

Outlook for 2016 – Energy Sector

14th June, 2016, Rio de Janeiro

Recent Data on Oil Prices

- Oil Prices per barrel (inflation adjusted):
 - 70s – Highest USD100/Lowest USD19
 - 80s – Highest USD113/Lowest USD22
 - 90s – Highest USD70/Lowest USD16
 - 00s – Highest USD 151/Lowest USD26
 - 10s – Highest USD 119/Lowest USD28
- Oil Prices per barrel (without inflation adjusted)
 - Oil never reached USD40 until 2004
 - However: USD 28 barrel is record low in 13 years and current prices is only higher than record low in last 10 years
- Takeaways:
 - EXTREME OIL PRICE VARIATIONS ARE NORMAL IN EVERY DECADE SINCE 70s
 - CURRENT OIL PRICES ARE NOT HISTORICALLY LOW BUT LOW FOR RECENT YEARS

Recent Data on Rig Count

- Average Rig Count per year:
 - 70s – Highest Total 3659/ INT 1143 and Lowest Total 2722/INT 928
 - 80s – Highest Total 5624/ INT 1470 and Lowest Total 1919/INT 920
 - 90s – Highest Total 2128/ INT 909 and Lowest Total 1457/INT 588
 - 00s – Highest Total 3336/ INT 1079 and Lowest Total 1829/INT 652
 - 10s – Highest Total 3578/ INT 1337
- 2016 Average Rig Count is lowest for 10s:
 - Total:1573 INT: 979
 - However, in the US (488), it is lowest ever (since 1940s), LA (211) it is lowest since 1999
 - Recent US 2012 peak (1919) and LA peak (424) were higher since 1985
 - Recent low in us is 25% of recent peak while recent low in LA is 49% of recent peak
- Takeaways:
 - CRISIS IS MORE FOCUSED IN THE US AND UNCONVENTIONALS
 - CURRENT AVR INT RIG COUNT IS NOT HISTORICALLY LOW BUT IS REDUCING FAST

Recent O&G M&A Activity

- The dramatic drop in both crude oil and natural gas prices across the year combined with a high level of uncertainty about their future trajectory challenged oil and gas merger and acquisition (M&A) activity in 2015 and 2016.
- Lowest number of deals for 2015 and 2016 in a decade.
- Exceptions for value are mega deals related to consolidation of the market: Shell-BG; Schlumberger-Cameron; Halliburton-Baker Hughes.
- Restructuring affecting structure of oil & gas mergers and acquisitions.
- Private equities are new players in oil & gas mergers and acquisitions market.

➤ Takeaways:

- RECORD LOW O&G M&A ACTIVITY, ALTHOUGH MEGA DEALS SHOW CONSOLIDATION
- FINANCIAL INVESTORS WILL INFLUENCE THIS NEW WAVE OF CRISIS O&G M&A

Oil and Gas M&A in Brazil

Year	No. of Farm-ins	Foreign	National	Petrobras
2009	9	-	-	-
2010	20	5	15	7
2011	43	28	15	2
2012	38	18	20	8
2013	8	2	6	2
2014	17	7	10	1
2015	8	2	6	2
2016	4	1	3	-

Petrobras Divestment Plan in 2016

- Petrobras target is to divest USD 14,4 billion up to July 2017.
- Petrobras stated that the quality of the assets offered should be enough to keep the investors interested in Brazil.
- Assets include: E&P areas, BR Distribuidora, TAG, Liquigas, Power Plants, Regas Units, Braskem, and others.
- Compared to other major oil companies, Petrobras has been less efficient in selling assets in 2015: Chevron USD5.7B, Shell USD 5.5B, Total USD 4B, BP USD 2.8B, Exxon USD 2.4B and Petrobras USD 0.7B.
- Deals affected by compliance issues.

Regulatory Perspectives

- **PETROBRAS NON OPERATOR:** Likely end of Petrobras' monopoly as operator in the pre-salt areas.
- **BID OF NON LICENSED ACREAGE WITH DISCOVERY:** Areas with discovery are not evolving as some parts of the discovery are outside the concession area, sometimes within the pre-salt area.
- **NATURAL GAS CHANGES:** Petrobras sold 49% of Gaspetro and is currently negotiating the sale of TAG's assets. deep progress in regulation matters. Recently, the ANP enacted a new gas resolution, changing the rules for: (i) open access; (ii) assignment of contracted capacity; (iii) swap activities; (iv) transportation services; and (v) public call for contracted capacity.

Final Takeaways

- Crisis is not news in the oil and gas sector, but adjustment to new reality compared to recent years is required.
- Crisis has affected more the US market than any other country and particularly unconventional industry.
- Implications on oil and gas financing and private equity are expected.
- Oil and Gas M&A activity was expected to rise, however instability on pricing is reducing deal flow.
- PB is expected to account for a material percentage of the international oil and gas M&A in the next two to three years.
- Changes to the Brazilian energy landscape as a result of Petrobras divestment and changes in law could benefit a lot the Brazilian energy sector, particularly in terms of diversity of investors, competition, visibility and attraction of investment.
- Governments, general public and private sector should adjust to the new reality!

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SÃO PAULO – PAULISTA

Al. Joaquim Eugênio de Lima 447
01403 001 São Paulo SP Brasil
T 55 11 3147 7600

SÃO PAULO – FARIA LIMA

Rua Campo Verde 61 3º andar
01456 000 São Paulo SP Brasil
T 55 11 3035 4050

BRASÍLIA

SHS Q6 Bloco C Cj. A sala 1901
70322 915 Brasília DF Brasil
T 55 61 3218 6000

RIO DE JANEIRO

Praia do Flamengo 200 11º andar
22210 901 Rio de Janeiro RJ Brasil
T 55 21 3231 8200

NEW YORK

712 Fifth Avenue – 26th floor
New York NY USA 10019
T 1 646 695 1100