
Net debt *	100,291	100,425	
Net debt/(net debt+shareholders equity)	55%	60%	(5)
Total net liabilities *	225,064	204,684	10
(Net third parties capital / total net liabilities)	64%	68%	(4)
Net debt/LTM Adjusted EBITDA ratio *	4.50	4.41	2
Average maturity of outstanding debt (years)	7.33	7.14	0.19

	US$ million		
	09.30.2016	**12.31.2015**	D%
Summarized information on financing			
Floating rate or fixed rate			
Floating rate debt	60,288	62,307	(3)
Fixed rate debt	62,254	63,858	(3)
Total	**122,542**	**126,165**	**(3)**
Currency			
Reais	24,665	20,555	20
US Dollars	88,291	93,567	(6)
Euro	7,012	8,685	(19)
Other currencies	2,574	3,358	(23)
Total	**122,542**	**126,165**	**(3)**
By maturity			
2016	5,128	14,683	(65)
2017	8,257	11,397	(28)
2018	13,193	16,091	(18)
2019	21,202	22,596	(6)
2020	16,412	15,537	6
2021 years on	58,350	45,861	27
Total	**122,542**	**126,165**	**(3)**

* See definition of adjusted cash and cash equivalents, net debt, total net liabilities and LTM Adjusted EBITDA in glossary and reconciliation in Reconciliation of Adjusted EBITDA.

ADDITIONAL INFORMATION

1. Impairment of assets

Assets or CGU by nature	Consolidated Carrying amount	Recoverable amount	Impairment (*) (**)	Business segment
	Jan-Sep/2016			