SPEECH AT LUNCHEON OTC 2019

“UNPARALLELED OPPORTUNITIES IN BRAZIL”

Márcio Félix

Secretary of Oil, Gas and Biofuels

Ministry of Mines and Energy

Ladies and gentlemen,

I bring to you a very warm greeting by Brazil’s Minister of Mines and Energy, Admiral Bento Albuquerque, who was not able to attend this lunch as he was called upon by President Bolsonaro and had to stay in Brasilia for dealing with urgent matters.

I will deliver this presentation on his behalf. However, before doing that, I will request your kind permission to project a video with a message by Minister Albuquerque.

(INSTITUTIONAL VIDEO)

At the very outset, I would like to congratulate all the entities responsible for organizing the OTC as well as the Brazilian Petroleum Institute (IBP) as the Offshore Technology Conference celebrates, this year, its golden anniversary.

Having the opportunity to speak to such a distinguished audience of government authorities, industry leaders and oil and gas experts demonstrates the steady and ever-increasing interest of the international business community in Brazil due to the extraordinary investment opportunities offered by Brazil’s oil and gas sector. Those opportunities are (and I should highlight that) without precedent in the history of the offshore industry.

The Bolsonaro administration is strongly committed to making Brazil an attractive, safe and predictable destination for long-term investment. To make that possible, three top priorities have been identified: (i) governance, (ii) regulation and (iii) predictability.

- Governance. Brazil seeks to stimulate more efficient processes and to strengthen finalistic structures, capable of meeting the interests and needs of society;

- Regulation. The new administration wants to strengthen the rule of law and the enforcement of contracts in Brazil by promoting the adoption of business-friendly, safe and stable rules and regulation;

- Predictability. By improving governance and regulation, predictability is strengthened. Predictability that, as all of you know, is critical for long-term investments.

I also would like to highlight the government's commitment to a new economic agenda based on 4 main pillars: privatization, pension system reform, administrative reform and trade liberalization.

As we advance in the implementation of this new economic agenda, Brazil will become a more competitive and better-structured market, capable of attracting new investments, producing high-quality goods and services. Economic growth will be resumed at an accelerated pace, promoting the much-awaited well-being of Brazilian society.

In parallel to the new economic agenda, Brazil’s new administration seeks to facilitate investment, production and job generation in our country. A good example is the priority given by the Ministry of Mines and Energy. Brazil wants to allow a greater participation of private and foreign capital in the country’s gas market. To achieving that goal, a multiannual program of exploration and production biddings has been set. Let me also highlight that, in the second semester, the transfer of rights surplus bidding round will be carried out by the National Petroleum Agency.

Brazil with its diversified ecosystem has one of the largest biodiversity on Earth. Our mineral riches are abundant and diverse. Brazil needs technology cooperation and new partners that will help the country transforming its natural riches into progress and prosperity for all its citizens.

The Ministry of Mines and Energy, under the leadership of Minister Bento Albuquerque, is committed with that new economic agenda. In that spirit, we are eager to face all present and future challenges.

In the second semester, this year, the Government of Brazil will promote the transfer of rights surplus bidding round, the 6th production-sharing bidding round, of pre-salt areas, and the 16th round of exploratory blocks under the law of concession. In addition to all that, the National Petroleum Agency will also conduct the so-called open acreage license lease under concession model. Those new biddings will definitely spur the data market, stimulating the trade of services, such as seismic surveys, accelerating exploration activity and decreasing the exploratory risk.

The transfer of rights surplus bidding round, the 6th production-sharing bidding round, the 16th bidding round of exploratory blocks, the open acreage license lease and the auctions scheduled for 2020 and 2021 will consolidate Brazil as a predictable and attractive long-term destination for oil and gas investments.

Since April 2018, the National Petroleum Agency (ANP) has been auctioning blocks under the so-called open acreage. Those blocks situated across Brazilian basins are permanently offered alongside regular bidding rounds. It includes both onshore and offshore blocks (outside the pre-salt polygon) that were auctioned in previous rounds, but were later returned to ANP. The permanent offering of open acreage is an innovation implemented by the Brazilian government that has contributed to the consolidation of Brazil as an investment destination.

Under the law of concession, the ANP will hold on October 10, this year, the 16th bidding round of exploratory blocks. The 16th round will auction 30 exploratory blocks located in the basins of Pernambuco-Paraíba, Camamu-Almada, Campos and Santos, that comprises an area of nearly 30 thousand square kilometers.

Those blocks are an unique investment opportunity and shall raise much interest from investors worldwide as many of them are located close to the pre-salt polygon or in the vicinity of areas where oil has been discovered recently.

The 6th production-sharing bidding round of pre-salt blocks will be held on November 7, this year. It includes six exploratory blocks with high potential of oil discovery: Aram, Bumerangue, Cruzeiro do Sul, Sudoeste de Sagitário and Norte de Brava.

Petrobras has already manifested its intention of exercising the company's operatorship right of preference in three blocks: Aram, Sudoeste de Sagitário and Norte de Brava. The participation of Petrobras in those three blocks, with the 30%-minimum stake of investment, tells a lot about the potential of the blocks that will be offered in the 6th production-sharing bidding round.

The slide shows the values of the signing bonus and the minimum percentage (or goodwill) of profit oil to be paid by winning bidders to the Government of Brazil.

In its first one hundred days, Brazil's new administration, under President Bolsonaro, has succeeded in getting approved the long-awaited transfer of rights surplus bidding round. That auction shall attract the interest of investors and oil companies worldwide as it will offer an area of low geological risk and high productivity with massive volumes of recoverable oil.

Transparence and confidence in the transfer of rights surplus bidding round have been strengthened by the Brazilian government that has held one-on-one meetings with over 17 companies, including the majors. In those meetings, the government provided clarifications and received suggestions on how to enhance the bidding process. Further meetings shall be conducted by Brazilian authorities with oil companies in Houston during this OTC week.

On February 28, this year, the National Council of Energy Policy established the principles and guidelines based on which ANP will conduct that auction:

- Production-sharing shall be the contracting model;

- The areas to be offered are: Atapu, Buzios, Itapu and Sepia;

- The winner shall pay Petrobras in consideration of the investments made by the company. The winner will be compensated with assets and a share of the production. The CNPE has set guidelines for calculating that compensation;

- The winner and Petrobras shall sign an agreement, that will regulate operation and co-participation in each field.

In subsequent meetings, Brazil's National Council of Energy Policy, the CNPE, has also approved specific terms to be added to the transfer of rights agreement and the auction's technical and economic parameters. In addition to that, the Ministry of Mines and Energy laid down Decree 213, establishing the guidelines for calculating Petrobras' compensation.

I am confident that the transfer of rights surplus bidding round shall be indeed a turning point in Brazil's offshore history. It will take place just one day before the inauguration of Brazil's OTC, that will be hosted jointly by the OTC itself and the Brazilian Petroleum Institute, IBP.

On the slide, you can seed the minimum percentage (goodwill) of profit oil in each field and the signature bonuses.

I am 100% sure, and I say that on behalf of Minister Albuquerque, that the bidding rounds to be held in Brazil in the second semester shall be a breakthrough in the world's oil industry. The giant oil volumes of those fields will attract all the participation of major oil companies in those rounds. For Brazil, all that only means one thing: job-generation and prosperity for our people. This is a unique opportunity that shall not be wasted.

As part of that market-driven revolution that Brazil is going through, the Ministry of Mines and Energy is fully committed to promote a revolution in the gas sector. The Government of Brazil aims to develop a competitive natural gas market, that will transform the associated gas extracted from pre-salt fields into jobs and prosperity for our citizens.

We have before us an unprecedented opportunity to promote a revolution in the gas sector. The transformation that shale gas did in the United States serves as an inspiration. It is our intention to consolidate Brazil as a truly competitive, transparent and business-friendly market environment that favors competition, attracts investments, both domestic and foreign, and delivers affordable gas to Brazilian homes, cars and industry.

The so-called new gas market program, led by the Ministry of Mines and Energy, is solidly based on four pillars: (i) promotion of competition, (ii) the integration of the gas network with the electrical and industrial sectors, (iii) harmonization between federal and state regulations, and (iv) simplification and reduction of taxes.

In conclusion, let me reassure all of you of Brazil's unwavering commitment to the reforms that will restore the country's economic health. Privatization, pension system reform, administrative reform and trade liberalization will transform Brazil's economy and open new and unprecedented opportunities for long-term investments in the country, mainly in the oil and gas sector.

Minister Albuquerque and I as well hope to see all of you in Rio de Janeiro, on October 28. On that date, Rio will be the world's oil and gas capital as the city will be hosting OTC Brazil. On that same week, we will have, as I have told you, another major event going on in Brazil that is the transfer of rights surplus bidding round.

I hope that the businessmen and women in this very distinguished audience, and the companies that you represent, will be a full part of the transformation that Brazil will go through in the next years. The international business and investors' community, as represented here today, will be one of the major forces in strengthening Brazil's economy and in opening up a new chapter of prosperity, job-generation and growth in our country's history.

Thank you very much for your kind attention.

Muito obrigado.