PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
May 12, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of May, 2014

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____

Rio de Janeiro – May 09, 2014

Petrobras announces today its consolidated results stated in millions of U.S. dollars, prepared in
accordance with International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board - IASB.

Consolidated net income attributable to the shareholders of Petrobras reached US$ 2,280 million in the 1Q-2014. Adjusted EBITDA reached US$ 6,068 million in the 1Q-2014.

Highlights

Jan-Mar

2,760	(17)	**Consolidated net income attributable to the shareholders of Petrobras**	2,280	3,854	(41)

2,534	−	**Total domestic and international crude oil and natural gas production (Mbbl/d)**	2,531	2,552	(1)

6,832	(11)	**Adjusted EBITDA**	6,068	8,133	(25)

The Company reported 1Q-2014 earnings of US$ 2,280 million and the following highlights:

- Lower domestic crude oil and NGL production (a 2% decrease, 38 thousand barrels/day) compared with 4Q-2013, resulting from the demobilization of FPSO – Brazil (Roncador) and to the stoppage of P-20 platform (Marlim). The Company reached a record level of average monthly production at the pre-salt layer in March of 395 thousand bpd.

- Production start-up of new systems: P-58 and the successful connection of 9-SPS-77A well to FPSO Cid. São Paulo (Sapinhoá), through a pioneering system RSB (Riser Support Buoy - Riser Supported by a submerged Buoy).

- Higher feedstock processed (a 1% increase, 19 thousand barrels/day) compared to the 4Q-2013, with a crude oil processing record in March and increased domestic oil product production, which reduced the share of oil product imports in our sales mix.

- Issuance of Global Notes in the amount of EUR 3.0 billion and £ 0.6 billion (equivalent to US$ 5.1 billion); and US$ 8.5 billion, to finance our Business and Management Plan.

- 8,298 employees enrolled in our Voluntary Separation Incentive Plan (PIDV) and the US$ 1,014 million expected to be paid was recognized as other operating expenses.

- On April 25 the Company paid the first and only installment of our dividend distribution for 2013 of US$ 0.22969 per common share and U.S.$ 0.42583 per preferred share (translated at the closing date exchange rate for 2013), paid in the form of interest on capital. Amounts were restated and indexed to the Selic interest rate.

Comments from the CEO

Mrs. Maria das Graças Silva Foster

Dear Shareholders and Investors,

Our net income before finance income (expense), share of profit of equity-accounted investments, profit sharing and income taxes in the first quarter of 2014 was US$ 3.2 billion, up 4% on the fourth quarter of 2013. This increase is explained by higher prices of oil products, due to the diesel and gasoline increases that took place in November 2013, and by the lower share of imported oil products in the domestic market sales. There was an increase in operating expenses due to the extraordinary provision of US$ 1.0 billion related to the Voluntary Separation Incentive Plan (PIDV).

The consolidated net income attributable to the shareholders of Petrobras was US$ 2.3 billion, down 17% on the previous quarter (US$ 2.8 billion), mainly due to the tax benefit of US$ 1.4 billion related to the provision of interest on capital that took place in the 4Q-2013. The provision of PIDV also resulted on an impact of US$ 0.7 billion in the net income of the 1Q-2014.

Our average oil and NGL production in Brazil was 1,922 th. bpd in the 1Q-2014, down 1.9% on 4Q-2013, impacted by the decommissioning of FPSO-Brasil (Roncador field) and by the production halt in the P-20 platform (Marlim field) for 103 days because of damages caused by a fire that affected its chemicals system in December 2013. P-20 platform returned into operation on April 7.

We highlight that, on March 17, we had the first oil from P-58 (Whales Park) whose current production is 50 th. bpd via three wells. Also in March, average oil production of the pre-salt fields reached a monthly record of 395 th. bpd. On March 19, we reached a new daily record of 420 th. bpd. It is important to underscore that this record was broken again, first on April 15, with 428 th. bpd, and then on April 18, with 444 th. bpd, due to the ramp-up of P-58 and start-up of the second well in the buoy (Buoyancy Support Riser - BSR1) of FPSO Cidade de São Paulo in Sapinhoá field.

We also highlight the procedures to start-up the first well of P-62 (Roncador field) on this May 9. As for the buoys, the installation of the four units has been completed and the first well of BSR2, interconnected to FPSO Cidade de Paraty (Lula NE field) also started operation on this May 9.

We are confident that we will achieve a production growth target of 7.5% (+/- 1 percentage point) in 2014. In the 3Q-2014, we will have the start-up of P-61/TAD (Papa-Terra field) and FPSO Cidade de Ilhabela (Sapinhoá Norte field). In the 4Q-2014, FPSO Cidade de Mangaratiba will start production at Iracema Sul field. Furthermore, we continue to increase the operational efficiency of our assets: in this 1st quarter, we achieved a gain of 58 thousand bpd in production through PROEF (Campos Basin Operational Efficiency Increase Program), which represents an operational efficiency of 95% in UO-RIO and 77% in UO-BC. Last April, UO-BC reached an efficiency threshold of 81%, the highest value for the past 46 months.

In Refining, total oil products production was 2,124 th. bpd in the 1Q-2014, up 1% on the 4Q-2013. We continue to operate at excellent levels of efficiency, as evidenced by the utilization factor of 96% reached in the 1st quarter and by the 2% drop in refining costs compared to the previous quarter.

In March, we also reached a new monthly oil processing record at our refineries, with average feedstock processed of 2,151 th. bpd, surpassing the previous monthly record of 2,139 th. bpd obtained in July 2013.

In Gas and Power, we offered 89 million m3/day of gas to the market, an increase of 9% compared to 4Q-2013, due to increased thermoelectric demand. Also in March we surpassed, for the first time, the barrier of 100 million m3/day of natural gas delivered to the consumer market, with the supply of 101.1 million m3/day on March 26. Of these, 45 million m3/day were supplied to the thermoelectric market, enabling the generation of 7,163 MW of electricity, approximately 12% of the demand of the Brazilian National Grid.

As for fertilizer production, the Bahia unit (Fafen-BA) reached, last March 31, the production of 34,715 tons of urea, a production record for this month. We also had the start-up of the Ammonium Sulphate plant, located in the Sergipe plant (Fafen-SE) on February 13, with a production capacity of 303 thousand tons/year of this product.

In the International area, we would like to highlight the start-up of the Cascade 6 and Chinook 5 wells, which increased the total production of the Cascade & Chinook field (US) to about 40 th. bpd, far higher than the 12 th. bpd achieved on average in 2013, when it had three production wells. This led to an 8% increase in oil and gas production from our international assets relative to the previous quarter, from 194 th. bpd to 209 th. bpd in the 1Q-2014, and a 33% reduction in the unit lifting cost.

As for the performance of our refineries abroad, total feedstock processed was 165 th. bpd, down 6% on the previous quarter (175 th. bod) due to the scheduled stoppage of the Okinawa refinery in February. The Pasadena refinery continues processing more than 100 th. bpd due to the availability of unconventional oil (tight oil) at competitive prices, coupled with the removal of operational bottlenecks in its facilities. Finally, the unit refining cost abroad fell by 18% from the 4Q-2013 to the 1Q-2014.

One more time, I would like to emphasize the contribution of the most important structuring program. PROCOP (Operating Costs Optimization Program) continues exceeding its goals and producing excellent results: savings in the 1Q-2014 were US$ 1.0 billion, up 42% from the target of US$ 0.7 billion. With a gain of US$ 2.8 billion already realized in 2013 and the identification of new opportunities in various initiatives, the Program now revises its goal, raising it to US$ 16.6 billion between 2013 and 2016. For 2014, the goal is US$ 3.2 billion.

Now PROCOP extends its scope to include the International Area. Initiatives incorporate Petrobras' operating assets in eight countries, Argentina, Bolivia, Chile, Uruguay, Paraguay, Colombia, United States and Japan, in the oil and natural gas production, refining and distribution segments.

The Company continues to have broad access to the sources of funding necessary for the development of its Business and Management Plan. In the 1Q-2014, we raised US$ 22.8 billion, mainly by issuing bonds in the U.S. and European markets, which allowed us to end the quarter with strong liquidity of US$ 34.7 billion in cash, considering the balance of cash, cash equivalents and government bonds. These resources are sufficient to finance investments in 2014, which will bring us, already in the coming months, increased operating cash flow as a result of increased oil and gas production and less dependence on imports of oil products, with the start-up of RNEST, in addition to achieving the gradual convergence of prices in Brazil with international benchmarks.

As for debt ratios, leverage remained at 39%. The Net Debt/EBITDA ratio increased from 3.21x in the 4Q-2013 to 4.18x in the 1Q-2014 and the main reason is the effect of provisioning for the PIDV, which reduced the EBITDA by US$ 1.0 billion. The calculation of this debt ratio considers the annualized EBITDA, thus bringing a significant impact on this quarter.

I would like to register, once again, the commitment of Petrobras Executive Board and of its employees with ethics and transparency at our organization, as expressed when we launched in the 2nd half of 2013, the Corruption Prevention Program. All the allegations presented are and will continue to be investigated through the mechanisms created for this specific purpose.

Finally, I would like to share with our shareholders and investors the results achieved so far with our Voluntary Separation Incentive Plan. 8,298 employees have enrolled, representing 12.4% of the company's total workforce.

Fifty-five percent of the separations are expected to occur in 2014. Cost reduction is significant and should reach the conservative estimate of US$ 5.7 billion from 2014 to 2018. We estimate that the cost of the referred to incentive will be compensated within an average time of 9 months after the departure of each professional.

The Voluntary Separation Incentive Plan was developed to adjust the company's workforce to the challenges of the 2014-2018 Business and Management Plan and to the targets of PROCOP - Operating Costs Optimization Program. At the same time the Plan reconciles the necessary retention of knowledge, which is essential to growth and the safe and sustainable operational continuity of the company. It should also be noted that the PIDV met the expectations of thousands of company employees.

This program - PIDV - is another example of our commitment to the relentless pursuit of increased efficiency, productivity and capital discipline that will lead us to better results and to the creation of value for our shareholders and investors.

Maria das Graças Silva Foster

Chief Executive Officer

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FINANCIAL HIGHLIGHTS

Main Items and Consolidated Economic Indicators

Jan-Mar

35,593	(3)	**Sales revenues**	34,494	36,345	(5)

7,474	10	**Gross profit**	8,229	9,448	(13)

3,091	4	**Net income before finance income (expense), share of profit of equity-accounted investments, profit sharing and income taxes**	3,203	5,142	(38)

(1,326)	94	**Net finance income (expense)**	(73)	696	(110)

2,760	(17)	**Consolidated net income attributable to the shareholders of Petrobras**	2,280	3,854	(41)

0.21	(17)	**Basic and diluted earnings per share [1]**	0.17	0.30	(41)

21	3	**Gross margin (%)** [2]	24	26	(2)

9	–	**Operating margin (%)** [2]	9	14	(5)

8	(1)	**Net margin (%)** [2]	7	11	(4)

6,832	(11)	**Adjusted EBITDA – U.S.$ million** [3]	6,068	8,133	(25)

Net income before finance income (expense), share of profit of equity-accounted investments, profit sharing and income taxes by Business Segment

7,840	(12)	**. Exploration & Production**	6,871	7,639	(10)

(3,609)	13	**. Refining, Transportation and Marketing**	(3,140)	(3,219)	2

(147)	282	**. Gas & Power**	268	601	(55)

(19)	(47)	**. Biofuel**	(28)	(35)	20

246	30	**. Distribution**	320	543	(41)

116	66	**. International**	192	599	(68)

(1,104)	(30)	**. Corporate**	(1,430)	(1,333)	(7)

15,441	(44)	**Capital expenditures and investments (in millions of U.S. dollars)**	8,708	9,907	(12)

Financial and economic indicators

109.27	(1)	**Brent crude (U.S.$/bbl)**	108.22	112.55	(4)

2.27	4	**Average commercial selling rate for U.S. dollar (R$/U.S.$)**	2.37	2.00	19

2.34	(3)	**Period-end commercial selling rate for U.S. dollar (R$/U.S.$)**	2.26	2.01	12

9.52	1	**Selic interest rate - average (%)**	10.40	7.13	3

Average price indicators

94.67	2	**Domestic basic oil products price (U.S.$/bbl)**	96.25	102.05	(6)

Sales price - Brazil

96.92	1	**. Crude oil (U.S.$/bbl) [4]**	98.02	102.91	(5)

45.08	5	**. Natural gas (U.S.$/bbl)**	47.33	48.58	(3)

Sales price - International

86.43	(3)	**. Crude oil (U.S.$/bbl)**	84.18	94.26	(11)

21.70	7	**. Natural gas (U.S.$/bbl)**	23.28	23.02	1

1 Net income per share calculated based on the weighted average number of shares.

2Gross margin equals sales revenues less cost of sales divided by sales revenues; Operating margin equals net income before financial results, share of profit of equity-accounted investments, profit sharing and income taxes divided by sales revenues; Net margin equals net income divided by sales revenues.

3Adjusted EBITDA equals net income plus net finance income (expense); income taxes; depreciation, depletion and amortization; share of profit of equity-accounted investments; and impairment. Adjusted EBITDA is not an IFRS measure and it is possible that it may not be comparable with indicators with the same name reported by other companies. Adjusted EBITDA should not be considered as a substitute for operational profit or as a better measure of liquidity than operational cash flow, both of which are calculated in accordance with IFRS. We provide our Adjusted EBITDA to give additional information about our capacity to pay debt, carry out investments and cover working capital needs. See Consolidated Adjusted EBITDA Statement by Segment on page 23 for a reconciliation of our Adjusted EBITDA to our net income.

4Average between exports and the internal transfer prices from Exploration & Production to Refining, Transportation and Marketing.

FINANCIAL HIGHLIGHTS

RESULTS OF OPERATIONS

1Q-2014 compared with 1Q-2013:

Virtually all revenues and expenses of our Brazilian operations are denominated and payable in Brazilian Reais. When the U.S. dollar strengthens relative to the Brazilian Real, as it did in the 1Q-2014 (with an appreciation of 19%), revenues and expenses decrease when translated into U.S. dollars. Nevertheless, the appreciation of the U.S. dollar against the Brazilian Real affects the line items discussed below in different ways.

Gross Profit

Gross profit decreased by 13% in the 1Q-2014 compared to the 1Q-2013, mainly due to:

Ø Sales revenues of US$34,494 million decreased by 5% compared to the 1Q-2013, driven by foreign currency translation effects (due to the appreciation of the U.S. dollar against the Brazilian *Real*). Excluding those effects, local currency sales revenues were 12% higher, due to:

- Higher oil product prices in the domestic market resulting from increases in gasoline and diesel prices in 2013, higher electricity and natural gas prices and higher prices for oil products that are adjusted to reflect international prices and for exports;

- A 3% increase in domestic oil product demand, mainly of diesel (3%), gasoline (4%) and jet fuel (6%), offset by lower crude oil export volumes (9%) and oil product exports (10%), mainly of fuel oil.

Ø Cost of sales of US$26,265 million decreased by 2% compared to the 1Q-2013. Excluding foreign currency translation effects, local currency cost of sales was 16% higher, due to:

- A 3% increase in domestic sales volumes of oil products, mainly met by imports, and higher natural gas import volumes to meet demand and to replace domestic gas, due to the lower availability in the period; and

- The impact of the appreciation of the U.S. dollar against the Brazilian *Real* (19%) on imports and production taxes, when expressed in *reais*.

Income before finance expense, share of profit of equity-accounted investments, profit sharing and income taxes

Income before finance expense, share of profit of equity-accounted investments, profit sharing and income taxes reached US$3,203 million in the 1Q-2014, a 38% decrease compared to the 1Q-2013, due to a US$ 1,014 million impact of our Voluntary Separation Incentive Plan and a lower gross profit, due to foreign currency translation effects, as set out above. Those effects were partially offset by higher gains on disposal of assets (US$ 309 million), mainly of Brasil PCH.

Net finance expense

Net finance expense reached US$73 million in the 1Q-2014 (compared to a US$ 696 million finance income in the 1Q-2013), resulting from lower exchange rate variation gains (US$ 542 million) over a reduced foreign exchange exposure, driven by the extension of our hedge accounting policy to future exports from May 2013 on. Net finance expense was also increased due to a higher net debt.

Net income attributable to the shareholders of Petrobras

Net income attributable to the shareholders of Petrobras reached US$2,280 million in the 1Q-2014, a 41% decrease compared to the 1Q-2013, reflecting lower income before finance expense, share of profit of equity-accounted investments, profit sharing and income taxes and a decrease in our net finance income (expense), which were partially offset by lower income tax expenses.

FINANCIAL HIGHLIGHTS

NET INCOME BY BUSINESS SEGMENT

Petrobras is an integrated energy company, with the greater part of its oil and gas production in the Exploration & Production segment being transferred to other business segments of the Company.

Our segment results include transactions carried out with third parties and transactions between business areas, which are priced at internal transfer prices defined between the areas using methods based on market parameters.

Information about our operating segments and other related information are set out below.

EXPLORATION & PRODUCTION

Jan-Mar

Net Income Attributable to the Shareholders of Petrobras	4,505	4,992