MOBILE TELESYSTEMS OJSC
Form 6-K
November 25, 2014

FORM 6-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
November 25, 2014

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Commission file number: 333-12032

Mobile TeleSystems OJSC

(Exact name of Registrant as specified in its charter)

Russian Federation

(Jurisdiction of incorporation or organization)

4, Marksistskaya Street
Moscow 109147
Russian Federation

(Address of principal executive offices)

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 o

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 o No x

Press release

Mobile TeleSystems Announces Financial Results for the Third Quarter Ended September 30, 2014

November 25, 2014

Moscow, Russian Federation Mobile TeleSystems OJSC (MTS - NYSE: MBT), the leading telecommunications provider in Russia and the CIS, today announces its unaudited US GAAP financial results for the three months ended September 30, 2014.

Key Financial Highlights of Q3 2014

- Consolidated Group revenues increased 3.6% y-o-y to RUB 107.1 billion
- Mobile service revenue in Russia rose 9.1% y-o-y to RUB 77.3 billion
- Data traffic revenue in Russia grew 37.2% y-o-y to RUB 17.2 billion
- Consolidated Group Adjusted OIBDA(1) up 4.1% y-o-y to RUB 48.2 billion
- Group OIBDA margin improved 0.2pp to 45.0%
- Consolidated net income(2) of RUB 16.1 billion

Amended Outlook for 2014

- Group revenue guidance increased from 1% to >2%
- Group OIBDA guidance increased from stable to 1%
- MTS Russia revenue guidance increased from 3-5% to 5%
- MTS Russia OIBDA guidance increased from 3-5% to 5%
- Group CAPEX guidance reiterated to approximately RUB 90 billion

Key Corporate and Industry Highlights

- Completed dividend payment of RUB 18.6 per ordinary MTS share (RUB 37.2 per ADR), or a total of RUB 38.435 bln based on the full-year 2013 financial results.
- Signed with the Republic of Uzbekistan a Settlement Agreement, the purpose of which was to resolve all disputes between the parties and enable MTS to resume operations in Uzbekistan, and discontinued international arbitration proceedings between MTS and the Republic of Uzbekistan at the International Center for Settlement of the Investment Disputes (the ICSID).
- Took possession a controlling stake in the Russian-Uzbek entity Universal Mobile Systems LLC and plans to commercially launch operations throughout the territory of Uzbekistan on December 1, 2014.

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(1) OIBDA net of non-cash gain in the amount of RUB 3 604 mln due to transfer of a 50.01% stake in UMS, subsidiary in Uzbekistan, to MTS

(2) Attributable to the Group

- Completed dividend payment of RUB 6.2 per ordinary MTS share (RUB 12.4 per ADR), or a total of RUB 12.812 bln based on the H1 2014 financial results.

- Signed an agreement with Sberbank of Russia to open a non-revolving line of credit for a total amount of RUB 50 billion and amended terms of an existing credit agreement in the amount of RUB 20 billion.

- Launched satellite TV under the MTS brand in Russia.

- Signed a binding agreement with MTS Bank OJSC to acquire 952,000 ordinary shares of the Bank s additional shares issuance for RUB 3,639,286,560.

Commentary

Mr. Andrei Dubovskov, MTS President and CEO, commented, During the quarter we increased our Group revenues by 3.6% year-over-year to RUB 107.1 bln. We witnessed revenue growth in Russia, Ukraine and Turkmenistan, but registered a slight decline in Armenia. As in Q2, hryvna devaluation and a weakening ruble impacted our Group performance.

Mr. Vasyl Latsanych, MTS Vice President for Marketing, said In Q3, we saw very strong growth in our Russian business unit with revenues improving by 8.4% year-over-year to RUB 99.2 bln. The growth was attributable to exceptionally strong performance of our mobile operations where revenues grew 9.1% year-over-year. Key drivers included subscriber migration from feature phones to smartphones as smartphone penetration in our active base reached almost 40%; success of our Smart family of tariffs which allows us to upsell existing subscribers on data plans by stimulating consumption of data products; continued growth from messaging as we increased sales of SMS bundles; growing penetration of tablets as number of tablets on our network increased by 35% year-over-year; expansion of the subscriber base as we added 5.95 million subscribers during the period; and high-quality of subscriber additions as demonstrated by positive dynamics in ARPU and sustained lowest level of churn in the market. Quarter-on-quarter our revenues rose by 9.1% as we benefited from seasonally strong roaming revenues throughout Russia and an increase in the subscriber base.

Mr. Alexey Kornya, MTS Vice President for Finance and Investments, added, In Q3 2014, Adjusted OIBDA increased by 4.1% to RUB 48.2 bln rubles. This figure was adjusted for a non-cash gain in the amount of 3.6 billion rubles we realized from the transfer of the controlling stake in UMS, an operating subsidiary in Uzbekistan, to MTS. Our growth in Adjusted OIBDA reflects many factors, including topline revenue dynamics in each of our markets of operation; the effect of a steadily rising contribution from data revenues in Russia; the impact of hryvna and ruble depreciation on our operating expenses; increased taxes and spectrum fees in Ukraine; rising G&A costs due to the enhancement of our mobile and fixed networks in Russia as well as pressure from inflationary expenses. On a quarterly basis, adjusted OIBDA grew by 11.5%, which was largely driven by seasonally higher roaming revenues and higher-quality subscriber additions, while maintaining steady sales & marketing expenses. Our Adjusted Group OIBDA margin net of the UMS effect came in at 45.0%. In Russia, OIBDA grew by 9.4% year-over-year to 45.4 billion rubles. This reflects both strong growth in mobile service revenues and an increased contribution from high-margin data revenues. This translates into a margin of 45.8%, the highest number we have registered in our Russian business unit since early 2009. In Ukraine, OIBDA declined by 10.7% year-over-year to UAH 1.21 billion. Profitability was under pressure due to increased taxes and frequency fees, higher payroll, electricity, site rentals costs and impact of the currency devaluation on cost items, including roaming and SIM cards, denominated in foreign currencies.

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He continued, Despite macroeconomic weakness across our markets of operations, MTS continues to generate stable operating cash flows. Our free cash flows for the first nine months of 2014 declined by 11.7% compared to the previous period, but in Q2 2013 we benefited from a one-off gain from the settlement over Bitel LLC. Adjusted for this factor, our free cash flow was down by 7.6%, but this drop can be explained by higher CAPEX spending in Q3 2014; during the quarter we prepaid for a higher amount of non-ruble denominated equipment in anticipation of further weakening of the ruble. For the period, net income declined quarter-on quarter by 23.8% to RUB 16.1 bln. In Q4 2013, we registered a non-cash FOREX loss in the amount of RUB 9.5 bln from a revaluation of the foreign currency-denominated portion of the debt portfolio after significant ruble depreciation. The quarterly decline in bottom line was more pronounced as in the second quarter 2014 we had a non-cash FOREX gain in the amount of RUB 4.2 bln due to strengthening of the ruble.

Mr. Andrei Dubovskov, MTS President and CEO, concluded, The situation in Ukraine remains highly volatile and creates uncertainty at the Group level. It is hard to forecast what the operational trends in Ukraine would be going forward. Nevertheless, with the potential of 3G on the horizon we remain enthusiastic about the long-term prospects of the market. Nevertheless, we feel comfortable at this stage raising our Group guidance for 2014: we expect strength in the Russian market and better-than-expected performance in Ukraine and Armenia to lift revenue by at least 2% for the year. Russia will see around 5% of growth to this figure based on strong performance in the mobile market. In spite of the extreme volatility in the ruble we are seeing in Q4, we do expect Group OIBDA to improve by approximately 1%. CAPEX remains on track at roughly RUB 90 bln, but the figure might be impacted by currency fluctuations.

Additional Information

As of Q3 2014, MTS adjusted its subscriber reporting methodology to reflect three-months of subscriber activity instead of the previously used six-month methodology. In accompanying materials, subscriber numbers, as well as related operational indicators like Average Revenue Per User (ARPU) and Minutes of Use (MOU), Average Price Per Minute (APPM) and churn have been restated since Q1 2013 to provide like-for-like comparisons for FY2014 operational indicators.

In September 2014, MTS announced that Vladimir Evtushenkov, Chairman of the Board of Directors of Sistema JSFC (Sistema) (LSE: SSA), the parent company of MTS with effective ownership stake in MTS of 53.46%, was detained as part of an investigation into the privatization of BASHTek Group, through which Sistema owns a number of enterprises devoted to the extraction and marketing of oil and oil-related products. Though MTS reiterates that the investigation and any subsequent outcome of this investigation would have no effect on the Company s operations, certain changes at Sistema, including its revenue structure and debt position and other implications directly or indirectly arising out of Mr. Evtushenkov detainment and ongoing investigation, could potentially have an adverse effect on MTS s equity value, its credit ratings or other metrics used by investors to assess and value MTS public securities and tradable debt.

MTS continues to see sustained macroeconomic volatility in its markets of operations that may impact the financial and operational performance throughout the Group.

This press release provides a summary of some of the key financial and operating indicators for the period ended September 30, 2014. For full disclosure materials, please visit http://www.mtsgsm.com/resources/reports/.

Financial Summary

RUB mln	**Q3 14**	**Q3 13**	**y-o-y**	**Q2 14**	**q-o-q**
Revenues	107,148	103,388	3.6%	98,860	8.4%
Adjusted OIBDA	48,186	46,290	4.1%	43,231	11.5%
- margin	*45.0%*	*44.8%*	*+0.2pp*	*43.7%*	*+1.3pp*
Adjusted net operating income	29,152	27,395	6.4%	24,973	16.7%
- margin	*27.2%*	*26.5%*	*+0.7pp*	*25.3%*	*+1.9pp*
Net income attributable to the Group	16,062	18,080	-11.2%	21,089	-23.8%
- margin	*15.0%*	*17.5%*	*-2.5pp*	*21.3%*	*-6.3pp*

Russia Highlights

RUB mln	**Q3 14**	**Q3 13**	**y-o-y**	**Q2 14**	**q-o-q**
Revenues(3)	99,209	91,533	8.4%	90,390	9.8%
- mobile	77,324	70,844	9.1%	70,884	9.1%
- fixed	15,799	15,384	2.7%	15,584	1.4%
-sales of handsets & accessories	7,785	7,094	9.7%	5,858	32.9%
OIBDA	45,437	41,523	9.4%	40,309	12.7%
- margin	*45.8%*	*45.4%*	+0.4pp	*44.6%*	*+1.2pp*
Net income	10,818	15,630	-30.8%	19,450	-44.4%
- margin	*10.9%*	*17.1%*	*-6.2pp*	*21.5%*	*-10.6pp*

	Q3 13	**Q4 13**	**Q1 14**	**Q2 14**	**Q3 14**
ARPU (RUB)	348.3	342.0	325.2	336.2	358.4
MOU (min)	368	375	353	373	377
Churn rate (%)	8.9%	9.8%	10.1%	10.9%	9.2%

Ukraine Highlights

UAH mln	**Q3 14**	**Q3 13**	**y-o-y**	**Q2 14**	**q-o-q**
Revenues	2,817	2,634	6.9%	2,563	+9.9%
OIBDA	1,210	1,355	-10.7%	1,276	-5.2%
- margin	*42.9%*	*51.5%*	*-8.6pp*	*49.8%*	*-6.9pp*
Net income	763	684	11.5%	768	-0.7%
- margin	*27.1%*	*26.0%*	*+1.1pp*	*29.9%*	*-2.8pp*

(3) Revenue, net of intercompany between mobile and fixed

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
ARPU (UAH)	41.0	37.0	36.8	38.3	41.1
MOU (min)	592	586	573	575	483
Churn rate (%)	6.8%	7.4%	6.2%	4.5%	4.6%
SAC (UAH)	57.1	53.3	49.4	50.8	63.4
- dealer commission	36.7	29.7	29.4	31.2	37.5
- adv&mktg	12.6	14.8	12.1	13.3	17.0
- handset subsidy	0.6	0.9	0.7	0.8	1.7
- SIM card & voucher	7.1	7.8	7.2	5.6	7.1

Armenia Highlights

AMD mln	**Q3 14**	**Q3 13**	**y-o-y**	**Q2 14**	**q-o-q**
Revenues	22,066	22,522	-2.0%	18,876	16.9%
OIBDA	12,057	12,248	-1.6%	9,043	33.3%
- margin	*54.6%*	*54.4%*	*+0.2pp*	*47,9%*	*+6.7pp*
Net income	4,243	4,297	-1.3%	1,934	119.4%
- margin	*19.2%*	*19.1%*	*+0.1pp*	*10.2%*	*+9.0pp*

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
ARPU (AMD)	3,605.0	3,113.5	2,691.1	2,939.3	3,378.6
MOU (min)	451	461	464	516	527
Churn rate (%)	8.5%	8.3%	7.8%	7.7%	9.0%
SAC (AMD)	6,077.1	6,800.7	5,129.8	5,302.3	4,773.3

Turkmenistan Highlights

TMT mln	**Q3 14**	**Q3 13**	**y-o-y**	**Q2 14**	**q-o-q**
Revenues	72	70	1.9%	69	3.2%
OIBDA	30	27	11.2%	31	-2.6%
- margin	*41.8%*	*38.3%*	*+3.5pp*	*44.3%*	*-2.5pp*
Net income	26	24	7.1%	27	-3.7%
- margin	*36.0%*	*34.1%*	*+1.9pp*	*38.6%*	*-2.6pp*

	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
ARPU (TMT)	13.7	13.9	12.8	13.6	14.1
MOU (min)	617	620	588	575	564
Churn rate (%)	13.0%	13.5%	12.0%	10.4%	11.2%
SAC (TMT)	18.1	22.1	23.9	24.1	26.7

CAPEX Highlights

RUB mln	FY 2011	FY 2012	FY 2013	9M 14
Russia	66,869	82,896	70,910	50,778
- as % of rev	*21.4%*	*24.5%*	*20.0%*	*18.3%*
Ukraine	4,487	4,125	8,840	2,248
- as % of rev	*13.4%*	*10.9%*	*22.2%*	*8.9%*
Armenia	1,344	751	1,093	345
- as % of rev	*22.8%*	*12.5%*	*17.5%*	*6.9%*
Turkmenistan	n/a	11	732	456
- as % of rev	*n/a*	*3.4%*	*25.8%*	*17.8%*
Group	72,798	87,783	81,575	53,827
- as % of rev	*20.9%*	*23.2%*	*20.5%*	*17.7%*

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For further information, please contact in Moscow:

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Learn more about MTS. Visit the official blog of the Investor Relations Department at www.mtsgsm.com/blog/ and follow us on Twitter: JoshatMTS

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Mobile TeleSystems OJSC (MTS) is the leading telecommunications group in Russia and the CIS, offering mobile and fixed voice, broadband, pay TV as well as content and entertainment services in one of the world s fastest growing regions. Including its subsidiaries, the Group services over 100 million mobile subscribers. The Group has been awarded GSM licenses in Russia, Ukraine, Turkmenistan, Armenia and Belarus, a region that boasts a total population of more than 200 million. Since June 2000, MTS Level 3 ADRs have been listed on the New York Stock Exchange (ticker symbol MBT). Additional information about the MTS Group can be found at www.mtsgsm.com.

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Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of MTS, as defined in the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify forward looking statements by terms such as expect, believe, anticipate, estimate, intend, will, could, may or might, and such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not undertake or intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. We refer you to the documents MTS files from time to time with the U.S. Securities and Exchange Commission, specifically the Company s most recent Form 20-F. These documents contain and identify important factors, including those contained in the section captioned Risk Factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, the severity and duration of current economic and financial conditions, including volatility in interest and exchange rates, commodity and equity prices and the value of financial assets; the impact of Russian, U.S. and other foreign government programs to restore liquidity and stimulate national and global economies, our ability to maintain our current credit rating and the impact on our funding costs and competitive position if we do not do so, strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses, potential fluctuations in quarterly results, our competitive environment, dependence on new service development and tariff structures, rapid technological and market change, acquisition strategy, risks associated with telecommunications infrastructure, governmental regulation of the telecommunications industries and other risks associated with operating in Russia and the CIS, volatility of stock price, financial risk management and future growth subject to risks.

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Attachments to the Third Quarter 2014

Earnings Press Release

Attachment A

Non-GAAP financial measures. This press release includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP. Due to the rounding and translation practices, Russian ruble and functional currency margins, as well as other non-GAAP financial measures, may differ.

Operating Income before Depreciation and Amortization (OIBDA) and OIBDA margin. OIBDA represents operating income before depreciation and amortization. OIBDA margin is defined as OIBDA as a percentage of our net revenues. OIBDA may not be similar to OIBDA measures of other companies, is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations and comprehensive income. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of mobile operators and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our OIBDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the wireless telecommunications industry. OIBDA can be reconciled to our consolidated statements of operations as follows:

Group (RUB mln)	**Q3 13**	**Q4 13**	**Q1 14**	**Q2 14**	**Q3 14**
Adjusted operating income	27,395	27,219	23,437	24,973	29,153
Add: D&A	18,895	17,769	18,014	18,258	19,033
Adjusted OIBDA	46,290	44,988	41,451	43,231	48,186

Russia (RUB mln)	**Q3 13**	**Q4 13**	**Q1 14**	**Q2 14**	**Q3 14**
Operating income	25,167	25,865	22,464	24,150	28,249
Add: D&A	16,356	15,243	15,310	16,159	17,188
OIBDA	41,523	41,107	37,773	40,309	45,437

Ukraine (RUB mln)	**Q3 13**	**Q4 13**	**Q1 14**	**Q2 14**	**Q3 14**
Operating income	3,397	3,109	2,634	2,153	2,071
Add: D&A	2,165	2,085	2,256	1,665	1,410
OIBDA	5,562	5,194	4,890	3,818	3,481

Armenia (RUB mln)	**Q3 13**	**Q4 13**	**Q1 14**	**Q2 14**	**Q3 14**
Operating income/(loss)	601	(27)	221	347	642
Add: D&A	382	448	440	419	425
OIBDA	983	420	662	766	1,067

Turkmenistan (RUB mln)	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating income	305	488	289	354	352
Add: D&A	4	11	25	23	27
OIBDA	309	498	315	377	379

OIBDA margin can be reconciled to our operating margin as follows:

Group	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Adjusted operating margin	26.5%	26.0%	24.0%	25.3%	27.2%
Add: D&A	18.3%	17.0%	18.5%	18.5%	17.8%
Adjusted OIBDA margin	44.8%	42.9%	42.5%	43.7%	45.0%

Russia	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating margin	27.5%	27.5%	25.7%	26.7%	28.5%
Add: D&A	17.9%	16.2%	17.5%	17.9%	17.3%
OIBDA margin	45.4%	43.7%	43.3%	44.6%	45.8%

Ukraine	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating margin	31.4%	31.3%	27.6%	28.1%	25.5%
Add: D&A	20.0%	21.0%	23.6%	21.7%	17.4%
OIBDA margin	51.5%	52.3%	51.2%	49.8%	42.9%

Armenia	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating margin	33.2%	-1.7%	15.2%	21.7%	32.9%
Add: D&A	21.2%	28.2%	30.2%	26.2%	21.8%
OIBDA margin	54.4%	26.5%	45.4%	47.9%	54.6%

Turkmenistan	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
Operating margin	37.8%	59.5%	35.9%	41.6%	38.7%
Add: D&A	0.5%	1.3%	3.1%	2.7%	3.0%
OIBDA margin	38.3%	60.8%	39.0%	44.3%	41.7%

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Attachment B

Net debt represents total debt less cash and cash equivalents and short-term investments. Our net debt calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare our periodic and future liquidity within the wireless telecommunications industry. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

Net debt can be reconciled to our consolidated statements of financial position as follows:

RUB mln	**As of Dec 31, 2013**	**As of Sep 30, 2014**
Current portion of debt and of capital lease obligations	25,064	11,431
Long-term debt and capital lease obligations	194,083	222,369
Total debt	**219,147**	**233,800**
Less:		
Cash and cash equivalents	30,612	45,937
Short-term investments	14,633	23,999
Net debt	**173,903**	**163,864**

Free cash-flow can be reconciled to our consolidated statements of cash flow as follows:

RUB mln54	28	93	
Imports of natural gas (Mbbl/d)	145	147	(1)

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* See definition of Capital Expenditures, Adjusted Ebitda and Adjusted Ebitda Margin in Glossary and reconciliation in Reconciliation of Consolidated Adjusted EBITDA Statement by Segment.
** Imports of regasified LNG have been considered as from the RMF 2Q-2018. Until the RMF 1Q-2018, it considered imports of LNG, regardless of its regasification within the analyzed period.

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c) GAS & POWER (G&P)

9M-2018 x 9M-2017

Gross Profit

Gross profit was lower due to foreign exchange translation effects, since the US dollar denominated portion of the costs is higher than in the revenues.

Operating income and expense

Operating income decreased as a result of higher sales expenses with the payment of tariffs for the use of gas pipelines in the Southeast grid, and expected credit losses (ECL) related to the supply of natural gas to the thermoelectric segment in the Northern Region, in addition to gains on the sale of NTS in 2Q17.

Operating Performance

Physical and Financial Indicators

Increased imports of LNG due to lower availability of domestic gas, as a result of stoppage at Mexilhão platform.

The higher volume of sales in the Free Contracting Market (ACL) was due to new sales opportunities in the short-term market. The volume reduction in the Regulated Contracting Market (RCA) resulted from the expiration of contracts.

Despite the foreign translation effects from the depreciation of Real against the U.S. dollar, the electricity price in the spot market increased due to the lower affluence at the beginning of the dry season and the fact that the reservoirs started the year at levels lower than in 2017. However, energy generation was lower than the previous year due to higher gas costs.

Distribution Summary financial information and Main Indicators

	US$ million		
	Jan-Sep		
	2018	2017	(%)
Sales revenues	21,052	20,133	5
Brazil	19,949	19,122	4
Abroad	1,103	1,011	9
Gross profit	1,266	1,493	(15)
Brazil	1,186	1,407	(16)
Abroad	80	86	(7)
Operating expenses	(640)	(914)	30
Brazil	(589)	(868)	32
Abroad	(51)	(46)	(11)
Operating income (loss)	626	579	8
Brazil	601	538	12
Abroad	25	41	(39)
Net Income (Loss) attributable to the shareholders of Petrobras	297	382	(22)
Brazil	281	356	(21)
Abroad	16	26	(38)
Adjusted EBITDA of the segment*	717	690	4
Brazil	684	645	6
Abroad	33	45	(27)
EBITDA margin of the segment (%)*	3	3	–
Capital expenditures* of the segment	90	73	23
Sales Volumes - Brazil (Mbbl/d)			
Diesel	301	298	1
Gasoline	162	188	(14)
Fuel oil	37	49	(26)
Jet fuel	53	51	5
Others	78	85	(8)
Total domestic oil products	631	672	(6)

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

d) DISTRIBUTION

9M-2018 x 9M-2017

Gross Profit

The decrease in gross profit reflected the reduction in the volume sold of gasoline and fuel oil.

Operating income and expense

Operating income increased primarily as a result of the reversal of the provision for losses on lawsuits arising from the Extraordinary Settlement Agreement signed with the State of Mato Grosso.

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IV. Liquidity and Capital Resources

	U.S.$ million	
	Jan-Sep	
	2018	2017
Adjusted cash and cash equivalents* at the beginning of period	24,404	21,989
Government bonds and time deposits with maturities of more than 3 months at the beginning of period	(1,885)	(784)
Cash and cash equivalents at the beginning of period	22,519	21,205
Net cash provided by (used in) operating activities	19,501	21,085
Net cash provided by (used in) investing activities	(3,313)	(7,241)
Acquisition of PP&E and intangibles assets	(9,388)	(9,481)
Investments in investees	(30)	(43)
Proceeds from disposal of assets - Divestment	4,915	2,953
Divestment (Investment) in marketable securities	669	(923)
Dividends received	521	253
(=) Net cash provided by operating and investing activities	16,188	13,844
Net financings	(23,446)	(11,389)
Proceeds from financing	9,008	22,644
Repayments	(32,454)	(34,033)
Dividends paid to shareholders of Petrobras	(316)	–
Dividends paid to non-controlling interest	(168)	(149)
Investments by non-controlling interest	33	(61)
Effect of exchange rate changes on cash and cash equivalents	(623)	45
Cash and cash equivalents at the end of period	14,187	23,495
Government bonds and time deposits with maturities of more than 3 months at the end of period	1,040	1,813
Adjusted cash and cash equivalents* at the end of period	15,227	25,308
Reconciliation of Free cash flow		
Net cash provided by (used in) operating activities	19,501	21,085
Acquisition of PP&E and intangibles assets, investments in investees and dividends received	(8,897)	(9,271)
Free cash flow*	10,604	11,814

As of September 30, 2018, the balance of cash and cash equivalents was US$ 14,187 million and the balance of adjusted cash and cash equivalents was US$ 15,227 million. The resources from cash provided by operating activities of US$ 19,501 million, proceeds from financing of US$ 9,008 million, proceeds from divestments of US$ 4,915 million were used for repayment of financing (and interest payments) and for capital expenditures.

Net cash provided by operating activities decreased to US$ 19,501 million, as a result of foreign exchange translation effects, payment of two installments of the agreement to settle Class Action and lower sales volumes, partially offset by higher margins in domestic sales of oil products and oil exports.

Acquisition of PP&E and intangibles assets, investments in investees and dividends received totaled US$ 8,897 million in 9M-2018, a reduction of 4%.

The above mentioned factors led to a decrease of 10% in Free cash flow, which totaled US$ 10,604 million in 9M-2018.

From January to September 2018, proceeds from financing amounted to US$ 9,008 million, in part as a result of: (i) funds raised from the domestic and international banking market in the amount of US$ 5,643 million with average term of 6.19 years; (ii) global notes issued in the capital market in the amount of US$ 1,962 million and maturing in 2029; and (iii) proceeds from Export Credit Agency amounting to US$ 1,041 million.

In addition, the Company paid debts: (i) US$ 12,816 million relating to repurchase of global bonds previously issued by the Company in the capital market, with net premium paid to bond holders amounting to US$ 305 million; and (ii) pre-payment of banking loans in the domestic and international market totaling US$ 11,974 million; and (iii) pre-payment of US$ 687 million with respect to financings with BNDES.

The nominal cash flow (cash view), including principal and interest payments, by maturity, is set out in US$ million, below:

Maturity	2018	2019	2020	2021	2022	2023 and thereafter	Balance on September 30, 2018	Balance on December 31, 2017
Principal	734	2,555	5,473	7,800	11,798	60,504	88,864	110,530
Interest	1,384	5,090	4,916	4,583	4,089	32,669	52,730	60,728
Total	2,118	7,645	10,389	12,383	15,887	93,173	141,594	171,258

*

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

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V. Consolidated debt

As of September 30, 2018, the total debt in U.S. dollars decreased 19% when compared to December 31, 2017. The net debt in U.S. dollars decreased by 14% when compared to December 31, 2017, mainly as a result of repayments of principal and interest.

Current debt and non-current debt include finance lease obligations of US$ 22 million and US$ 166 million as of September 30, 2018, respectively (US$ 25 million and US$ 204 million on December 31, 2017).

The weighted average maturity of outstanding debt reached 9.05 years as of September 30, 2018 (compared to 8.62 years as of December 31, 2017).The Average interest rate increased to 6.2% in September, 2018 from 6.1% in December 31, 2017.

The ratio between net debt and the Adjusted EBITDA* decreased to 2.62 as of September 30, 2018 from 3.53 as of December 31, 2017. The ratio between net debt and the OCF decreased to 2.90 as of September 30, 2018 from 3.20 as of December 31, 2017.

	U.S.$ million		
	09.30.2018	12.31.2017	Δ%
Current debt	4,055	7,026	(42)
Non-current debt	84,060	102,249	(18)
Total	88,115	109,275	(19)
Cash and cash equivalents	14,187	22,519	(37)
Government securities and time deposits (maturity of more than 3 months)	1,040	1,885	(45)
Adjusted cash and cash equivalents *	15,227	24,404	(38)
Net debt *	72,888	84,871	(14)
Net debt/(net debt+shareholders' equity) - Leverage *	50%	51%	(1)
Total net liabilities *	201,251	226,962	(11)
(Net third parties capital / total net liabilities)	63%	64%	(1)
Net debt/LTM Adjusted EBITDA ratio *	2.62	3.53	(26)
Average interest rate (% p.a.)	6.2	6.1	1
Total debt net of cash and cash equivalents/ LTM OCF ratio*	2.90	3.20	(9)
Weighted average maturity of outstanding debt (years)	9.05	8.62	0.43

	US$ million		
	09.30.2018	12.31.2017	Δ%
Summarized information on financing			
Floating rate or fixed rate			
Floating rate debt	44,310	53,492	(17)
Fixed rate debt	43,617	55,554	(21)
Total	87,927	109,046	(19)

Currency

Reais	16,813	21,505	(22)
US Dollars	65,190	79,687	(18)
Euro	3,549	5,373	(34)
Other currencies	2,375	2,481	(4)
Total	87,927	109,046	(19)
By maturity			
2018	1,983	7,001	(72)
2019	2,657	6,476	(59)
2020	5,339	9,641	(45)
2021	7,669	12,745	(40)
2022	11,718	18,014	(35)
2023 years on	58,561	55,169	6
Total	87,927	109,046	(19)

**

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

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VI. Reconciliation of Adjusted EBITDA and Net Debt/Adjusted EBITDA Metric

LTM Adjusted EBITDA reflects the sum of the last twelve months of Adjusted EBITDA and represents an alternative measure to our net cash provided by operating activities and is computed by using the EBITDA (net income before net finance income (expense), income taxes, depreciation, depletion and amortization) adjusted by items not considered part of Company's primary business, which include results in equity-accounted investments, impairment, cumulative foreign exchange adjustments reclassified to the income statement and results from disposal and write-offs of assets.

In calculating Adjusted EBITDA for Jan-Sep/2018, we adjusted our EBITDA for the period by adding foreign exchange gains and losses resulting from provisions for legal proceedings denominated in foreign currencies. Legal provisions in foreign currencies primarily consist Petrobras's portion of the class action settlement provision created in December 2017. The foreign exchange gains or losses on legal provisions are presented in other income and expenses for accounting purposes but management does not consider them to be part of the Company's primary business. In addition, they are substantially similar to the foreign exchange effects presented within net finance income. No adjustments have been made to the comparative measures presented as amounts were not significant in these periods.

This measure is used to calculate the metric Net Debt/ LTM Adjusted EBITDA, which is established in the business plan 2018-2022, to support management's assessment of liquidity and leverage.

Net Debt reflects the gross debt net of cash and cash equivalents, government bonds and time deposits from highly rated financial institutions abroad with maturities of more than 3 months from the date of acquisition, considering the expected realization of those financial investments in the short-term.

The Adjusted EBITDA is an alternative performance measure for the Company. This measure is being presented as a supplementary information to readers.

EBITDA, Adjusted EBITDA , LTM Adjusted EBITDA and Net debt/Adjusted EBITDA are not defined in the International Financial Reporting Standards – IFRS. Our calculation may not be comparable to the calculation of other companies and it should not be considered in isolation or as a substitute for any measure calculated in accordance with IFRS. These measures must be considered together with other measures and indicators for a better understanding of the Company's financial conditions.

Adjusted EBITDA

	U.S.$ million		
	Jan-Sep		
	2018	2017	(%)
Net income (loss)	6,633	1,823	264
Net finance income (expenses)	4,447	7,555	(41)
Income taxes	3,834	2,800	37
Depreciation, depletion and amortization	9,159	10,090	(9)
EBITDA	24,073	22,268	8
Results in equity-accounted investments	(491)	(524)	6
Impairment	349	110	217
Reclassification of cumulative translation adjustment - CTA	–	37	(100)
Gains and losses on disposal/write-offs of assets (*)	(626)	(1,852)	66

Foreign exchange gains or losses on provisions for legal proceedings	539	–	
Adjusted EBITDA	23,844	20,039	19
Adjusted EBITDA margin (%)	33	31	2

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LTM Adjusted EBITDA

	US$ million					
	Last twelve months (LTM) at					
	09.30.2018	12.31.2017	4Q-2017	1Q-2018	2Q-2018	3Q-2018
Net income (loss)	4,979	169	(1,654)	2,196	2,688	1,749
Net finance income (expenses)	6,787	9,895	2,340	2,235	734	1,478
Income taxes	2,862	1,828	(972)	1,219	1,286	1,329
Depreciation, depletion and amortization	12,376	13,307	3,217	3,409	3,041	2,709
EBITDA	27,004	25,199	2,931	9,059	7,749	7,265
Results in equity-accounted investments	(640)	(673)	(149)	(158)	(86)	(247)
Impairment	1,430	1,191	1,081	18	(49)	380
Reclassification of cumulative translation adjustment - CTA	–	37	–	–	–	–
Gains and losses on disposal/write-offs of assets *	(489)	(1,715)	137	(1,005)	316	63
Foreign exchange gains or losses on provisions for legal proceedings	539	–	–	31	410	98
Adjusted EBITDA	27,844	24,039	4,000	7,945	8,340	7,559
Income taxes	(2,862)	(1,828)	972	(1,219)	(1,286)	(1,329)
Allowance (reversals) for impairment of trade and others receivables	995	708	73	137	288	497
Trade and other receivables, net	(2,711)	(978)	(204)	558	(1,898)	(1,167)
Inventories	(3,289)	(336)	(649)	(352)	(1,493)	(795)
Trade payables	1,516	(62)	20	(418)	666	1,248
Deferred income taxes, net	(559)	467	(1,001)	195	147	100
Taxes payable	1,291	2,153	561	143	585	2
Others	3,303	2,949	2,255	(140)	1,750	(562)
Net cash provided by operating activities -OCF	25,528	27,112	6,027	6,849	7,099	5,553

Net Debt/Adjusted EBITDA Metric

The Net debt/Adjusted EBITDA ratio is an important metric used in our 2018-2022 Plan that supports our management in assessing the liquidity and leverage of Petrobras Group.

In order to translate the items comprising this metric into the presentation currency of the Company's financial statements (U.S. dollars), the Company applied the same foreign exchange translation method as set out IAS 21 - The effects of changes in foreign exchanges rates (see note 2.2 to the interim financial statements for September 30, 2018). Accordingly, assets and liabilities items were translated into U.S. dollars at the exchange rate as of the date of the statement of financial position, and all items pertaining to the statement of income and statement of cash flows were translated at the average rates prevailing at each quarter of the years.

The Company has pursued a 2.5 target ratio based on our net debt and Adjusted EBITDA computed in reais and, depending on the foreign translation effects on items that comprise this metric, the Net Debt/Adjusted EBITDA may significantly differ or even present a different trend when calculated in USD.

The following table presents, in both currencies, the reconciliation for this metric to the most directly comparable GAAP measure in accordance with IFRS, which is in this case the Gross Debt Net of Cash and Cash Equivalents / Net Cash provided by operating activities ratio:

* Includes results with disposal and write-offs of assets and re-measurement of remaining interests at fair value.

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	R$ million		US$ million	
	09.30.2018	12.31.2017	09.30.2018	12.31.2017
Cash and cash equivalents	56,803	74,494	14,187	22,519
Government securities and time deposits (maturity of more than three months)	4,164	6,237	1,040	1,885
Adjusted cash and cash equivalents	60,967	80,731	15,227	24,404
Current and non-current debt - Gross Debt	352,801	361,483	88,115	109,275
Net debt	291,834	280,752	72,888	84,871
Net cash provided by operating activities -OCF	89,305	86,467	25,528	27,112
Income taxes	(10,686)	(5,797)	(2,862)	(1,828)
Impairment of trade and others receivables	3,683	2,271	995	708
Trade and other receivables, net	(10,308)	(3,140)	(2,711)	(978)
Inventories	(11,774)	(1,130)	(3,289)	(336)
Trade payables	6,043	(160)	1,516	(62)
Deferred income taxes, net	(1,689)	1,452	(559)	467
Taxes payable	4,401	6,911	1,291	2,153
Others	10,958	9,503	3,303	2,949
Adjusted EBITDA	98,677	76,557	27,844	24,039
Gross debt net of cash and cash equivalents/OCF ratio	3.27	3.25	2.90	3.20
Net debt/Adjusted EBITDA ratio	2.96	3.67	2.62	3.53

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VII. Foreign Exchange Translation Effects on Results of Operations of Jan-Sep/2018

The main functional currency of the Petrobras Group is the Brazilian real, which is the functional currency of the parent company and its Brazilian subsidiaries. However, the presentation currency of this financial report is the U.S. Dollar to facilitate the comparison with other oil and gas companies. Therefore, the results of operations in Brazilian real were translated into U.S. dollars using the average exchange rates prevailing during the period, as set out in IAS 21 – “The effects of foreign exchanges rates”.

When the Brazilian real appreciates against the U.S. dollar, the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. When the Brazilian real depreciates against the U.S. dollar, as it did in Jan-Sep/2018, the effect is to generally decrease both revenues and expenses when expressed in U.S. dollars.

In order to isolate the foreign exchange translation effect on results of operations, the table below presents a reconciliation of income statement to financial information on a constant currency basis, assuming the same exchange rates between each quarter for translation. In 2018, the results on a constant currency basis were computed by converting the 1Q-2018, 2Q-2018 and 3Q-2018 results from Brazilian real into U.S. dollars based on the same average exchange rates used in 1Q-2017, 2Q-2017 and 3Q-2017 (3.1451, 3.2174 and 3.1640, respectively).

The amounts and respective variations presented in constant currency are not measures defined in the International Financial Reporting Standards – IFRS. Our calculation may not be comparable to the calculation of other companies and it should not be considered as a substitute for any measure calculated in accordance with IFRS.

	As reported Jan-Sep		Variation		Financial information in a constant currency basis Jan-Sep 2018		Variation *	
	U.S.$ million				U.S.$ million			
	2018	2017	Δ	Δ (%)	Foreign exchange translation effects	Results on a constant currency basis	Δ	Δ (%)
Sales revenues	71,238	65,260	5,978	9	(9,724)	80,962	15,702	24
Cost of sales	(45,443)	(44,343)	(1,100)	(2)	6,228	(51,671)	(7,328)	(17)
Gross profit	25,795	20,917	4,878	23	(3,496)	29,291	8,374	40
Selling expenses	(4,083)	(3,308)	(775)	(23)	570	(4,653)	(1,345)	(41)
General and administrative expenses	(1,832)	(2,198)	366	17	234	(2,066)	132	6
Exploration costs	(402)	(494)	92	19	51	(453)	41	8
Research and development expenses	(476)	(412)	(64)	(16)	63	(539)	(127)	(31)
Other taxes	(448)	(1,367)	919	67	67	(515)	852	62
Other income and expenses	(4,131)	(1,484)	(2,647)	(178)	711	(4,842)	(3,358)	(226)
Operating income	14,423	11,654	2,769	24	(1,800)	16,223	4,569	39
Net finance income (expense)	(4,447)	(7,555)	3,108	41	526	(4,973)	2,582	34
Results in equity-accounted investments	491	524	(33)	(6)	(75)	566	42	8
Income before income taxes	10,467	4,623	5,844	126	(1,351)	11,818	7,195	156
Income taxes	(3,834)	(2,800)	(1,034)	(37)	525	(4,359)	(1,559)	(56)
Net income	6,633	1,823	4,810	264	(826)	7,459	5,636	309

* Variation after isolating foreign exchange translation effects between periods used for translation.

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VIII. SUMMARY OF UNAUDITED INTERIM FINANCIAL STATEMENTS

Income Statement - Consolidated

	U.S.$ million	
	Jan-Sep	
	2018	2017
Sales revenues	71,238	65,260
Cost of sales	(45,443)	(44,343)
Gross profit	25,795	20,917
Selling expenses	(4,083)	(3,308)
General and administrative expenses	(1,832)	(2,198)
Exploration costs	(402)	(494)
Research and development expenses	(476)	(412)
Other taxes	(448)	(1,367)
Other income and expenses	(4,131)	(1,484)
	(11,372)	(9,263)
Operating income (loss)	14,423	11,654
Finance income	2,185	857
Finance expenses	(4,490)	(5,678)
Foreign exchange gains (losses) and inflation indexation charges	(2,142)	(2,734)
Net finance income (expense)	(4,447)	(7,555)
Results in equity-accounted investments	491	524
Income (loss) before income taxes	10,467	4,623
Income taxes	(3,834)	(2,800)
Net income (loss)	6,633	1,823
Net income (loss) attributable to:		
Non-controlling interests	11	227
Shareholders of Petrobras	6,622	1,596

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Statement of Financial Position – Consolidated

ASSETS	U.S.$ million	
	09.30.2018	12.31.2017
Current assets	37,514	47,131
Cash and cash equivalents	14,187	22,519
Marketable securities	1,040	1,885
Trade and other receivables, net	6,409	4,972
Inventories	9,707	8,489
Recoverable taxes	2,357	2,437
Assets classified as held for sale	377	5,318
Other current assets	3,437	1,511
Non-current assets	178,964	204,235
Long-term receivables	20,374	21,450
Trade and other receivables, net	4,452	5,175
Marketable securities	50	64
Judicial deposits	6,040	5,582
Deferred taxes	3,990	3,438
Other tax assets	2,425	3,075
Advances to suppliers	745	1,032
Other non-current assets	2,672	3,084
Investments	3,346	3,795
Property, plant and equipment	152,533	176,650
Intangible assets	2,711	2,340
Total assets	216,478	251,366

LIABILITIES	U.S.$ million	
	09.30.2018	12.31.2017
Current liabilities	23,495	24,948
Trade payables	6,858	5,767
Finance debt and Finance lease obligations	4,055	7,026
Taxes payable	4,068	4,847
Payroll and related charges	1,694	1,309
Pension and medical benefits	748	844
Provisions for legal proceedings	3,016	2,256
Liabilities related to assets classified as held for sale	38	391
Agreement with US Authorities	883	–
Other current liabilities	2,135	2,508
Non-current liabilities	119,011	144,916
Finance debt and Finance lease obligations	84,060	102,249
Income taxes payable	540	671
Deferred taxes	436	1,196
Pension and medical benefits	18,111	20,986
Provisions for legal proceedings	3,041	4,770
Provision for decommissioning costs	11,896	14,143
Other non-current liabilities	927	901
Shareholders' equity	73,972	81,502
Share capital (net of share issuance costs)	107,101	107,101
Profit reserves and others	(34,580)	(27,299)
Non-controlling interests	1,451	1,700

Total liabilities and shareholders' equity	216,478	251,366

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Statement of Cash Flows – Consolidated

	US$ million	
	Jan-Sep	
	2018	2017
Cash flows from Operating activities		
Net income for the period	6,633	1,823
Adjustments for:		
Pension and medical benefits (actuarial expense)	1,630	2,056
Results in equity-accounted investments	(491)	(524)
Depreciation, depletion and amortization	9,159	10,090
Impairment of assets (reversal)	349	110
Inventory write-down to net realizable value	36	67
Allowance (reversals) for expected credit loss on trade and others receivables	922	635
Exploratory expenditures write-offs	72	225
Gains and losses on disposals/write-offs of assets	(626)	(1,635)
Foreign exchange, indexation and finance charges	6,120	7,397
Deferred income taxes, net	442	1,468
Reclassification of cumulative translation adjustment and other comprehensive income	–	59
Revision and unwinding of discount on the provision for decommissioning costs	500	573
Gain on remeasurement of investment retained with loss of control	–	(217)
Decrease (Increase) in assets		
Trade and other receivables, net	(2,507)	(774)
Inventories	(2,640)	313
Judicial deposits	(1,568)	(580)
Other assets	(1,320)	(164)
Increase (Decrease) in liabilities		
Trade payables	1,496	(82)
Other taxes payable	2,615	2,263
Income taxes paid	(1,885)	(727)
Pension and medical benefits	(736)	(620)
Other liabilities	1,300	(671)
Net cash provided by operating activities	19,501	21,085
Cash flows from Investing activities		
Acquisition of PP&E and intangibles assets	(9,388)	(9,481)
Investments in investees	(30)	(43)
Proceeds from disposal of assets - Divestment	4,915	2,953
Divestment (Investment) in marketable securities	669	(923)
Dividends received	521	253
Net cash provided by (used in) investing activities	(3,313)	(7,241)
Cash flows from Financing activities		
Investments by non-controlling interest	33	(61)
Loans and financing, net:		
Proceeds from financing	9,008	22,644
Repayment of principal	(27,914)	(28,565)
Repayment of interest	(4,540)	(5,468)
Dividends paid to Shareholders of Petrobras	(316)	–
Dividends paid to non-controlling interests	(168)	(149)
Net cash used in financing activities	(23,897)	(11,599)
Effect of exchange rate changes on cash and cash equivalents	(623)	45

Net increase (decrease) in cash and cash equivalents	(8,332)	2,290
Cash and cash equivalents at the beginning of the period	22,519	21,205
Cash and cash equivalents at the end of the period	14,187	23,495

IX. SEGMENT INFORMATION

Consolidated Income by Segment – Jan-Sep/2018

U.S.$ million	E&P	RTM	GAS & POWER	BIOFUEL	DISTRIB.	CORP.	ELIMIN.	TOTAL
Sales revenues	39,049	54,519	9,141	187	21,052	–	(52,710)	71,238
Intersegments	37,369	12,440	2,463	174	264	–	(52,710)	–
Third parties	1,680	42,079	6,678	13	20,788	–	–	71,238
Cost of sales	(22,158)	(48,123)	(6,770)	(175)	(19,786)	–	51,569	(45,443)
Gross profit	16,891	6,396	2,371	12	1,266	–	(1,141)	25,795
Expenses	(2,007)	(2,055)	(2,298)	(18)	(640)	(4,326)	(28)	(11,372)
Selling expenses	(63)	(1,278)	(1,916)	(2)	(662)	(142)	(20)	(4,083)
General and administrative expenses	(187)	(284)	(112)	(15)	(172)	(1,061)	(1)	(1,832)
Exploration costs	(402)	–	–	–	–	–	–	(402)
Research and development expenses	(330)	(8)	(18)	–	(1)	(119)	–	(476)
Other taxes	(96)	(86)	(33)	(3)	(63)	(167)	–	(448)
Other income and expenses	(929)	(399)	(219)	2	258	(2,837)	(7)	(4,131)
Operating income (loss)	14,884	4,341	73	(6)	626	(4,326)	(1,169)	14,423
Net finance income (expense)	–	–	–	–	–	(4,447)	–	(4,447)
Results in equity-accounted investments	67	358	72	(4)	(2)	–	–	491
Income (loss) before income taxes	14,951	4,699	145	(10)	624	(8,773)	(1,169)	10,467
Income taxes	(5,056)	(1,476)	(26)	2	(214)	2,539	397	(3,834)
Net income (loss)	9,895	3,223	119	(8)	410	(6,234)	(772)	6,633
Net income (loss) attributable to:								
Non-controlling interests	(4)	(43)	103	–	113	(158)	–	11
Shareholders of Petrobras	9,899	3,266	16	(8)	297	(6,076)	(772)	6,622

Consolidated Income by Segment – Jan-Sep/2017

U.S.$ million	E&P	RTM	GAS & POWER	BIOFUEL	DISTRIB.	CORP.	ELIMIN.	TOTAL
Sales revenues	30,739	49,722	8,844	156	20,133	–	(44,334)	65,260
Intersegments	29,721	11,958	2,201	148	306	–	(44,334)	–
Third parties	1,018	37,764	6,643	8	19,827	–	–	65,260
Cost of sales	(20,560)	(43,327)	(6,367)	(164)	(18,640)	–	44,715	(44,343)
Gross profit	10,179	6,395	2,477	(8)	1,493	–	381	20,917
Expenses	(2,813)	(2,149)	494	(11)	(914)	(3,924)	54	(9,263)
Selling expenses	(97)	(1,305)	(1,239)	(2)	(750)	25	60	(3,308)
General and administrative expenses	(240)	(345)	(130)	(18)	(204)	(1,261)	–	(2,198)
Exploration costs	(494)	–	–	–	–	–	–	(494)
Research and development expenses	(249)	(9)	(22)	–	–	(132)	–	(412)
Other taxes	(72)	(105)	(226)	(6)	(38)	(920)	–	(1,367)
Other income and expenses	(1,661)	(385)	2,111	15	78	(1,636)	(6)	(1,484)

Operating income (loss)	7,366	4,246	2,971	(19)	579	(3,924)	435	11,654
Net finance income (expense)	–	–	–	–	–	(7,555)	–	(7,555)
Results in equity-accounted investments	81	377	91	(25)	–	–	–	524
Income (loss) before income taxes	7,447	4,623	3,062	(44)	579	(11,479)	435	4,623
Income taxes	(2,502)	(1,444)	(1,011)	6	(197)	2,496	(148)	(2,800)
Net income (loss)	4,945	3,179	2,051	(38)	382	(8,983)	287	1,823
Net income (loss) attributable to:								
Non-controlling interests	14	(26)	89	–	–	150	–	227
Shareholders of Petrobras	4,931	3,205	1,962	(38)	382	(9,133)	287	1,596

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Other Income and Expenses by Segment – Jan-Sep/2018

	U.S.$ million							
	E&P	RTM	GAS & POWER	BIOFUEL	DISTRIB.	CORP.	ELIMIN.	TOTAL
Pension and medical benefits - retirees	–	–	–	–	–	(1,133)	–	(1,133)
Unscheduled stoppages and pre-operating expenses	(802)	(20)	(87)	–	–	(3)	–	(912)
Agreement with US Authorities	–	–	–	–	–	(895)	–	(895)
Gains / (losses) related to legal, administrative and arbitration proceedings	(129)	(102)	(146)	(1)	257	(628)	–	(749)
Gains/(losses) with Commodities Derivatives	–	–	–	–	–	(608)	–	(608)
Profit sharing	(167)	(102)	(17)	(1)	(17)	(134)	–	(438)
Employee Career and Compensation Plan - PCR	(138)	(52)	(10)	–	–	(89)	–	(289)
Institutional relations and cultural projects	–	(2)	–	–	(25)	(108)	–	(135)
Operating expenses with thermoelectric power plants	–	–	(68)	–	–	–	–	(68)
Health, safety and environment	(20)	(10)	–	–	–	(23)	–	(53)
Allowance for impairment of other receivables	3	(77)	7	–	–	39	–	(28)
Voluntary Separation Incentive Plan - PIDV	–	1	–	–	(5)	1	–	(3)
Impairment	(376)	47	(20)	–	–	–	–	(349)
Government grants	2	2	29	2	–	24	–	59
Ship/Take or Pay agreements	–	31	23	–	7	1	–	62
Expenses/Reimbursements from E&P partnership operations	222	–	–	–	–	–	–	222
Amounts recovered from Lava Jato investigation	–	–	–	–	–	440	–	440
Gains / (losses) on disposal/write-offs of assets (*)	610	(42)	(17)	–	6	69	–	626
Others	(134)	(73)	87	2	35	210	(7)	120
	(929)	(399)	(219)	2	258	(2,837)	(7)	(4,131)

Other Income and Expenses by Segment – Jan-Sep/2017

U.S.$ million							
E&P	RTM	GAS & POWER	BIOFUEL	DISTRIB.	CORP.	ELIMIN.	TOTAL

Pension and medical benefits - retirees	–	–	–	–	–	(1,445)	–	(1,445)
Unscheduled stoppages and pre-operating expenses	(1,089)	(30)	(75)	–	–	(1)	–	(1,195)
Gains / (losses) related to legal, administrative and arbitration proceedings	(423)	(136)	(149)	(1)	(32)	(119)	–	(860)
Profit sharing	(35)	(22)	(3)	–	(5)	(33)	–	(98)
Institutional relations and cultural projects	(1)	(2)	–	–	(31)	(118)	–	(152)
Operating expenses with thermoelectric power plants	–	–	(56)	–	–	–	–	(56)
Health, safety and environment	(9)	(6)	(2)	–	–	(33)	–	(50)
Allowance for impairment of other receivables	(469)	(8)	–	–	–	(19)	–	(496)
Voluntary Separation Incentive Plan - PIDV	52	(13)	44	–	45	109	–	237
Impairment	–	(36)	(74)	–	–	–	–	(110)
Government grants	3	10	54	3	–	–	–	70
Ship/Take or Pay agreements	1	48	371	–	6	–	–	426
Expenses/Reimbursements from E&P partnership operations	271	–	–	–	–	–	–	271
Amounts recovered from Lava Jato investigation	–	–	–	–	–	48	–	48
Gains / (losses) on disposal/write-offs of assets (*)	(189)	(128)	1,944	3	10	(5)	–	1,635
Reclassification of cumulative translation adjustments - CTA	–	–	–	–	–	(37)	–	(37)
Gain on remeasurement of investment retained with loss of control	–	–	217	–	–	–	–	217
Others	227	(62)	(160)	10	85	17	(6)	111
	(1,661)	(385)	2,111	15	78	(1,636)	(6)	(1,484)

* In 2018, it primarily comprises divestment results. In 2017, it primarily includes returned areas, canceled projects and the gain on the divestment of NTS.

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Consolidated Assets by Segment – 09.30.2018

	U.S.$ million							
	E&P	RTM	GAS & POWER	BIOFUEL	DISTRIB.	CORP.	ELIMIN.	TOTAL
Total assets	126,758	45,631	14,997	169	5,195	28,075	(4,347)	216,478
Current assets	3,914	13,747	2,040	55	2,715	19,392	(4,349)	37,514
Non-current assets	122,844	31,884	12,957	114	2,480	8,683	2	178,964
Long-term receivables	7,532	3,028	1,008	2	834	7,930	40	20,374
Investments	1,253	1,299	749	41	–	4	–	3,346
Property, plant and equipment	112,054	27,390	10,967	71	1,459	630	(38)	152,533
Operating assets	86,244	23,897	8,542	69	1,261	416	(38)	120,391
Assets under construction	25,810	3,493	2,425	2	198	214	–	32,142
Intangible assets	2,005	167	233	–	187	119	–	2,711

Consolidated Assets by Segment – 12.31.2017

	U.S.$ million							
	E&P	RTM	GAS & POWER	BIOFUEL	DISTRIB.	CORP.	ELIMIN.	TOTAL
Total assets	144,619	51,066	18,555	190	6,121	36,746	(5,931)	251,366
Current assets	7,575	12,670	1,811	64	2,961	27,472	(5,422)	47,131
Non-current assets	137,044	38,396	16,744	126	3,160	9,274	(509)	204,235
Long-term receivables	7,619	3,330	2,395	4	1,074	7,489	(461)	21,450
Investments	1,429	1,492	830	33	5	6	–	3,795
Property, plant and equipment	126,487	33,400	13,231	89	1,862	1,629	(48)	176,650
Operating assets	91,386	29,217	10,580	85	1,603	1,306	(48)	134,129
Assets under construction	35,101	4,183	2,651	4	259	323	–	42,521
Intangible assets	1,509	174	288	–	219	150	–	2,340

The Adjusted EBITDA by Segment is an alternative performance measure of each segment of the Company. This measure is being presented as a supplementary information to the readers, may not be comparable to other companies and should not be considered in isolation or as a substitute for any measure calculated in accordance with IFRS.

Reconciliation of Consolidated Adjusted EBITDA by Segment – Jan-Sep/2018

	U.S.$ million							
	E&P	RTM	GAS & POWER	BIOFUEL	DISTRIB.	CORP.	ELIMIN.	TOTAL
Net income (loss)	9,895	3,223	119	(8)	410	(6,234)	(772)	6,633
Net finance income (expenses)	–	–	–	–	–	4,447	–	4,447
Income taxes	5,056	1,476	26	(2)	214	(2,539)	(397)	3,834
Depreciation, depletion and amortization	6,859	1,619	483	4	97	97	–	9,159
EBITDA	21,810	6,318	628	(6)	721	(4,229)	(1,169)	24,073
Results in equity-accounted investments	(67)	(358)	(72)	4	2	–	–	(491)
Impairment	376	(47)	20	–	–	–	–	349
Reclassification of cumulative translation adjustment - CTA	–	–	–	–	–	–	–	–
Gains and losses on disposal/write-offs of assets **	(610)	42	17	–	(6)	(69)	–	(626)
Foreign exchange gains or losses on provisions for legal proceedings	–	–	–	–	–	539	–	539
Adjusted EBITDA *	21,509	5,955	593	(2)	717	(3,759)	(1,169)	23,844

Reconciliation of Consolidated Adjusted EBITDA by Segment – Jan-Sep/2017

*

	U.S.$ million							
	E&P	RTM	GAS & POWER	BIOFUEL	DISTRIB.	CORP.	ELIMIN.	TOTAL
Net income (loss)	4,945	3,179	2,051	(38)	382	(8,983)	287	1,823
Net finance income (expenses)	–	–	–	–	–	7,555	–	7,555
Income taxes	2,502	1,444	1,011	(6)	197	(2,496)	148	2,800
Depreciation, depletion and amortization	7,397	1,829	606	4	121	133	–	10,090
EBITDA	14,844	6,452	3,668	(40)	700	(3,791)	435	22,268
Results in equity-accounted investments	(81)	(377)	(91)	25	–	–	–	(524)
Impairment	–	36	74	–	–	–	–	110
Reclassification of cumulative translation adjustment - CTA	–	–	–	–	–	37	–	37
Gains and losses on disposal/write-offs of assets **	189	128	(2,160)	(3)	(10)	4	–	(1,852)

Adjusted EBITDA *	14,952	6,239	1,491	(18)	690	(3,750)	435	20,039

* See definition of Adjusted EBITDA in glossary.
** Includes results with disposal and write-offs of assets and re-measurement of remaining interests at fair value.

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X - Glossary

ACL - Ambiente de Contratação Livre (Free contracting market) in the electricity system.

ACR - Ambiente de Contratação Regulada (Regulated contracting market) in the electricity system.

Adjusted cash and cash equivalents - Sum of cash and cash equivalents, government bonds and time deposits from highly rated financial institutions abroad with maturities of more than 3 months from the date of acquisition, considering the expected realization of those financial investments in the short-term. This measure is not defined under the International Financial Reporting Standards – IFRS and should not be considered in isolation or as a substitute for cash and cash equivalents computed in accordance with IFRS. It may not be comparable to adjusted cash and cash equivalents of other companies, however management believes that it is an appropriate supplemental measure to assess our liquidity and supports leverage management.

Adjusted EBITDA – Net income plus net finance income (expense); income taxes; depreciation, depletion and amortization; results in equity-accounted investments; impairment, cumulative translation adjustment and gains/losses on disposal/write-offs of assets. Adjusted EBITDA is not a measure defined by IFRS and it is possible

that it may not be comparable to similar measures reported by other companies, however management believes that it is an appropriate supplemental measure to assess our profitability. Adjusted EBITDA shall be considered in conjunction with other metrics for a better understanding on our performance.

Adjusted EBITDA margin - Adjusted EBITDA divided by sales revenues.

ANP - Brazilian National Petroleum, Natural Gas and Biofuels Agency.

Basic and diluted earnings (losses) per share - Calculated based on the weighted average number of shares.

Capital Expenditures – Capital expenditures based on the cost assumptions and financial methodology adopted in our Business and Management Plan, which include acquisition of PP&E and intangibles assets, investment in investees and other items that do not necessarily qualify as cash flows used in investing activities, primarily geological and geophysical expenses, research and development expenses, pre-operating charges, purchase of property, plant and equipment on credit and borrowing costs

Free cash flow - Net cash provided by operating activities less acquisition of PP&E and intangibles assets, investments in investees and dividends received.. Free cash flow is not defined under the IFRS and should not be considered in isolation or as a substitute for cash and cash equivalents calculated in accordance with IFRS. It may not be comparable to free cash flow of other companies, however management believes that it is an appropriate supplemental measure to assess our liquidity and supports leverage management.

Gross Margin - Gross profit over sales revenues.

Jet fuel – Aviation fuel.

Leverage – Ratio between the Net Debt and the sum of Net Debt and Shareholders' Equity. Leverage is not a measure defined in the IFRS and it is possible that it may not be comparable to similar measures reported by other companies, however management believes that it is an appropriate supplemental measure to assess our liquidity.

Lifting Cost - Crude oil and natural gas lifting cost indicator, which considers expenditures occurred in the period.

LNG - Liquified natural gas.

LPG - Liquified crude oil gas.

Net Debt – Gross debt less adjusted cash and cash equivalents. Net debt is not a measure defined in the IFRS and should not be considered in isolation or as a substitute for total long-term debt calculated in accordance with IFRS. Our calculation of net debt may not be comparable to the calculation of net debt by other companies. Management believes that net debt is an appropriate supplemental measure that helps investors assess our liquidity and supports leverage management.

Net Income by Business Segment - Company's segment results. Petrobras is an integrated energy company and most of the crude oil and natural gas production from the Exploration & Production segment is transferred to other business segments directly attributable to works in progress.

Consolidated Structured Entities - Entities that have been designated so that voting or similar rights are not the determining factor that decides who controls the entity. Petrobras has no share of earnings in investments in certain structured entities that are consolidated in the financial statements, but the control is determined by the power it has over its relevant operating activities. As there are no interests, the result came from certain consolidated structured entities is attributable to non-controlling interests in the income statement, and it is not considered on net income attributable to shareholders of Petrobras.

CTA – Cumulative translation adjustment – The cumulative amount of exchange variation arising on translation of foreign operations that is recognized in Shareholders' Equity and will be transferred to profit or loss on the disposal of the investment.

Domestic crude oil sales price - Average of the internal transfer prices from Exploration & Production to Refining, Transportation and Marketing.

Domestic natural gas production - Natural gas production in Brazil less LNG plus gas reinjection.

Effect of average cost in the Cost of Sales – In view of the average inventory term of 60 days, the crude oil and oil products international prices movement, as well as foreign exchange effect over imports, production taxes and other factors that impact costs, do not entirely influence the cost of sales in the current period, having their total effects only in the following period.

Feedstock processed – Brazil - Daily volume of crude oil and NGL processed.

Feedstock processed (excluding NGL) - Daily volume of crude oil processed in the Company´s refineries in Brazil and is factored into the calculation of the Refining Plants Utilization Factor.

of the Company. Our results by business segment include transactions carried out with third parties, transactions between companies of Petrobras's Group and transfers between Petrobras's business segments that are calculated using internal prices defined through methodologies based on market parameters.

Net Margin - Net income (loss) over sales revenues.

NGL - Natural gas liquids.

OCF - Net Cash provided by (used in) operating activities (operating cash flow)

Operating indicators - Indicators used for businesses management and are not reviewed by independent auditor.

Operating Margin - Operating income (loss) over sales revenues.

PLD (differences settlement price) - Electricity price in the spot market. Weekly weighed prices per output level (light, medium and heavy), number of hours and related market capacity.

Reference feedstock or installed capacity of primary processing - Maximum sustainable feedstock processing reached at the distillation units at the end of each period, respecting the project limits of equipment and the safety, environment and product quality requirements. It is lower than the authorized capacity set by ANP (including temporary authorizations) and by environmental protection agencies.

Refining plants utilization factor (%) - Feedstock processed (excluding NGL) divided by the reference feedstock.

Total net liabilities - Total liability less adjusted cash and cash equivalents.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 6, 2018.

PETRÓLEO BRASILEIRO S.A—PETROBRAS

By: /s/ Rafael Salvador Grisolia

Rafael Salvador Grisolia

Chief Financial Officer and Investor Relations Officer