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BRAZILIAN UPSTREAM PETROLEUM REGULATION

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Austin, September 28th 2018

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AGENDA

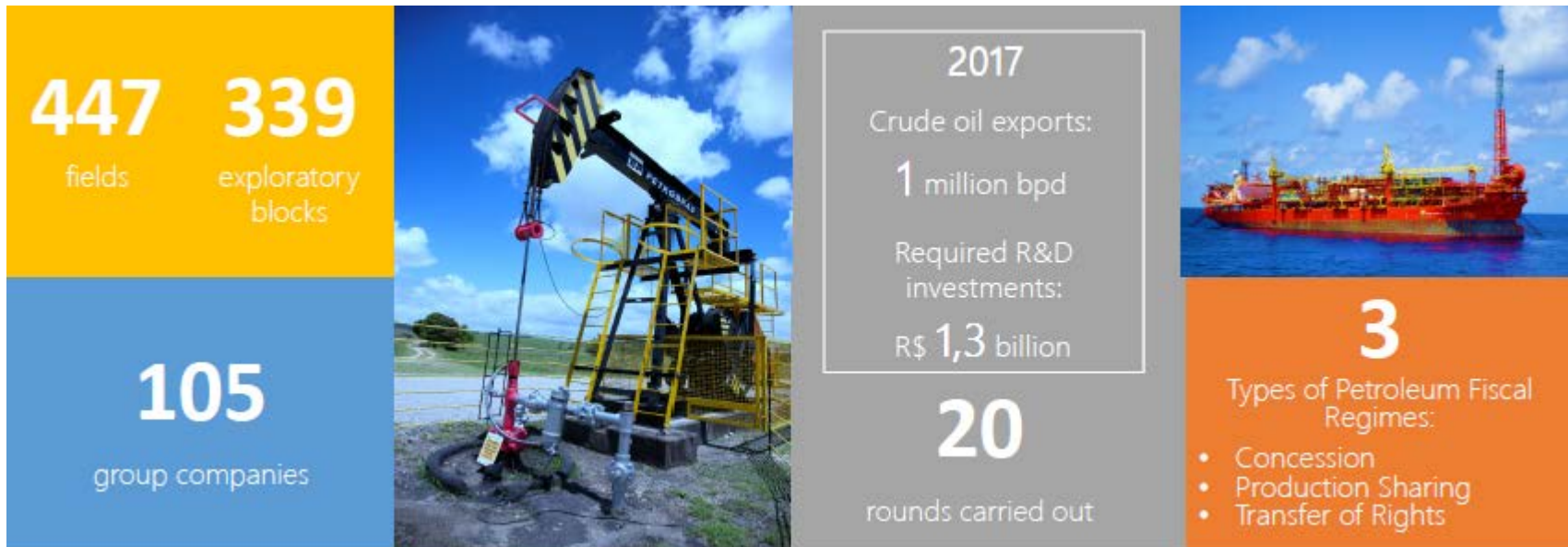
1. Brazilian Petroleum Industry Overview (focus in upstream sector)
2. Purpose of Brazilian Petroleum Agency (ANP)
3. Granting E&P Rights
4. ANP Bidding Rounds
5. Farm-in/Farm-out
6. International Petroleum Contracts adopted in Brazil
 - a) Concession Agreement
 - b) Production Sharing Agreement
 - c) Onerous Assignment Agreement
7. Unitization in Brazil
8. Conclusion

1 - Brazilian Petroleum Industry Overview



Source: ANP website

1 - Brazilian Petroleum Industry Overview



Source: ANP website

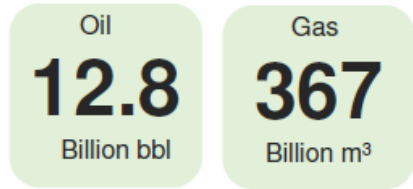


1 - Brazilian Petroleum Industry Overview

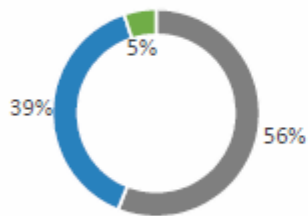
Proven Reserves

15 Billion boe

December, 2017

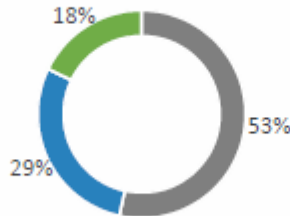


Oil Proven Reserves

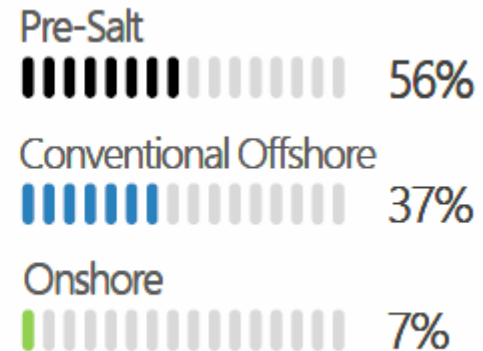


■ Pre-Salt ■ Conventional Offshore ■ Onshore

Gas Proven Reserves



■ Pre-Salt ■ Conventional Offshore ■ Onshore





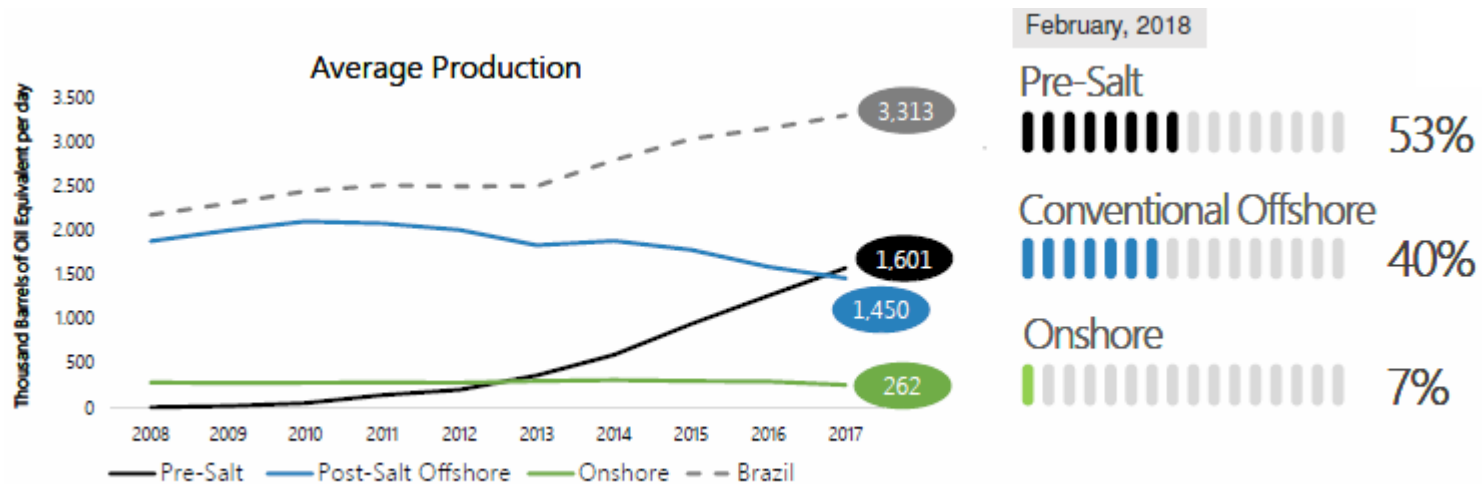
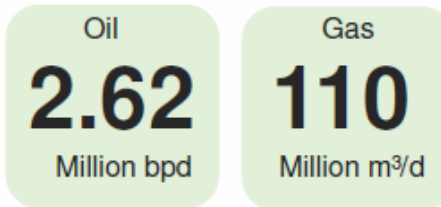
1 - Brazilian Petroleum Industry Overview

Production

3.3 Million boe/d

Were it not the pre-salt production from the blocks acquired in 2000...




February, 2018



Source: ANP website




1 - Brazilian Petroleum Industry Overview

Three different E&P environments

	Pre-Salt One of the World's hottest oil play, home to the largest offshore oil discoveries in the last decade	1
	Conventional Offshore All the East Margin besides the pre-salt region and Equatorial Margin, including new frontier areas and a significant number of large mature fields	2
	Onshore Mature Basins and New Frontier Basins (mostly gas prone) Potential for unconventional to be unleashed	3

1 - Brazilian Petroleum Industry Overview

Three different E&P environments

Environment	Number of Producer Wells	Oil Production (thousand bpd)	Average Oil Production per well (bpd)
Pre-Salt 	83	1,408	16,968
Conventional Offshore 	621	1,090	1,632
Onshore 	6,994	117	17

* Monthly Production Report from Feb/2018



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2 - Purpose of Brazilian Petroleum Agency (ANP)

The purpose of ANP is:

- implementing the national policy of oil, natural gas and biofuels contained in the national energy policy
- promoting regulatory measures and licensing rounds
- monitoring economic activities of the oil industry
- promoting technical studies aimed at supporting MME in the delimitation of blocks that will be offered in the Bidding Rounds
- enforcing best practices in the oil industry
- preparing tender protocols and agreements



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ANP is responsible for the **implementation of the oil sector policy**, in accordance with **Petroleum Law** (Law 9.478/1997), **Gas Law** (Law 11.909/2009) and **Pre-Salt Laws** (Laws 12.276/2010, 12.304/2010, 12.351/2010, 12.734/2012).

REGULATING

Establishing directives, ordinances, resolutions and normative statements

CONTRACTING

Promoting bidding rounds and entering into contracts with petroleum companies on behalf of the Federal Government

MONITORING

Monitoring the activities of regulated industries, directly or through agreements with other public agencies



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3 - Granting E&P Rights

- Bidding Rounds carried out by National Petroleum Agency
 - ANP
- Farm in/ Farm out approved by ANP (Concession Agreement) or Energy Ministry – MME (Production Sharing Agreement - PSA)



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4 – ANP Bidding Rounds

- From 1999 to 2008 – 10 Bidding Rounds - one per year



Source: ANP website

- 2010 – New Regulatory Model established
- 2013 (after 5 years) – 12th Bidding Round and the first PSC Round (Libra)
- 2015 (after 2 years) - 13th Bidding Round (weak results)
- 2017 (after 2 years – new changes) – 14th Bidding Round and 2nd and 3rd PSC Rounds
- 2018 – 15th Bidding Round



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4 – ANP Bidding Rounds

Petrobras didn't participate of the 13th Bidding Round.

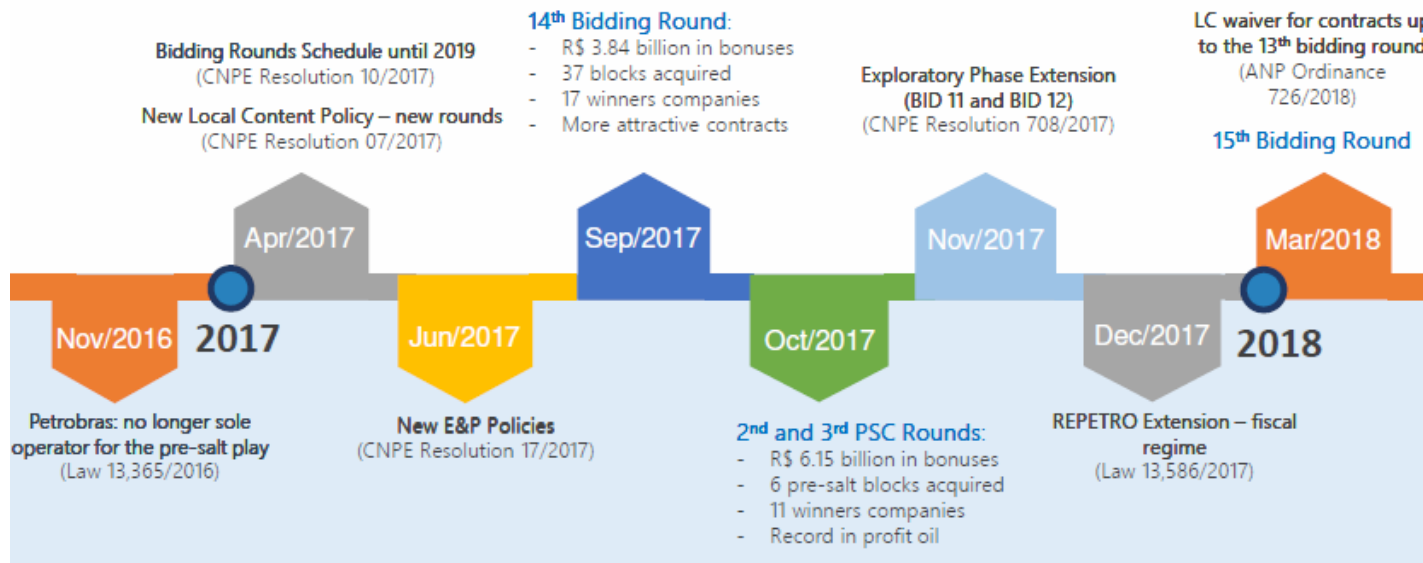
- first time since the First Bidding Round in 1999
- context of falling oil prices, devaluation of the Brazilian exchange rate in 2015 increased its debt
- corruption scandals within the scope of the Car Wash scandal undermining Petrobras's financing capacity



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4 – ANP Bidding Rounds

Main adopted measures





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5. Farm-in/Farm-out

Law No. 9,478/97, Article 29 reads: The transfer of the concession contract with the preservation of its object and condition is allowed, as long as the new concessionaire complies with the technical, economic and legal requirements set forth by the ANP.

Sole Paragraph. Transfer of the contract may only occur upon prior and expressed authorization by the ANP.



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5. Farm-in/Farm-out

Considering the following assumptions:

- a) Merger, split and acquisition of a company part of the Concessionaire consortium
- b) Change of operator or guarantor
- c) Direct or indirect change of control



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6. International Petroleum Contracts adopted in Brazil

According to Brazilian Regulatory Framework, there are three different contracts:

- Concession Agreement set by Law No. 9,478/1997 - Petroleum Law
- Onerous Assignment Agreement set by Law No. 12,276/2010
- Production Sharing Agreement set by Law No. 12,351/2010 – PSA Law



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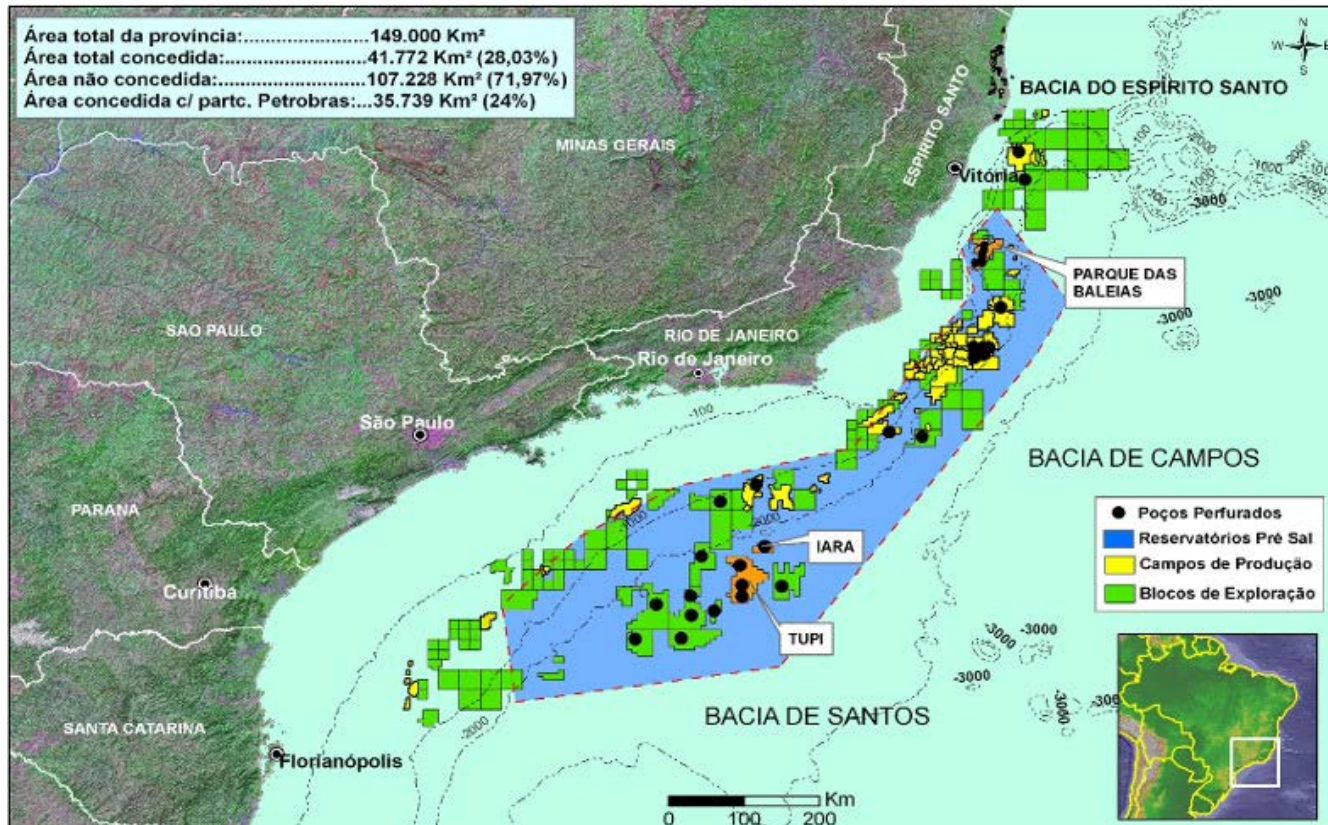
○ **Concession Agreement** was adopted when Petrobras monopoly finished, aiming at attracting investments for the new frontiers, which represented high risks (15 bidding rounds were accomplished)

- the concessionaire has the title of oil produced
- signature bonus
- local content
- minimum work program
- royalty rate is up to 10% - established by the tender protocol
- special participation (a type of windfall profit, charged in cases of high-volume production)
- payment for area rental
- taxes
- term is divided in two stages: up to 9 years for exploration (set by tender protocol); 27 years for production



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- Pre-salt discovery (Tupi prospect, currently Lula Field) led to changes in Regulatory Framework





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○ **Onerous Assignment Agreement** (signed on September, 3rd of 2010):
It's Brazilian specific agreement designed to capitalize Petrobras,
without risk (ANP did the appraisal and certified the reserves)

- Petrobras has the oil title, limited to the volume of 5 billion of boe
- Six blocks were awarded: Florim; Franco; Sul de Guará; Entorno de Iara Sul de Tupi; Nordeste de Tupi; and a contingent one: Peroba (relinquished)
- Payment: R\$ 67,8 billion in Treasury Bills – LFT and R\$ 7 billion in cash
- mandatory work program
- local content
- 10% of royalty rate
- 40 years of term, extendable for another 5 years
- Declaration of Commerciality in 2013-2014: Sul de Lula, Buzios, Sul de Sapinhoa, Itapu, Sepia, Entorno de Berbigão, Entorno de Sururu and Atapu
- Since 2014 the contract is under the process of reviewing

○ **Production Sharing Agreement** will be adopted in the Pre-salt area, aiming at increasing the Government participation in the Oil Production (4 bidding rounds were accomplished and the 5th is happening today)

- PPSA is in the Operating Committee, and appoints the chairman and half of the members
- Petrobras has the preemptive right over the operation (it was the sole operator until 2016)
- minimum signature bonus established in the tender protocol
- profit oil % to Gov as a criteria of bidding judgement;
- cost oil recovery to happen only after production
- 4-year minimum work program
- progressive local content
- 15% royalty rate
- taxes
- 35-year term
- the Government has the title of oil the produced. The oil company receives its profit oil share and the cost oil



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7 - Unitization in Brazil

PSC Law, Article 33 reads:

The unitization procedure for production of oil and natural gas shall be implemented just when the deposit extends beyond the block granted under concession regime or contracted under the production sharing regime.

PSC Law, Article 36 reads:

The Government, represented by PPSA, and based on the evaluations carried out by the ANP, shall, in cases where the deposits from the Pre-salt polygon extend to areas which are not granted or shared (open areas), enter into a production unitization agreement, whose terms and conditions shall bind the future concessionaire or contractor under the production share regime.



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7 - Unitization in Brazil

PPSA – New Brazilian NOC

Act No. 12,304/2010 – Authorized the Creation of **Pre-salt Petroleo S.A – PPSA** - with the purpose of manage PSAs and contracts to trade the Government's production.

Act No. 12,351/2010 establishes the competence of PPSA to sign the Unitization Agreements representing the Government in open areas located in Pre-salt area

Decree No. 8,063 of August, 1st of 2013 – Created PPSA

PPSA started operating in January, 2014 at ANP Central Office (very recent)



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7 - Unitization in Brazil – challenge at Pre-salt area

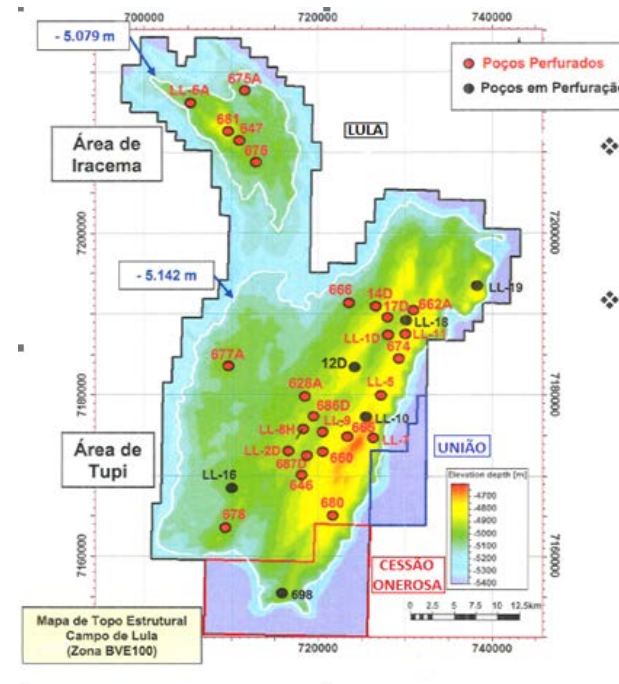
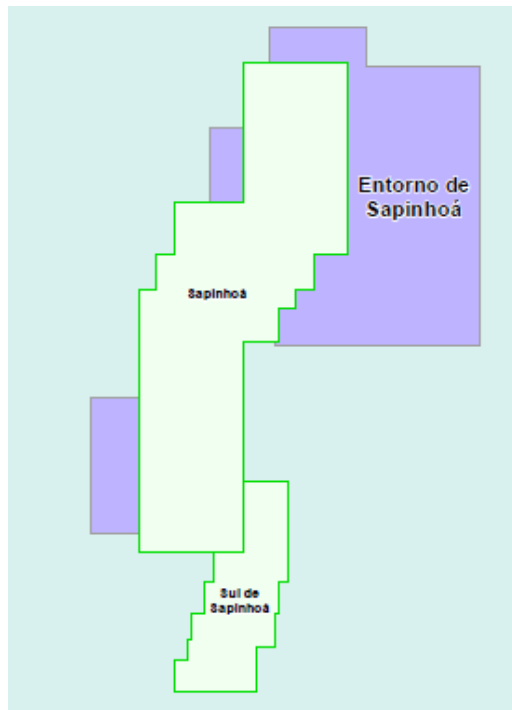
- Different IPA involved in an unitization agreement negotiation
- If the reservoir extends beyond an open area, this area must be considered in the negotiation process
- PPSA will represent the Government's rights over the open area



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7 - Unitization in Brazil – challenge at Pre-salt area

- Examples: Lula and Sapinhoá fields





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8 - Conclusion

- Despite the fact that Brazil has considerably changed the E&P Regulatory Framework, Brazil is set in a stable regime - Concession Contracts in Pre-salt areas were maintained.
- The Pre-salt area is very productive, and will place Brazil between the 10 biggest producers until 2040.
- Unitization is a challenge in Pre-salt area, and must not jeopardize its attractiveness.

THANK YOU!

Any doubts???

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