PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
March 22, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

For the month of March, 2017

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65

20031-912 - Rio de Janeiro, RJ

Federative Republic of Brazil

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F _______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _______ No___X____

FINANCIAL

STATEMENTS

December 31, 2016 and 2015 with

auditor’s report

(A free translation of the original in

Portuguese)

Index

(Expressed in millions of reais, unless otherwise indicated)

(A free translation of the original in Portuguese)

Independent auditor's report on the financial statements

To the Board of Directors and Stockholders

Petróleo Brasileiro S.A. - Petrobras

Opinion

We have audited the accompanying parent company financial statements of Petróleo Brasileiro S.A. - Petrobras (the "Company"), which comprise the balance sheet as at December 31, 2016 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Petróleo Brasileiro S.A. - Petrobras and of Petróleo Brasileiro S.A. - Petrobras and its subsidiaries as at December 31, 2016, and the financial performance and cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Why it is a Key Audit Matter

1 - "Car Wash Operation" and its effects on the Company (Note 3)

In 2009, the Brazilian Federal Police initiated an investigation called "Car Wash Operation", aiming to investigate money laundering practices by criminal organizations in several Brazilian states. As from 2014, the Federal Public Prosecution Office focused some of its investigations on irregularities committed by Petrobras suppliers and discovered an extensive scheme of undue payments, involving several participants, including former employees of Petrobras. This scheme consisted of a group of companies that, between 2004 and April 2012, were organized in cartel to obtain contracts with Petrobras and impose additional expenditures linked to these contracts, using these amounts to make undue payments.

The amounts paid by the Company under the contracts with the suppliers involved in the scheme were included in the historical costs of the respective property, plant and equipment items. The Company's management understood that the undue payments represent additional expenditures and, consequently, recorded a write-off of R$ 6,194 million (R$ 4,788 million in the Parent Company) in prior years.

The "Car Wash Operation" and its effects on the Company were considered as one of the key audit matters due to: (i) the potential effects and inherent limitations that are particularly significant in cases like this; (ii) necessity of monitoring the information related to the investigations in progress conducted by the authorities to confirm the reasonableness of the effects already consigned in the financial statements; and (iii) the need to improve the governance structure and internal controls related to the processes for contracting suppliers of goods and services, which constituted a significant deficiency identified by the Company in its internal control environment in 2015.

How the matter was addressed in the audit

Significant aspects of our audit response involved, among others, those described below.

We have enhanced our understanding of the governance structure and how the parties responsible for management perform the general oversight to identify and respond to risks related to the process of contracting suppliers of goods and services, considering the changes introduced by management in its processes and controls in order to address the identified fraud.

We also obtained an understanding of the new internal policies introduced and tested the significant internal controls implemented and transactions related to the process for contracting suppliers of goods and services and corresponding payments. Our objective was to identify and test the transactions selected and the corresponding payments made during the year and evaluate the compliance with the internal policies and applicable laws and regulations. In addition, we analyzed Petrobras Program for Prevention of Corruption ("PPPC"), tested the key controls related to the complaints channel established within the Ombudsman structure, evaluating the integrity of the information, handling of complaints and reporting of the results to the applicable governance bodies.

We followed up the Company's main investigative actions conducted by the Internal Assessment Commissions and independent law firms, which are led by a Special Committee composed of two independent members and the Governance, Risk and Compliance Officer. We discussed the investigations with the Audit Committee, the Board of Directors and the Company's legal advisors and evaluated whether the disclosures in the notes are consistent with the results of those investigations.

According to the Management Report, that significant deficiency was considered as remedied for the year ended December 31, 2016.

2 - Class action and related proceedings (Note 30.4)

We consider that the disclosures in the explanatory notes are consistent with the information and representation obtained.

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Why it is a Key Audit Matter

During 2015, a class action was filed against the Company before the Federal Court for the Southern District of New York, alleging that the Company, through material facts, communications and other information filed at the U.S. Securities and Exchange Commission (SEC), would allegedly have reported materially false information and made omissions capable of artificially raising the price of the Company's securities and misleading investors.

In June 2016, the Federal Court of Appeals accepted the Company's request to appeal against the decision on the "class" certification. As a result, the request was accepted by the Federal Court of Appeals and the proceeding is currently suspended up to the judgment of the appeal.

In addition to the class action, thirty actions (three of them suspended) were filed by individual investors before the same Federal Court for the Southern District of New York with similar claims as those filed in the class action. In addition, a similar action was filed by individual investors in the Eastern District of Pennsylvania.

In 2016, the Company reached agreements to close some of these individual actions. The Company is also negotiating agreements with other authors of individual actions and, based on the agreements already entered into and on the stage of the negotiations in progress with other authors of individual actions, the Company recognized a provision of R$ 1,215 million in the result for 2016.

As described in Note 30.4, due to the uncertainties inherent to the proceeding, the Company's management is not capable of producing a reliable estimate of the potential loss arising from the class action and individual actions not yet provided for.

How the matter was addressed in the audit

Significant aspects of our audit response involved the following main procedures:

•understanding of the procedural stage of the class action and individual actions;

•interviews with the Company's external legal advisors in order to understand the impossibility of producing a reliable estimate of the loss arising from the class action and individual actions not yet provided for;

•confirmation, in writing, of the Company's external legal advisors on: (i) the procedural stage of the class action and individual actions; and (ii) impossibility of producing a reliable estimate of the potential loss and classification of probability of loss between probable, possible and remote;

•evaluation of the technical ability of the internal and external legal advisors used by the Company; and

•evaluation of the accounting policy adopted for the provision of individual actions and review of the assumptions on which the estimates of the provisioned amounts are based.

We consider that the criteria and assumptions adopted by the Management to determine the provision for the individual actions, as well as the disclosures in the notes in relation to the class action and individual actions are reasonable, in all material respects, within the context of the financial statements.

This matter has been considered one of the key audit matters due to the significant judgments and substantial uncertainties related to the class action and individual actions that affect the amount and timing estimated for a final decision for those actions.

3 - Impairment of property, plant and equipment
(Notes 12 and 14)

At December 31, 2016, the assets classified in the property, plant and equipment group amounted to R$ 571,876 million.

Potential impairment losses on property, plant and equipment are determined based on estimates of the value in use of these assets.

The calculation of value in use requires the exercise of significant judgments on certain assumptions, such as: (i) estimation of the volume of oil and natural gas reserves; (ii) estimation of future oil and natural gas prices; (iii) average foreign exchange rate (Brazilian reais/U.S. dollars); and iv) definition of the discount rate.

In addition, the definition of Cash-Generating Units (CGUs) also requires significant judgments by management, as well as the establishment of controls to review changes in these CGUs. Changes in the aggregation or breakdown of assets that comprise the CGUs may result in reversals or additional impairment losses.

This matter was considered as one of the key audit matters due to: (i) the significance of the Company's property, plant and equipment; (ii) the significant judgments and estimates involved in the calculation of the value in use of the assets; and (iii) the deficiencies in the controls for the review of changes in certain CGUs that constituted a significant deficiency identified by the Company in its internal control environment in 2015.

According to the Management Report, that significant deficiency was considered as remedied for the year ended December 31, 2016.

Significant aspects of our audit response involved, among others, the understanding of the controls related to the processes of impairment and tests of the effectiveness of the controls considered key in these processes. Regarding the testing of detail in operations or transactions, our approach considered the following main procedures:

(i)The evaluation of the definition of CGU by management, based on tests of changes of CGU, and review of the composition of CGU vis-à-vis the criteria established by Technical Pronouncement CPC 01 - Impairment of Assets.

(ii)Support from our team of asset valuation experts in implementing the following key audit procedures:

•comparison of key assumptions with the 2017-2021 Business and Management Plan and sensitivity analysis of these assumptions;

•evaluation of the reasonableness of the key assumptions, including comparisons with benchmarks, understanding of the main variations of the period and retrospective review of the projections;

•evaluation of the criteria used to determine the discount rate and inflation and foreign exchange rate projections;

•review of the internal estimates of oil and gas reserves compared to estimates prepared by independent experts; and

•assessment of the technical ability of the experts responsible for the independent estimate of proven oil and natural gas reserves.

We consider that the criteria and assumptions adopted by the Management to determine the impairment losses, as well as the disclosures in the notes, are reasonable, in all material respects, within the context of the financial statements.

Why it is a Key Audit Matter	How the matter was addressed in the audit
4 - Judicial Proceedings and Contingencies (Note 30)	
At December 31, 2016, the Company had provisions of R$ 11,052 million in connection with judicial provisions whose loss expectation was classified as probable. Additionally, the Company is a party to litigations whose losses are classified as possible, in the amount of R$ 216,003 million. Provisions and contingent liabilities have inherent uncertainties regarding their term and settlement value. Also, the recognition and measurement of contingent provisions and liabilities require the Company to exercise significant judgments to estimate the amounts of the obligations and the likelihood of outflow of resources of the judicial and administrative proceedings to which the Company is a party. This evaluation is based on the opinions of internal and external legal advisors and on management's own judgments. This matter was considered as one of the key audit matters due to (i) the significance of the amounts of the litigations provided for (contingent liabilities disclosed) in a Note; (ii) the significant judgments on different doctrinal and jurisprudential interpretations used to estimate the amounts and likelihood of outflow of resources arising from these proceedings; and (iii) deficiencies in the controls on completeness and the evaluation of the probability of loss of contingencies, which constituted a significant deficiency identified by the Company in its internal control environment in 2015. According to the Management Report, that significant deficiency was maintained for the year ended December 31, 2016.	Our audit approach considered the understanding of controls related to judicial proceedings and contingencies, and tests on the effectiveness of controls considered as key. Additionally, in our audit strategy, we involved our team of experts in the labor and tax areas, as appropriate, to read and discuss the judicial proceedings, including the classification of the prognosis of loss attributed by the Company's internal and external legal advisors. Other significant aspects of our audit approach included evaluating the technical ability of the Company's legal counsel, testing the recalculation of the amount of exposure of judicial and administrative proceedings, testing for financial update in accordance with applicable legislation, obtaining confirmations from external legal advisors and testing of unrecognized contingent liabilities, based on searches on the websites of the relevant courts of law. We consider that the criteria and assumptions adopted by the Management to determine the provision for lawsuits and contingencies, as well as the disclosures on contingent liabilities, are reasonable, in all material respects, within the context of the financial statements.

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Why it is a Key Audit Matter	How the matter was addressed in the audit
5 - Benefits granted to employees (Note 22)	
At December 31, 2016, the amounts provided for in the balance sheet totaled R$ 72,668 million.	Our audit approach considered the understanding of key controls related to the process of measuring the actuarial liability and tests on the effectiveness of controls considered as key. In addition, our audit response considered testing of details on the individual information recorded in the databases used to calculate the actuarial liability. The audit evidence deemed necessary was obtained by testing the databases of active and assisted participants in pension and medical care plans.
The amount of the actuarial liability is determined through actuarial calculations prepared by an independent actuary hired by the Company's management, net of guaranteeing assets. The calculation is made based on actuarial assumptions and information recorded of participants of the pension plans and health care.	Other significant aspects of our audit approach included evaluating key assumptions that support the calculation of actuarial liabilities, such as salary growth projections, mortality and disability tables, medical costs and discount rate estimates. These procedures were performed with the support of our team of actuarial calculation experts and included the following key procedures:
This matter was considered as one of the key audit matters due to (i) the significance of the balance provided for in the balance sheet referring to benefits granted to employees; (ii) significant judgments regarding the assumptions of the benefit plans; and (iii) the deficiencies in controls over the data generation process to calculate the actuarial liability, which constituted a significant deficiency identified by the Company in its internal control environment in 2015.	•Review of the logical consistency and arithmetic consistency of the model used to estimate the value of the actuarial liability. •Evaluation of the technical ability of the independent external actuary responsible for preparing the actuarial calculation. •Review of the reconciliation of the actuarial report with the balances of the Company's financial statements.
According to the Management Report, the internal control deficiencies over the data generation process and assumptions for the calculation of the actuarial liability and valuation of certain guaranteeing assets constituted a significant deficiency for the year ended December 31, 2016.	In addition, we obtained confirmations from third parties regarding the custody of the plans' guaranteeing assets and tested the fair value of these assets with the support of our team of specialists in the valuation of financial instruments.
	We consider that the criteria and assumptions adopted by the Management to determine the value of the actuarial liability, as well as the disclosures in the notes are reasonable, in all material respects, within the context of

the financial statements.

6 - Trade receivables - Electricity sector (Note 8.4)

At December 31, 2016, the net balance of trade receivables related to the electricity sector totaled R$ 10,062 million.

A significant portion of the funds used to settle the trade receivables comes from the Fuel Consumption Account (Conta de Consumo de Combustível (CCC). However, amendments to the legislation imposed restrictions that reduced the amounts reimbursed by the CCC, increasing the risk of default of the distributors that operate in this sector and purchase fuel to be used in their thermal plants.

This matter was considered as one of the key audit matters due to those circumstances and the consequent significant judgments in relation to the assumptions used in the determination of the losses on impairment of trade receivables and the significance of the balance of trade receivables.

Our audit approach considered the understanding of the key controls related to the process of measuring impairment losses on trade receivables related to the electricity sector trade receivables and tests of the effectiveness of controls considered as key. As regards the testing of details in operations and transactions, our approach considered the review of the debt acknowledgment agreements entered into between the Company and the companies of the Eletrobras System, understanding of the current stage of the negotiations with the Federal Government and Eletrobras, reading of the official letters and ordinances of the National Electric Energy Agency (ANEEL) and the Ministry of Mines and Energy (MME), as well as the payments received and the reconciliation of the provision for impairment of trade receivables recorded for the total trade receivables of the Electricity sector overdue or without actual guarantees.

We consider that the criteria and assumptions adopted by the Management to determine the impairment losses on trade receivables related to the trade receivables of the electricity sector, as well as the disclosures in the notes, are reasonable, in all material respects, within the context of the financial statements.

Why it is a Key Audit Matter	How the matter was addressed in the audit
7 - Mutual rescissions and advances to suppliers - Shipbuilders (Note 14.4)	
In 2016, the Company recognized provisions and write-offs totaling R$ 5,263 million, as follows: (i) provision for impairment of R$ 1,925 million, due to uncertainties on the continuity of the construction of the hulls of platforms P 71, P 72 and P 73; (ii) provision for losses of R$ 2,353 million, referring to the remaining balance of the advances to the suppliers Ecovix and Enseada; (iii) write-off of investments made in the Rio Grande shipbuilder, in the amount of R$505 million, and (iv) write-offs of other investments related to the construction of the hulls of platforms P-71, P72 and P73, in the amount of R$480 million. Due to the strategic importance of certain assets and the financial difficulties faced by the suppliers contracted for their construction, the Company implemented, in 2015, a blocked account system to make feasible the development of the execution of the work. In the third quarter of 2016, the Company revalued whether the blocked accounts should be kept, which resulted in the recognition of those provisions and write-offs. This matter was considered as one of the key audit matters due to the significance of the amounts involved and of the deficiencies in the controls related to the necessity of writing off the advances to suppliers that would not result in future economic benefits and recognizing expenses related to the mutual rescission of related agreements, which constituted a significant deficiency identified by the Company in its internal control environment in 2015. According to the Management Report, that significant deficiency was maintained for the year ended December 31, 2016.	Our audit approach considered the understanding of the main controls related to the process of advances to suppliers and mutual rescissions, as well as tests on the effectiveness of controls considered as key. Additionally, our audit response considered tests on details of transfers made to the blocked accounts, provision for losses referring to advances to the suppliers Ecovix and Enseada and write-offs of investments related to the shipbuilder Rio Grande and the construction of the hulls of platforms P-71, P72 and P73. Other significant aspects of our audit approach included review of the main contracts and mutual rescissions related to the subject-matter, inspection of subrogation of debt agreements and testing of details in relation to the subsequent financial settlement of the liabilities recorded, as well as the impairment test for the remaining assets.

We consider that the criteria and assumptions adopted by the Management to determine the provisions and write-offs related to the construction of platforms hulls by the suppliers Ecovix and Enseada, as well as the disclosures in the notes, are reasonable, in all material respects, within the context of the financial statements.

Why it is a Key Audit Matter

8 - Cash flow hedge accounting (Notes 4.3.6 and 33.2)

At December 31, 2016, the Company presented R$ 25,119 million, net of the tax effects, recognized in other comprehensive income, in equity.

The Company designates hedging relationships, in which highly probable future exports are defined as hedged items, and liabilities denominated in foreign currency are used as hedging instruments. The purpose of this accounting practice is to recognize the foreign exchange effects of both the hedged item and the hedging instrument at the same time in the statement of income.

The estimate of highly probable future exports requires the use of significant judgments by the Company's management. Such an estimate can be significantly influenced by changes in the price projections for oil and its byproducts and the future production curve.

This matter was considered as one of the key audit matters in view of the critical estimates and significant judgments used by management to estimate the "highly probable" future exports and the significance of the accumulated balance of foreign exchange variation recognized in Equity arising from the application of the cash flow hedge accounting.

How the matter was addressed in the audit

Our audit approach considered the understanding of key controls related to the process of hedge accounting and tests on the effectiveness of controls considered as key. Regarding the testing of detail in operations or transactions, our approach involved evaluating the reasonableness of the main assumptions used by management to estimate future exports. This work was carried out with the support of our team of asset valuation experts.

The audit procedures also included reviewing the criteria used by management to define the portion of future exports deemed "highly probable", in accordance with the criteria established by Technical Pronouncement CPC 38 - Financial Instruments: Recognition and Measurement (CPC 38). In this regard, we reviewed historical export data used by Management to define the highly probable portion, as well as sensitivity analysis of key assumptions and evaluation of potential impacts within a range of possible outcomes.

Other significant aspects of our audit approach included: (i) analysis of the application of hedge accounting by the Company vis a vis the requirements established by CPC 38; (ii) review of the documentation of hedge designations; (ii) test for the recalculation of the foreign exchange variation; and (iv) recalculation of prospective and retrospective effectiveness tests.

We consider that the application of the hedge accounting by the Company, which can be made by the management under the terms of CPC 38, meets the requirements established by that technical pronouncement. Additionally, we consider that the assumptions adopted by the Management to determine the highly probable future exports and foreign exchange losses and gains recorded in other comprehensive income are reasonable, and the disclosures in the notes are appropriate.

Supplementary information

Statements of Value Added

The parent company and consolidated Statement of Value Added for the year ended December 31, 2016, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, was submitted to the same audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added are prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement and are consistent with the parent company and consolidated financial statements taken as a whole.

Other information accompanying the financial statements and the independent auditor's report

The Company's management is responsible for the other information that comprises the Management Report and the Financial Market Report ("RMF").

Our opinion on the financial statements does not cover the Management Report and the Financial Market Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the Management Report and the Financial Market Report and, in doing so, consider whether these reports are materially inconsistent with the financial statements or with our knowledge obtained in the audit or otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report and the Financial Market Report, we are required to communicate the matter to those charged with governance. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rio de Janeiro, March 21, 2017

PricewaterhouseCoopers

Auditores Independentes

CRC 2SP000160/O-5 "F" RJ

Marcos Donizete Panassol

Contador CRC 1SP155975/O-8 "S" RJ

Statement of Financial Position

December 31, 2016 and 2015 (In millions of reais, unless otherwise indicated)

		Consolidated		Parent Company				Consolidated		Parent Company	
Assets	Note	2016	2015	2016	2015	Liabilities	Note	2016	2015	2016	2015
Current assets						Current liabilities					
Cash and cash equivalents	7	69,108	97,845	6,267	16,553	Trade payables	16	18,781	24,888	24,384	28,172
Marketable securities	7	2,556	3,047	2,487	2,982	Finance debt	17	31,796	57,334	62,058	52,913
Trade and other receivables, net	8	15,543	21,685	31,073	27,701	Finance lease obligations	18.1	59	73	1,091	1,568
Inventories	9	27,622	29,057	23,500	24,015	Income taxes payable	21.1	412	410	–	–
Recoverable income taxes	21.1	1,961	3,839	786	1,520	Other taxes payable	21.1	11,826	13,139	11,219	11,762
Other recoverable taxes	21.1	6,192	6,893	5,064	4,986	Payroll and related charges		7,159	5,085	6,158	4,212
Advances to suppliers		540	421	361	208	Pension and medical benefits	22	2,672	2,556	2,533	2,436
Others		3,716	5,225	3,466	2,979	Others		6,857	7,599	5,818	3,696
		127,238	168,012	73,004	80,944			79,562	111,084	113,261	104,759
Assets classified as held for sale	10.3	18,669	595	8,260	535	Liabilities on assets classified as held for sale	10.3	1,605	488	170	488
		145,907	168,607	81,264	81,479			81,167	111,572	113,431	105,247

Non-current assets