FGV ENERGIA

Brazil and the Global Energy Oil Outlook

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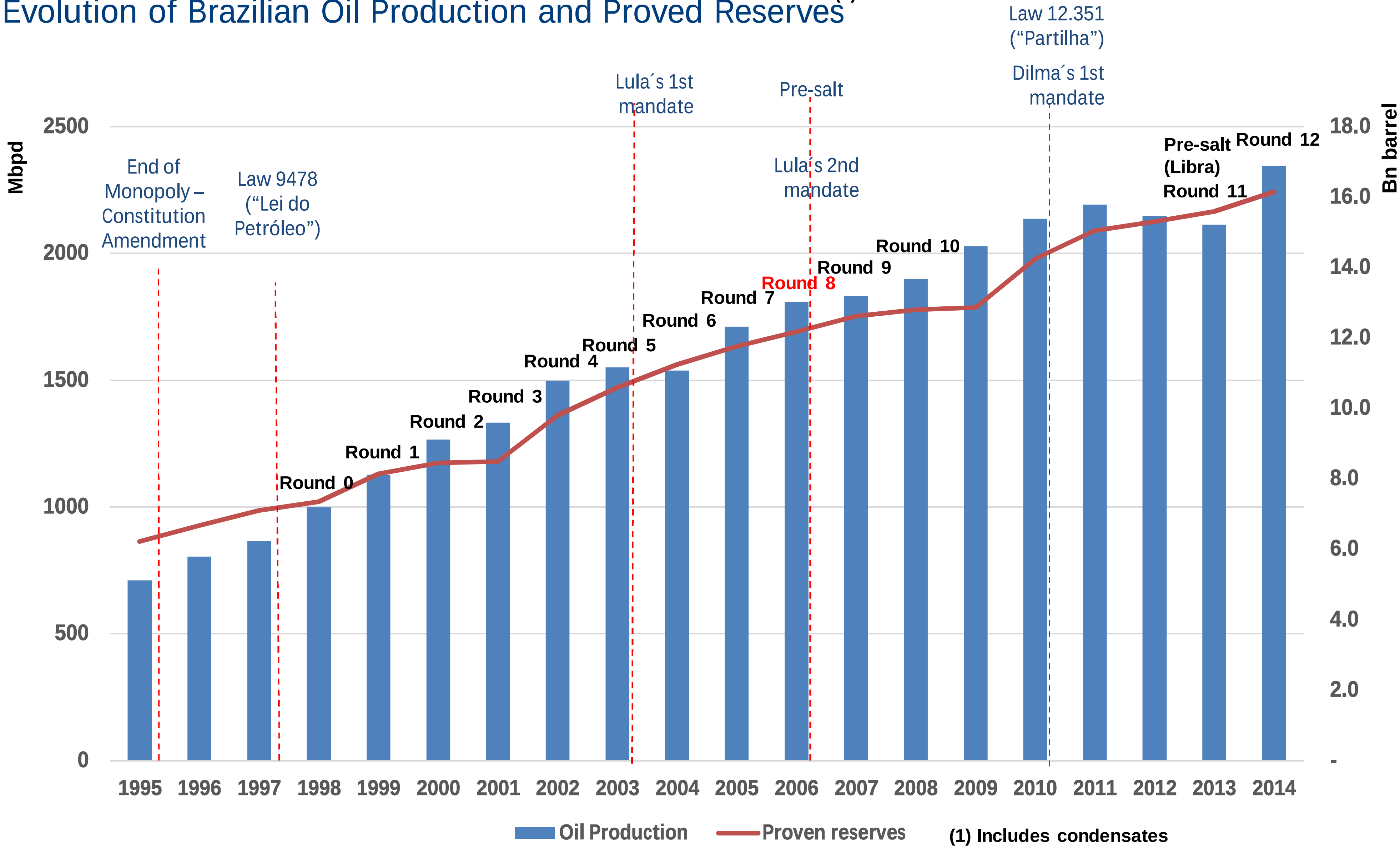
June 9th, 2016

AGENDA

- Industry Overview – How did we get here?
- Analyzing the present
- What to expect in the foreseeable future
- Conclusions – challenges and next steps

INDUSTRY OVERVIEW

Evolution of Brazilian Oil Production[1] and Proved Reserves[2]



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

Source: Anuário Estatístico da ANP

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

[redacted]

Increase in local contente requirements

[redacted]

New regulation

[redacted]

Increase in Petrobras' role in the sector

[redacted]

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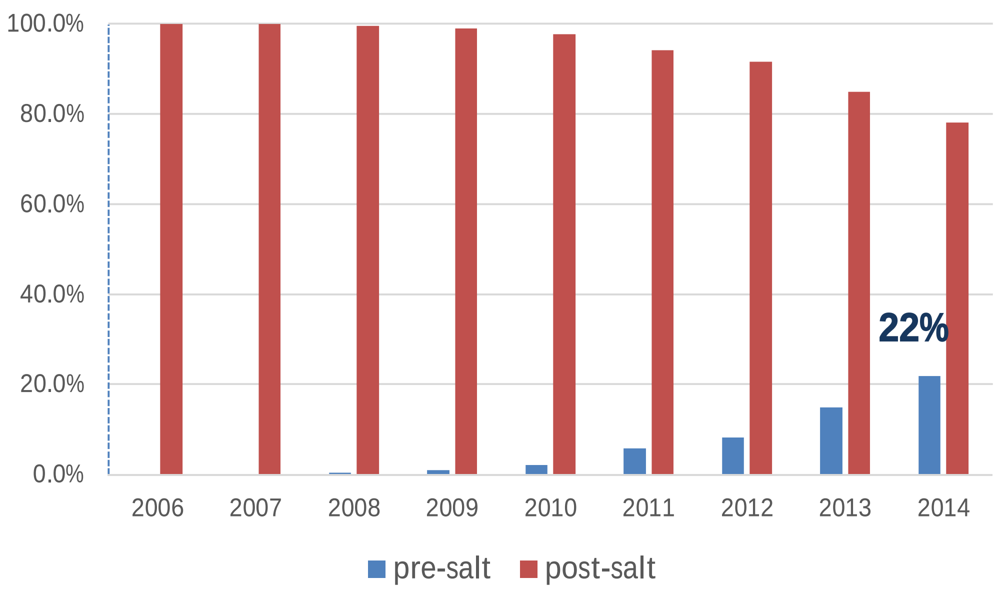
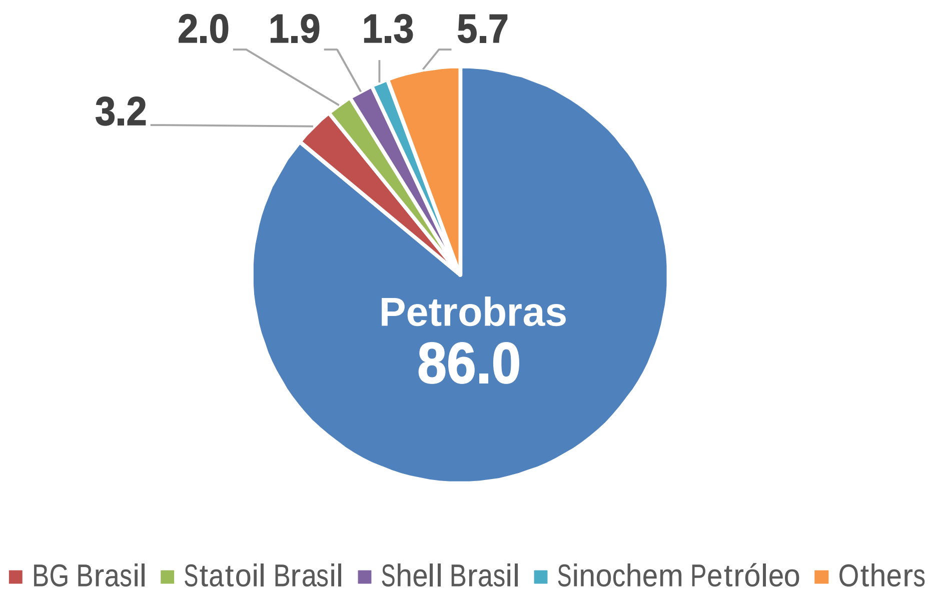
INDUSTRY OVERVIEW

Brazil Oil sector - 2014

Total proved reserves	16.2	Billion barrels
% offshore	95%	
Total production	2.346	Million bpd
% offshore	93%	

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





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Source: Anuário Estatístico da ANP

ANALYZING THE PRESENT

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

MACRO | **INDUSTRY**

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

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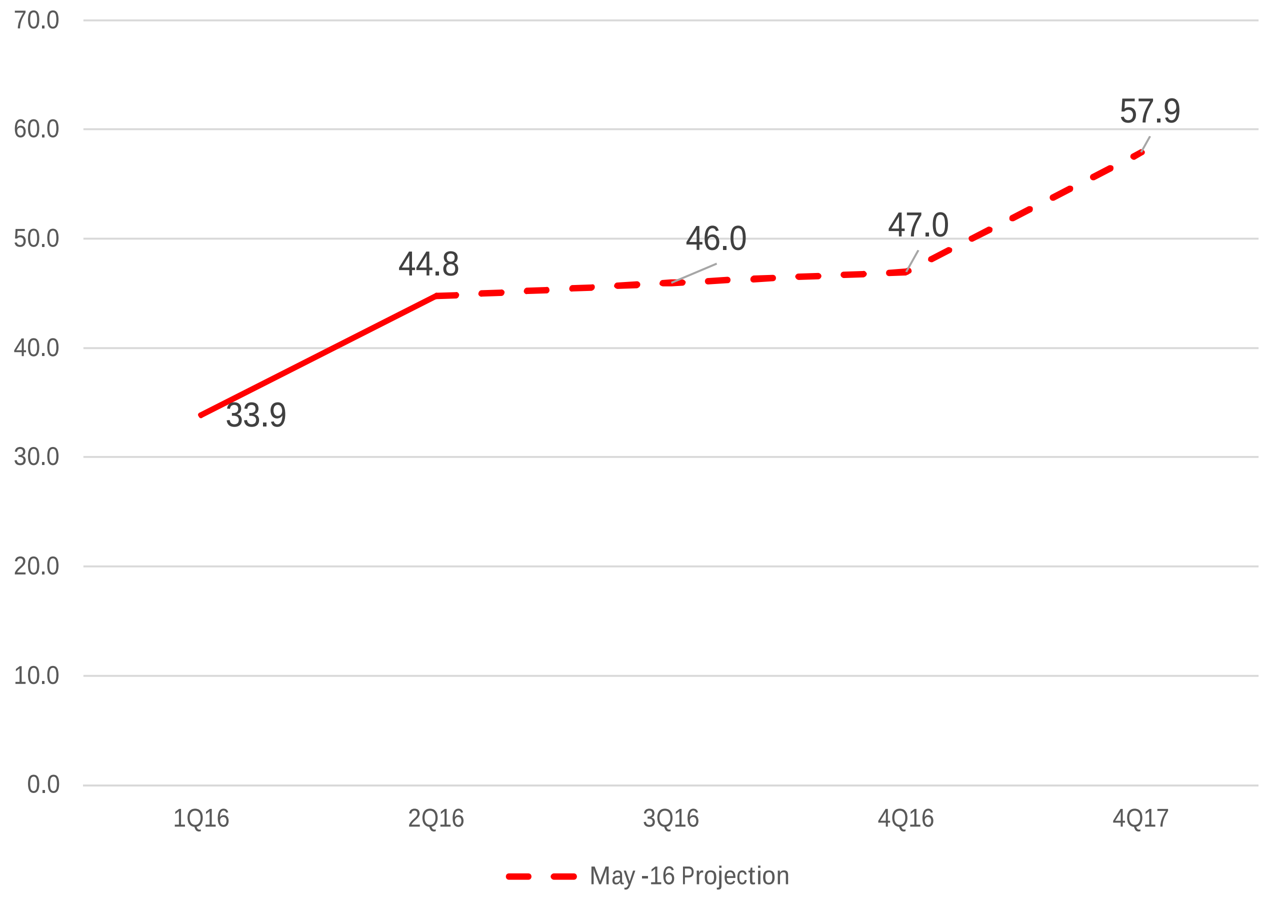
Oil prices

- 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: EIA.

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WHAT TO EXPECT IN THE FORESEEABLE FUTURE

Brazilian Macro and Political scenario

Some macro figures

	2014/2013	2015/2014	2016/2015 (E)
GDP Growth	0.1%	-3.8%	-3.8%
Household consumption	1.3%	-4.0%	-3.8%
Investment	-4.5%	-12.7%	-10.9%
Unemployment rate	6.5%	9.0%	12.4%

Source: IBRE/FGV Estimates, May-16

- Difficult economic scenario should persist in 2016 – crisis has not yet reached the streets.
- Political instability creates challenging environment for necessary reforms

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).
    - ✓ Focus on E&P, deepwater, pre-salt – expected US$ 15 bn divestment (2015/16)
- Present and Future...
  - 1Q16 results: "good overall operational performance, overshadowed by a financial burden of $2.2bn"
  - Increasing productivity in the pre-salt area: 1Mbpd
  - Divestments under way: LNG terminals, pipelines etc.
  - New CEO: improved governance, investment discipline and risk management.

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: phase out
    - ✓ 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

... The political scenario is the greatest challenge.

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