



Petrobras Announces Five-Year Investment Plan

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Overview

Brazilian state-owned oil giant Petrobras announced June 29th that its Board of Directors has approved a five-year Business and Management plan for 2015-2019. Generating value for the company's shareholders and deleveraging are the primary objective of the new plan. Petrobras intends to decrease its net leverage and net debt ratios with targets set for 2018 and 2020. The plan revises the amount of divestment in 2015/2016 and anticipates actions by the company to restructure businesses, demobilize assets, and further divest. Petrobras' revised its total production of oil and gas by 2020 to an estimated 3.7 million boed, a 30% decrease from its previous plan.

Investment

Petrobras' current plan reduces investments by 37% in comparison to its previous plan for a total investment of \$130.3 billion USD. The new investment portfolio limits expenditures primarily to maintaining operations and to projects relevant to offloading natural gas. Other investments will focus on exploration and production (E&P) as well as the company's pre-salt reserves. Petrobras plans to assign 3% of E&P expenditures to operational support, 11% to exploration, and 86% to production development. The company also plans to invest \$64.4 billion USD in new production systems with 91% of these systems dedicated to pre-salt oil.

2015-2019 Business and Management Plan (US\$ Billion)		
Segments	Capex	%
Exploration & Production*	108.6	83
Downstream**	12.8	10
Gas & Power	6.3	5
Other Areas	2.6	2
Total	130.3	100

* Includes investment in international business (US\$ 4.9 billion).

** Includes Distribution (US\$ 1.3 billion).

Investments in the Downstream segment will total \$12.8 billion USD of which 10% will be dedicated to distribution, 11% to the completion of the Abreu and Lima refinery in the state of Pernambuco, and 69% will go to maintenance and infrastructure. The company plans an additional outlay of \$6.3 billion USD to the Gas and Power segment for the construction of pipelines and processing capacity to treat pre-salt gas.

Divestments

Divestments for 2015/2016 have been revised to \$15.1 billion USD. Petrobras plans for 30% of these divestments to come from E&P, 30% from Downstream, and the remaining 40% from Gas and Power. Additional divestments and demobilization of assets is expected to total \$42.6 billion USD in 2017/2018. The plan also sets goals for net leverage and net debt ratios. The target for net leverage is below 40% by 2018 with a further reduction to below 35% by 2020. Net debt targets are a reduction to 3.0x and 2.5x by 2018 and 2020, respectively.

Production

Petrobras estimates that total production of oil and gas, including its international fields, will reach 3.7 million boed in 2020, a 30% decrease from previous estimates of 5.3 billion boed. At that point, the company also expects 50% of oil production to be pre-salt. These estimates reflect the delayed delivery of production units and the postponement of projects with lesser maturity dates. (Note: From 2010 to 2014, the annual daily average pre-salt production grew nearly 12 times from 42,000 boed to 492,000 boed in 2014. In April 2015, the pre-salt production reached 800,000 boed.) The new plan includes measures to reduce manageable operating costs, excluding basic material costs, in order to optimize productivity gains. Petrobras has identified greater efficiency in managing contracted services, personnel cost, costs associated with input acquisition, and reorganizing the company's businesses.

Conclusion

Petrobras' share price has fallen 26% in the past 12 months reaching R\$13.17 per share as of June 29. Critics of the state owned company say the decline in price from R\$50 per share in 2007 is largely self-inflicted. However, analysts believe that the new business plan announced by Petrobras is feasible and more accurately reflects the company's realities than previous investment strategies. In addition, they find decreases in investment to be in line with market expectations due to the low price of oil. While the planned divestments will help Petrobras solve its existing leverage problems, the

proposed cutbacks have significant implications for Brazil's economy. Additionally, some analysts are skeptical that Petrobras' aggressive divestment plan will attract enough investors given the current worldwide oil scenario. There is also concern from analysts that Petrobras did not reveal a transparent policy for setting prices after its announcement that the company's domestic fuel pricing policy would involve parity with international prices. It also failed to address whether the government would change rules requiring high levels of local equipment content use in Brazil's oilfields, a policy that increase the cost of developing reserve.

The Brazilian Congress is currently discussing possible changes to the current production sharing agreement law for pre-salt fields, specifically regarding the removal of the mandatory 30% stake and operational role for Petrobras. If these changes are successful, it would open the way for other oil companies to take an operator role and may attract more private sector investment to the Brazilian oil and gas sector. However, given the ongoing Lavo-Jato corruption scandal, it is difficult to assess how much interest from foreign operators this change in the law would attract in the short-term.

U.S. companies interested in seeking Brazilian commercial partners to do business in Brazil are encouraged to view CS Brazil's energy page for information on CS services, additional market reports, power point presentations, and upcoming trade events.

http://www.export.gov/brazil/industryhighlights/energy/eg_br_051813.asp

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