Brazil’s Oil Outlook – webinar Institute of the Americas

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December 15th, 2015
AGENDA

- Industry Overview – How did we get here?
  - Analyzing the present
    - What to expect in the foreseeable future
  - Conclusions – challenges and next steps
Evolution of Brazilian Oil Production and Proved Reserves

End of Monopoly – Constitution Amendment
Law 9478 ("Lei do Petróleo")

Lula’s 1st mandate
Pre-salt
Dilma’s 1st mandate

Pre-salt Round 12
(Libra)
Round 11

Round 0
Round 1
Round 2
Round 3
Round 4
Round 5
Round 6
Round 7
Round 8
Round 9
Round 10
Round 11
Round 12

Oil Production
Proven reserves

Source: Anuário Estatístico da ANP

(1) Includes condensates
(2) end-year values
INDUSTRY OVERVIEW

How did we get here?

2003-2014

Positive macro scenario in Brazil
High oil prices
Petrobras’ strong position
Pre-salt discovery

Audacious investment plan for Petrobras
- ~US$ 45 bn / year: highest in O&G industry
- Aggressive production targets: 4.9 M bpd by 2020.

New regulation
- Production Sharing regime
- Petrobras as sole operator; minimum of 30% share.
- Governance: new company PPSA representing the interests of Federal Government

Increase in local contente requirements
- Minimum local contente requirements for numerous segments in the supply chain.
- Local content as bid parameter and increased complexity.

Increase in Petrobras’ role in the sector
- 90% of production
- Verticalization and integration
- Pre-salt as an strategic asset: 5 years without bid rounds (2008 a 2013)
INDUSTRY OVERVIEW

Brazil Oil sector - 2014

<table>
<thead>
<tr>
<th>Total proved reserves</th>
<th>16.2 Billion barrels</th>
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<tbody>
<tr>
<td>% offshore</td>
<td>95%</td>
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<tr>
<td>Total production</td>
<td>2.346 Million bpd</td>
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<tr>
<td>% offshore</td>
<td>93%</td>
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| Source: Anuário Estatístico da ANP |

Total refining capacity 2.235 Million bpd
Oil products imports $19.5 Bn US$ FOB
Oil products exports $9.3 Bn US$ FOB

Oil Production – pre and post-salt

Oil Production per company - 2014

- Petrobras 86.0%
- BG Brasil
- Statoil Brasil
- Shell Brasil
- Sinochem Petróleo
- Others

Oil products imports

<table>
<thead>
<tr>
<th></th>
<th>2.0%</th>
<th>1.9%</th>
<th>1.3%</th>
<th>5.7%</th>
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<td>2006</td>
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<td>2013</td>
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<td>2014</td>
<td>22%</td>
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ANALYZING THE PRESENT

Global and local changes in the scenario: macro and industry situation

MACRO

Deceleration in demand growth (Brasil, China)

FX devaluation of Brazilian Real

Increase in unemployment rates

Brazil’s downgrade: restricted access to markets

INDUSTRY

Drop in oil prices

Petrobras’ financial distress
  • High leverage.
  • Government intervention on prices.
  • Mismanagement

Corruption scandals (car wash)
  • Impact in all the supply chain
  • Layoffs and business closures.

Source: Accenture, FGV Energia
WHAT TO EXPECT IN THE FORESEEABLE FUTURE

Oil prices

- Expectation of slow recovery.
- Capital discipline and cost reductions.
- Focus and definition of priority investments.
- Not much we can do...

Oil price projection (Brent, US$)

Source: ICE; Goldman Sachs Investment Research, Sep-15; Lins, Morais and Hollanda, 2015.
### WHAT TO EXPECT IN THE FORESEEABLE FUTURE

#### Brazilian Macro and Political scenario

<table>
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<tr>
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<th>2014/2013</th>
<th>2015/2014 (E)</th>
<th>2016/2015 (E)</th>
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<tbody>
<tr>
<td><strong>GDP Growth</strong></td>
<td>0.1%</td>
<td>-3.6%</td>
<td>-3.0%</td>
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<td><strong>Household consumption</strong></td>
<td>1.3%</td>
<td>-3.7%</td>
<td>-3.2%</td>
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<tr>
<td><strong>Investment</strong></td>
<td>-4.5%</td>
<td>-12.3%</td>
<td>-8.5%</td>
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<td><strong>Unemployment rate</strong></td>
<td>6.8%</td>
<td>8.5%</td>
<td>11.7%</td>
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*Source: IBRE/FGV Estimates, Dec-15*

- Difficult economic scenario should persist in 2016 – crisis has not yet reached the streets.
- Political instability creates challenging environment for necessary reforms
WHAT TO EXPECT IN THE FORESEEABLE FUTURE

Petrobras

• In the past...
  • Impairments: US$ 16,8 bi; Write-offs of overpayments incorrectly capitalized: US$ 2,5 bi.
  • New Board members
  • Revised investment plan and divestment strategy:
    ✓ Decrease net leverage < 40% & 3x EBITDA by 2018 (2.5x by 2020);
    ✓ US$ 130 Bn CAPEX (-37%).
    ✓ Production target of 2.8 Mbpd by 2020 (4.2 Mbpd previously).

• When reality knocks on the door...
  • 3Q15 results: Net debt/adjusted EBITDA = 5.24x;
  • Difficult access to capital markets
  • Less than US$ 1 bn divestment

• Expectation of slow recovery....
NEXT STEPS AND CHALLENGES

Rules and Regulation

• Need to attract investments could trigger imperative reforms...
  • Pre-salt law: sole operator, minimum 30% for Petrobras, governance and PPSA role – back to concession?
  • Local Content requirements:
    ✓ Need to equate past liabilities and discuss changes for future bid rounds;
    ✓ Prioritize sectors where Brazil has comparative advantage and simplify rules.
  • Regulatory uncertainty
    ✓ Excess of government intervention (eg. new R&D rules)
    ✓ Improve communication with investors and stakeholders
  • Planning and predictability
    • Resume frequency and predictability of bid rounds

... But the political scenario is still uncertain and not favourable to reforms