

Evolution of the Brazilian Upstream

30 January 2019



Brazilian Oil & Gas 3.0

- Background
 - History
 - Future

- Tendencies, opportunities and challenges
 - Diversifying Participants
 - Maturing Fields
 - Growing Gas



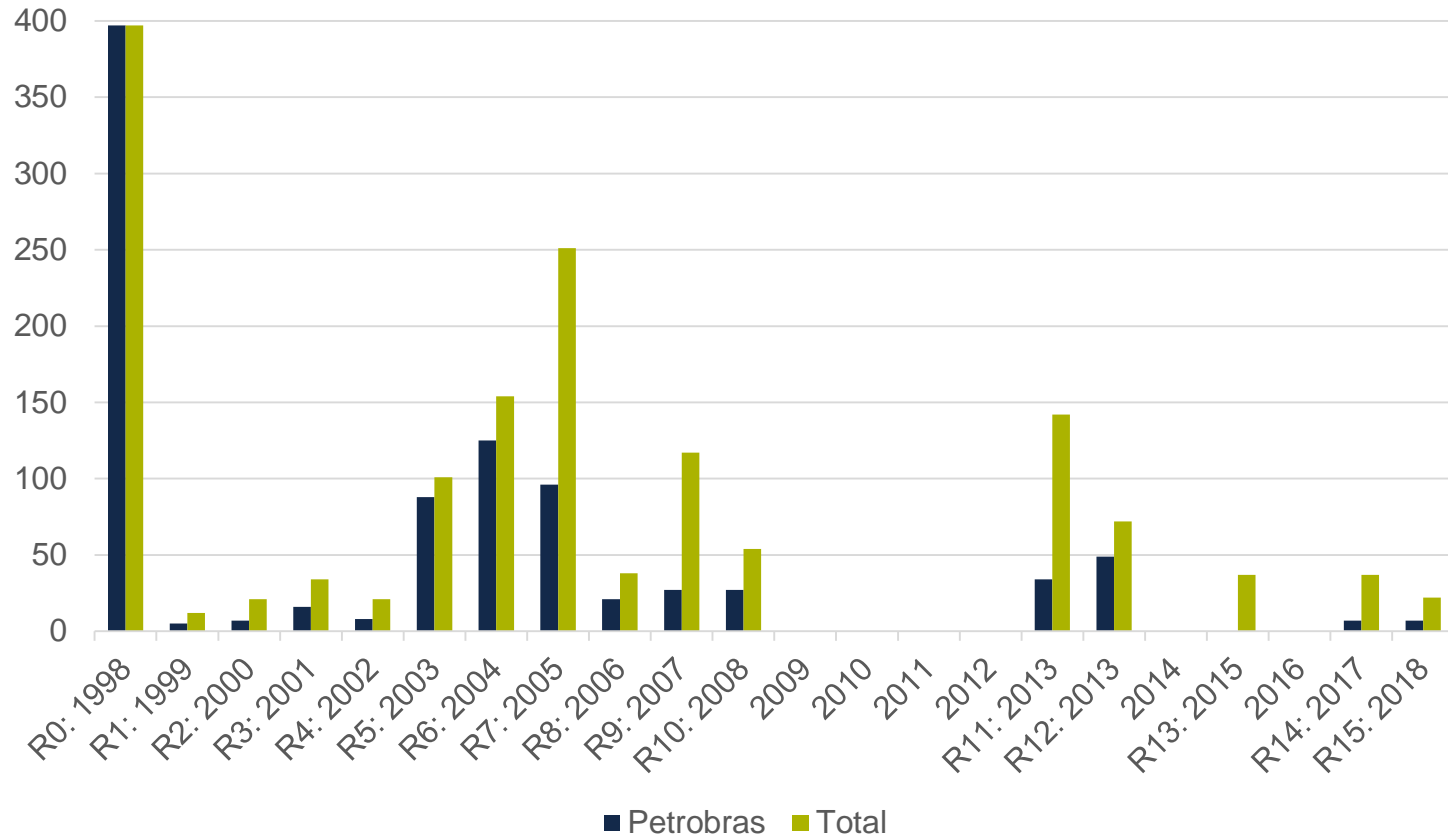
Context

Phase 1

- 1941 – First commercial oil wells drilled onshore
- 1953 – Law No. 2,004 created Petrobras and established a monopoly over exploration, production, refining and transportation of petroleum and its derivatives
- 1968 – Petrobras' first offshore discovery – Guaricema, Sergipe
- 1974 – First Campos Basin discovery – Garoupa
- 1984-1985 – Major Campos Basin discoveries – Albacora and Marlim
- 1995 – Constitutional Amendment No. 9 ended Petrobras' monopoly
- 1997 – Brazilian Petroleum Law – creates the ANP and CNPE
- 1998 – Round Zero – ANP and Petrobras sign 397 concessions
- 1999 – Concessions offered to private companies for first time

Phase 2

Oil and Gas Concession Rounds



New rules, new environment

- 2010:
 - Creation of production sharing agreements (PSAs) for pre-salt, with Petrobras as sole operator
 - Creation of Pré-Sal Petróleo S.A. (PPSA) to represent government in PSAs
 - Transfer of 5bn pre-salt barrels to Petrobras in exchange for issuance of shares to the Federation
- 2013:
 - 11th and 12th concession rounds
 - 1st pre-salt round - Libra
- 2014:
 - Oil price crash – US\$110/bbl to US\$45/bbl (eventually US\$30 in 2016)
 - Operation Car Wash begins
 - Petrobras long term debt peaks at US\$134bn
- 2015:
 - 13th concession round – no Petrobras participation

New rules... again!

- 31 August 2016 – President Dilma Rousseff impeached

- Temer Government:
 - Removal of Petrobras sole-operatorship requirement
 - Reduction of local content requirements – no longer bid criteria
 - Extension of REPETRO tax regime
 - 14th, 15th Concession rounds, 2nd, 3rd, 4th, 5th Pre-salt rounds
 - R\$28bn in signature bonuses (US\$7.6bn)
 - Petrobras divestments
 - Bidding calendar – 1 concession round + 1 PSA round annually
 - Permanent offer

Perspectives for the future

– Bolsonaro Government:

- Continuity?
- 16th concession round (19/10/19) and 6th pre-salt round (19/11/19)
- First Phase of Permanent Offer
- Mega-bid – 10-15bn barrels of reserves – R\$100bn signature bonus?
- Petrobras management changes – continue divestments
- No comeback for local content
- End of PSAs / Pre-salt polygon?

– Projections

- R\$1.7 trillion oil and gas investments to 2027!
- 7.5 mmboe/day production by 2030!

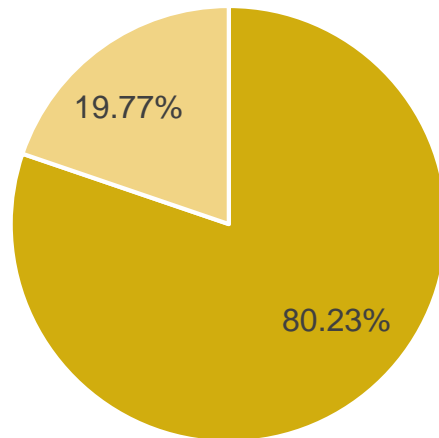
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Diversifying Participants

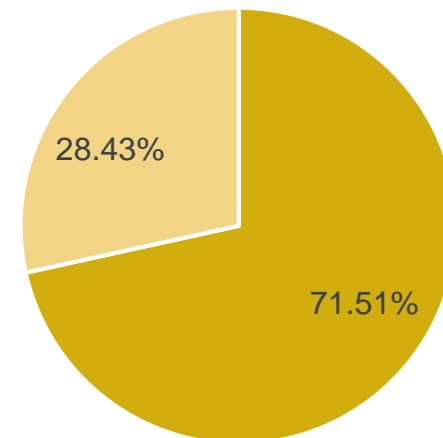
Brazilian Oil & Gas Production – By Participating Interest

August 2016



■ Petrobras ■ Not Petrobras

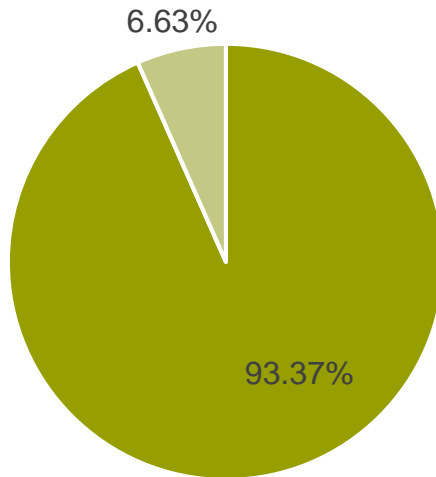
December 2018



■ Petrobras ■ Not Petrobras

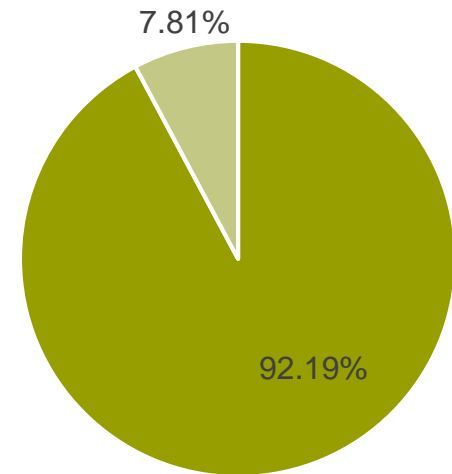
Brazilian Oil & Gas Production – By Operator

August 2016



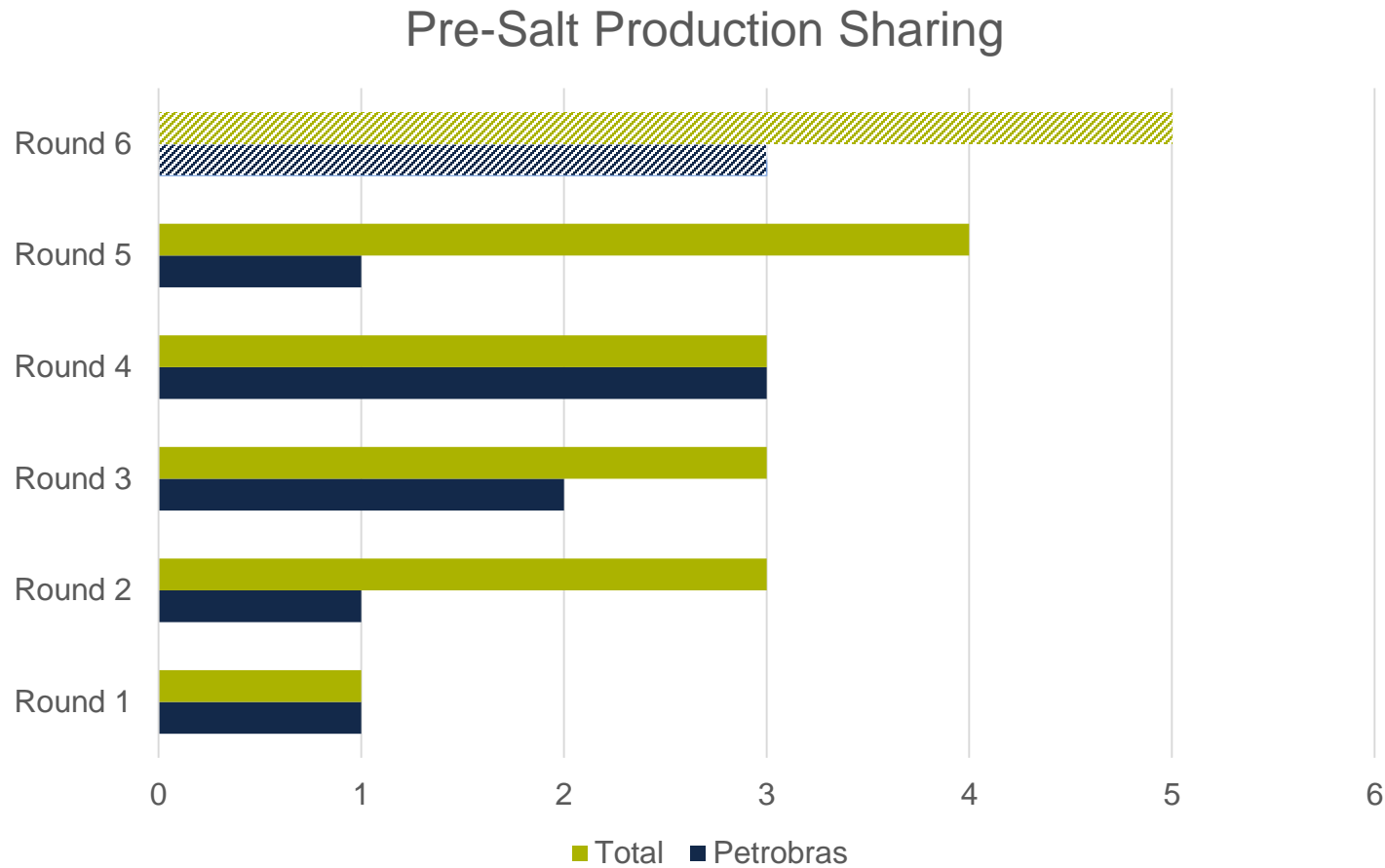
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■ Petrobras ■ Not Petrobras

Continued Petrobras participation in the Pre-Salt

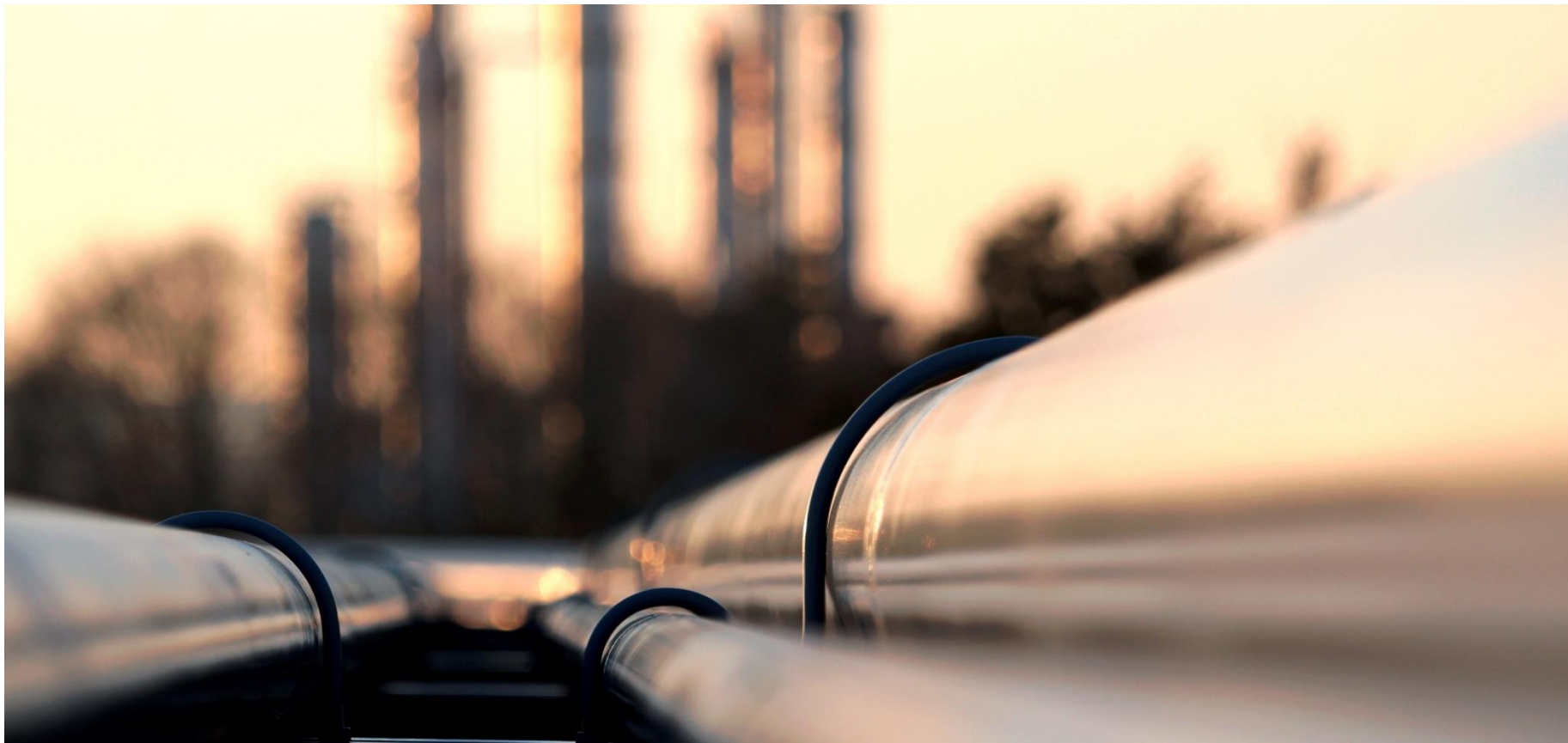


Diversification

- Delayed impact of bid rounds, BUT
 - Shell, BP, ExxonMobil, Premier Oil – drilling 2020
 - Divestments – Equinor (Carcará), Total (Lapa), Perenco (Polo NE)
- Good news for supply chain
- Challenges; e.g. sharing infrastructure
- Competition may encourage international best practice

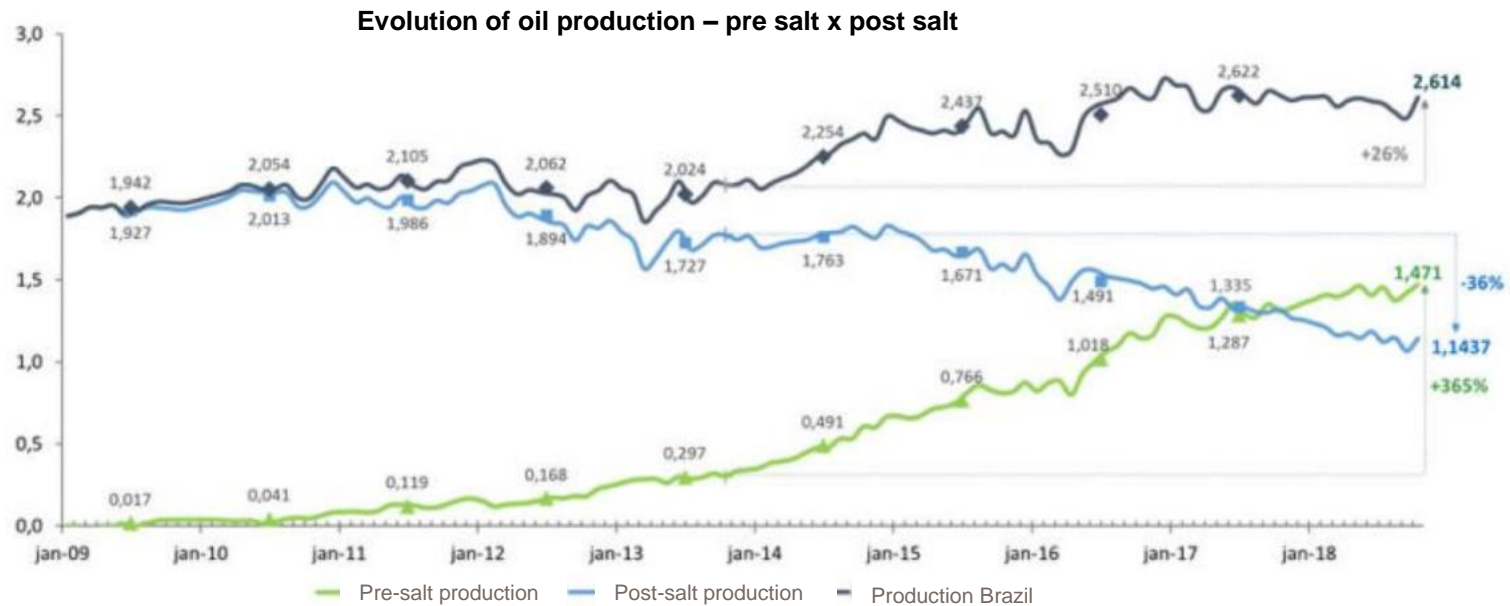
Outside the Pre-Salt

- 29 sedimentary basins – less than 5% contracted
- Frontier, mature, unconventional, Atlantic Margin
- Need new investors:
 - Flexible qualification criteria – streamlined process
 - Permanent offer – lower participation fees, bid bonds, performance guarantees



Maturing Fields

Declining non pre-salt production



- Petrobras seeking partners in larger fields; e.g. Roncador, Marlim
- Divestments of smaller fields
- Decommissioning liabilities
- Reduction in royalties on incremental production

Any questions?



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