

MAYER • BROWN

Opportunities with Asian Energy Players

May 2015

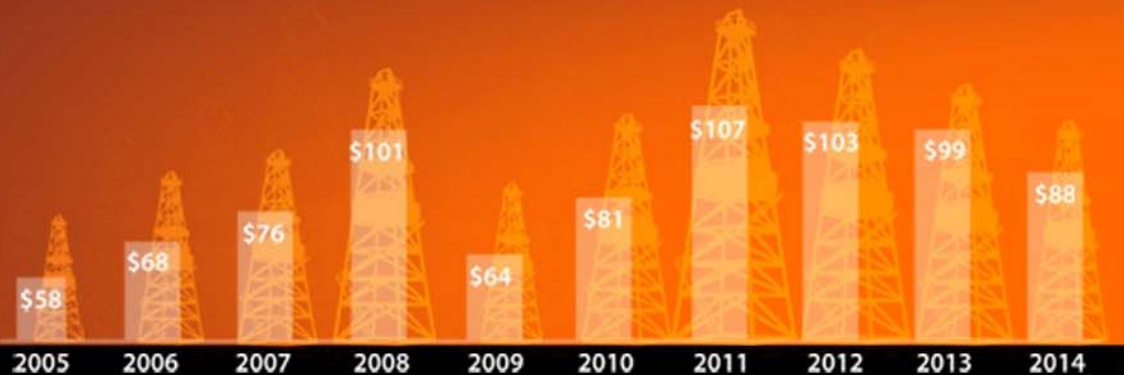
Key Considerations under Current Oil & Gas Market

Toshi Yoshida

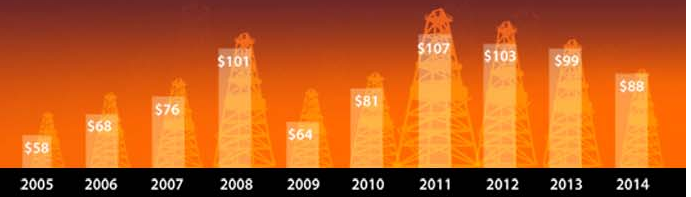
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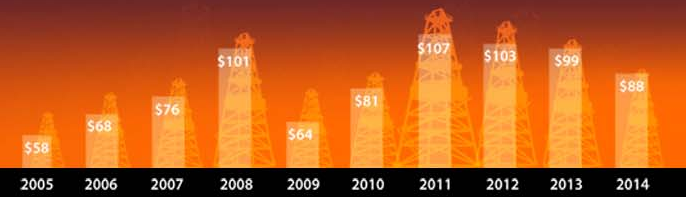


Korea/Japan



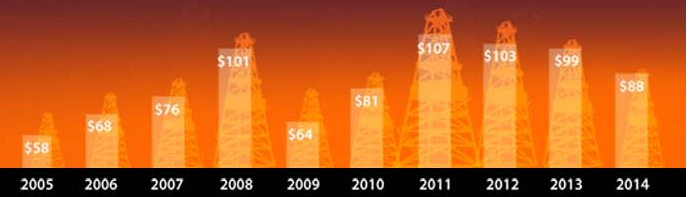
- Little domestic hydrocarbon productions
- Heavy reliance on import crude and gas (LNG) for primary energy supply
- Contrast in nuclear power plants currently in operation

China



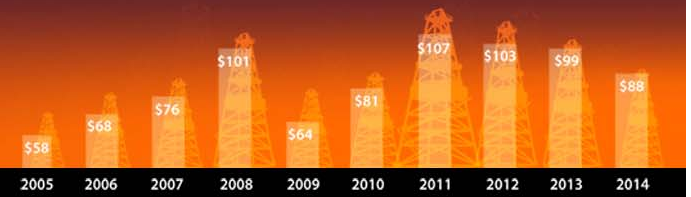
- Coal remains a major energy source
- Significant production of domestic oil and gas
- Possibility of shale gas development
- Gas import from Russia by pipelines
- LNG in coastal regions

Japan



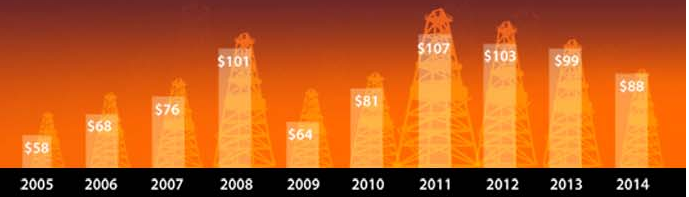
- Post nuclear accident energy policy
 - Strategic Energy Plan April 2014
- With or without nuclear power plants?
 - Renewables
 - Clean coal
 - LNG
 - One of top agendas in Prime Minister Abe’s visit to Washington DC
 - TEPCO/Chubu Electric alliance has created the world’s largest purchaser of LNG while Kogas remains close at the top - Create bargaining power in LNG purchase

Upstream/Shale Gas



- Shale gas acquisitions by Asian companies
 - Japanese, Chinese, Korean
 - Struggling with cheaper gas prices/lower productions but...
- Discouraged by cheap oil and gas prices?
 - Feedstock for LNG tolling facilities
 - New opportunities with lower exploration risks (proven reserves as opposed to exploration)
 - Diversifying global upstream portfolio
 - Fracking technologies learned by Chinese?
 - Crude oil export?

Crude Oil Export from the U. S.



- Condensate

- First export last summer - Ruled by BIS as a petroleum product if condensate is processed by splitters
- Initial buying interest by Japanese and Korean refineries
- Exported to Europe in winter
- Will US condensate find home in Asia?

10th Annual Global Energy Conference

Petrobras scandal overview and its impact on investment.

May 2015

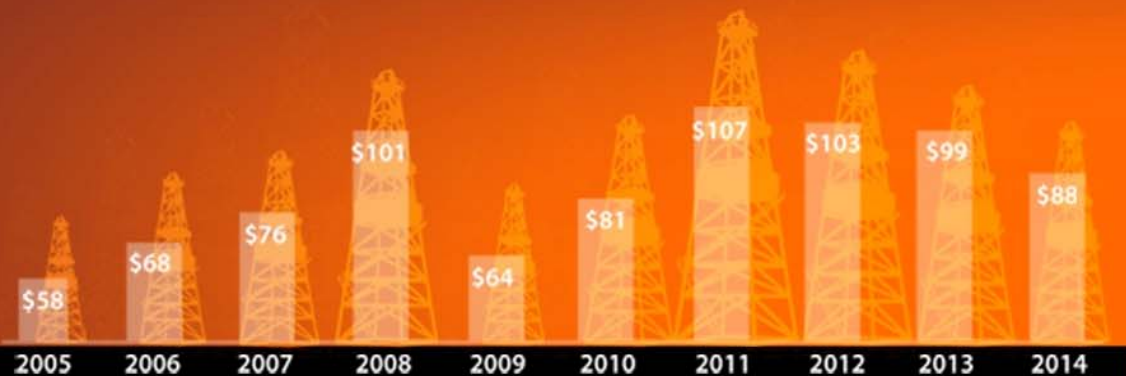
Will the government change energy policies?

Alexandre R Chequer, Partner

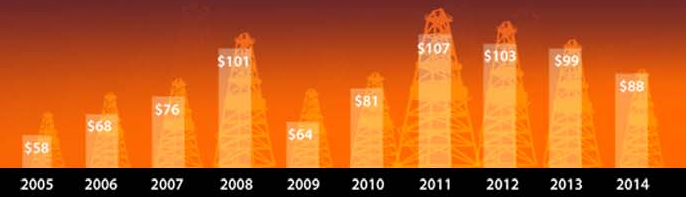
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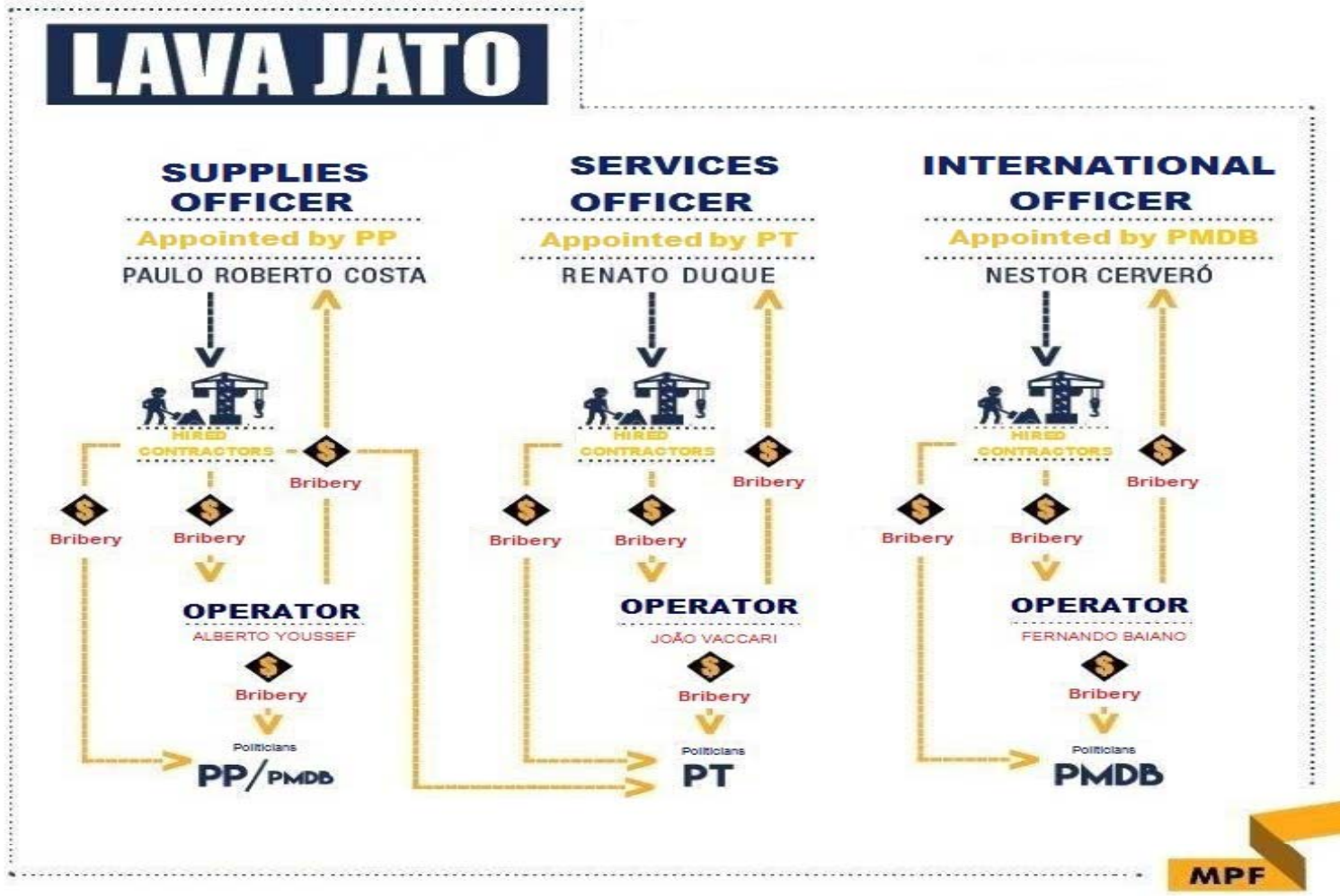
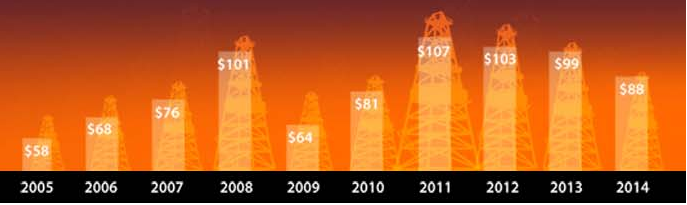


The Calm Before the Storm

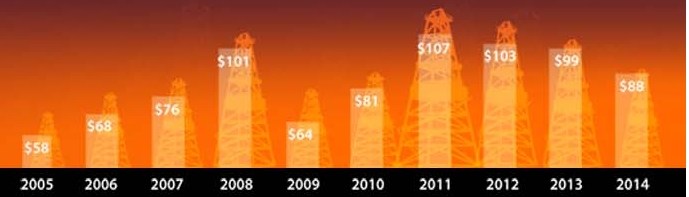


- **July 2009** - “Operation Car Wash” is launched
 - Focused on illegal money brokers; first phase was named “Car Wash” because of the practice of using gas stations for money laundering
 - The name “Car Wash” has stuck, although each phase has its own codename (“Dolce Vita”, “Bidone”, “Doomsday”, “My Way”)
- **March 2014** – “Operation Car Wash” becomes public, but it attracts little attention
- **March-October 2014** – Behind the scenes, however, a senior Petrobras executive and a black market money dealer enter into plea agreements with Brazilian authorities and begin cooperating

The Alleged Scheme



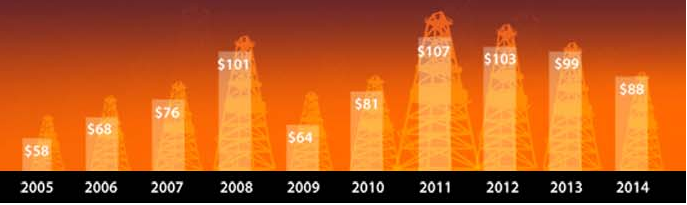
The Investigation Emerges



- *Operation Car Wash becomes a popular Brazilian soap opera*

- **November 2014** – Petrobras’ auditor refuses to sign-off on its third quarter earnings
- **November 12, 2014** – SBM Offshore, a Dutch supplier of offshore oil vessels, settles a bribery case involving \$240 million of payments to Petrobras employees
- **November 14, 2014** – “Operation Doomsday”
 - Brazil’s Federal Police execute 45 dawn raids
 - Police arrest several senior executives at major Brazilian companies, including from Petrobras and major construction companies
 - Police seize thousands of documents to support the criminal investigations and pending charges

Petrobras' Directors Arrests



Renato Duque
November 14, 2014 + March 16, 2015

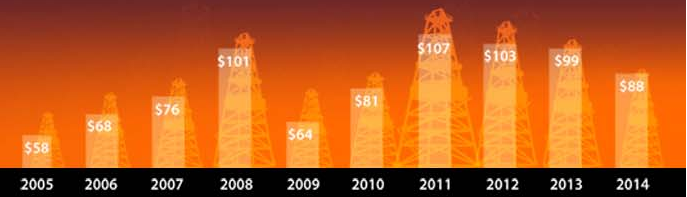


Paulo Roberto Costa
October 1, 2014



Nestor Cerveró
January 14, 2015

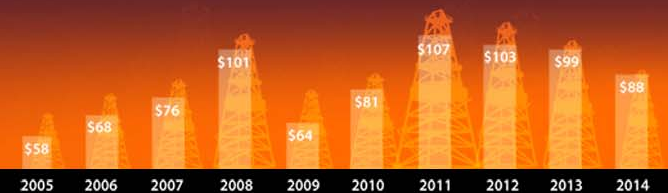
The Investigation Unfolds



- **December 10, 2014** – The Special Congressional Investigations Committee issued report recommending further investigations on 20 companies:

Andrade Gutierrez S.A.	Grupo Odebrecht
Astromarítima Navegação S.A.	Hope Recursos Humanos
Clyde Union Imbill	IESA Projeto, Equip. e Montages S.A.
Consórcio RNEST	Jaraguá Equipamentos
Construções e Comércio Camargo Corrêa	Mendes Junior Engenharia S.A.
Construtora OAS S.A.	Metasa S.A. Indústria de Metais
Construtora Queiroz Galvão S.A.	Muranno Brasil Marketing Ltda
Engevix Engenharia S.A.	OAS Engenharia e Participações
Galvão Engenharia S.A.	Toyo Setal Emp. Ltda.
Gandra Brokerage	UTC Engenharia

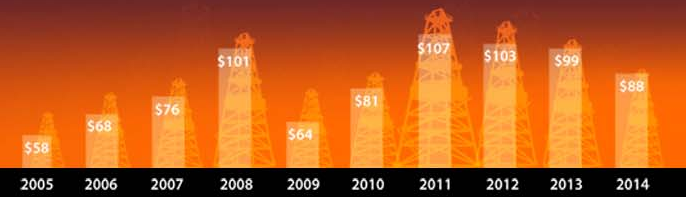
The Investigation Unfolds



- **December 29, 2014** – 23 companies related to “Operation Car Wash” are temporarily banned from contracting with Petrobras and suspended from participating in Petrobras’ bids. Number has changed overtime (March 30):

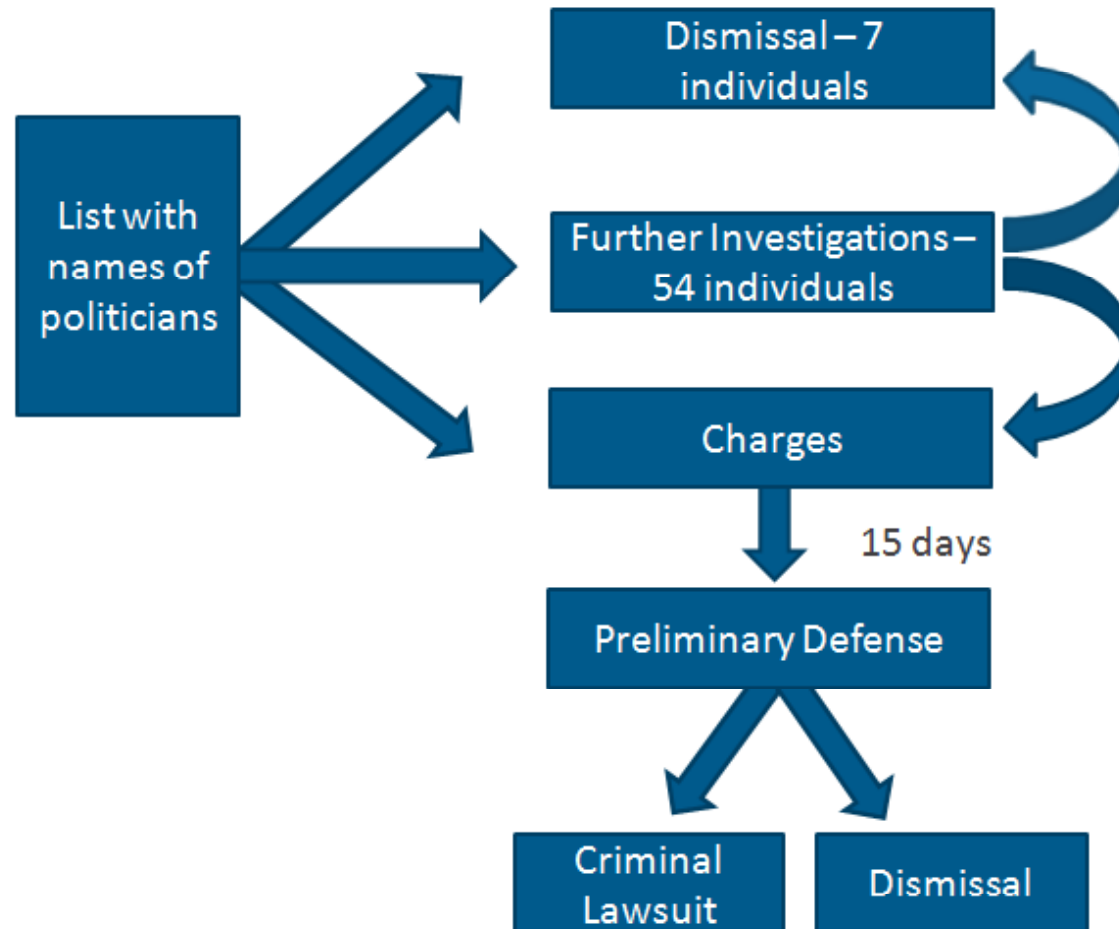
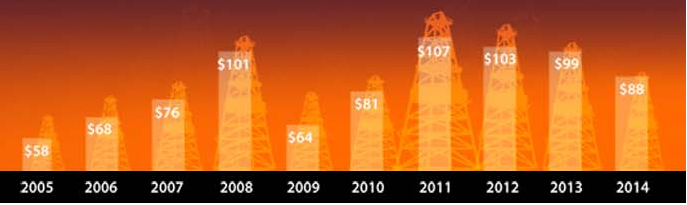
Alumni Engenharia S.A. (ALUSA)	Fidens Engenharia S.A.	Construtora OAS S.A.
Construtora Andrade Gutierrez S.A.	Galvão Engenharia S.A.	Promon Engenharia Ltda.
Construções e Comércio Camargo Corrêa S.A.	GDK S.A.	NM Engenharia e Construções Ltda.
Carioca Christiani Nielsen Engenharia	Construtora Norberto Odebrecht S.A.	Skanska Brasil Ltda.
Odebrecht Ambiental S.A.	Odebrecht Óleo e Gás S.A.	OAS Óleo e Gás S.A.
CONSTRUCAP-CCPS Engenharia e Comércio S.A.	IESA Projeto, Equip. e Montages S.A.	Techint Engenharia e Construção S.A.
IESA Óleo e Gás S.A.	Sanko Sider Comércio , Importação e Exportação de produtos Siderúrgicos Ltda.	EIT – Empresa Industrial Técnica S.A.
Niplan Engenharia S.A.	Schahin Engenharia S.A.	TKK Engenharia S.A.
Construtora Queiroz Galvão S.A.	Jaraguá Equipamentos Industriais Ltda.	Tomé Engenharia S.A.
Egesa Engenharia S.A.	Mendes Junior Trading e Engenharia S.A.	UTC Engenharia S.A.
OAS Óleo e Gás S.A.	MPE Montagens e Projetos Especiais S.A.	Queiroz Galvão Óleo e Gás S.A.

The Investigation Unfolds

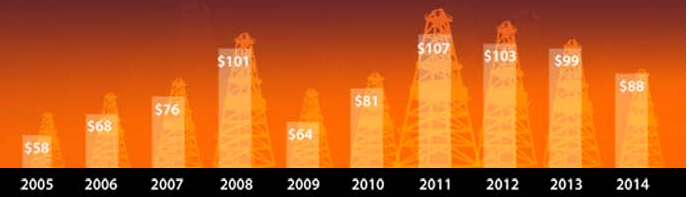


- **January 14, 2015** – Brazil arrests the former director of Petrobras’s international division
- **January 28, 2015** – Petrobras releases a third-quarter non-audited reports two months after the deadline and after PWC declined to sign off on the results
- **February 4, 2015** – Petrobras CEO Graça Foster and five other officers resign
- **February, 2015** – several new arrests
- **March 3, 2015** – Brazil’s Attorney General files investigation requests before Supreme Court against sitting politicians
 - Indicts Presidents of Congress (Senate) and House of Representatives

Procedure at the Supreme Court

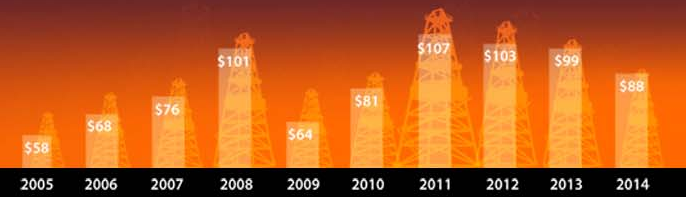


The Investigation Continues



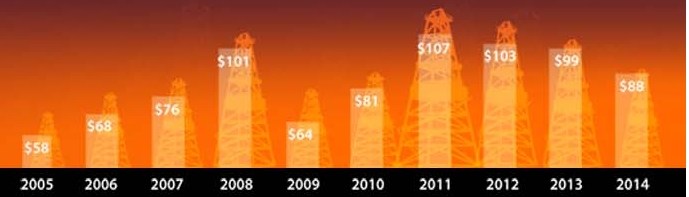
- **March 13, 2015** – Former and current Governors of the State of Rio de Janeiro (Sergio Cabral and Luiz Fernando Pezão) and Governor of the State of Acre are investigated at the Superior Court of Justice (STJ)
- **March 16, 2015** – Operation “What Kind of Country is This?” (“*Que país é esse?*”) with several dawn raids
 - Former Petrobras Services Officer is arrested
 - PT Treasurer (João Vaccari) is charged with corruption
- **March 27, 2015** – New arrests
 - President of Galvão Engenharia (Dario Queiroz Galvão Filho)
 - Alleged “Operator” Guilherme Esteves

The Investigation Continues



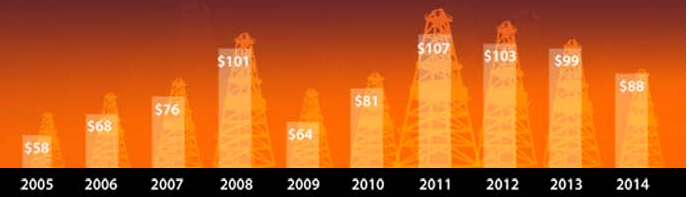
- **March/April 2015** – The investigations continue on six (6) fronts:
 - At the Supreme Court (Congressmen and Ministers)
 - At the Superior Court of Justice (State Governors)
 - At the Curitiba Federal Court (all other individuals)
 - At CGU (Corporate violations of the CCA)
 - Possibly at CADE (cartel formation)
 - At the Congressional Investigations Committee (all)
- **March 15, 2015** –
 - More than two million demonstrate in 33 cities against corruption and the government
 - Government promises legislation against corruption

The Investigation Continues



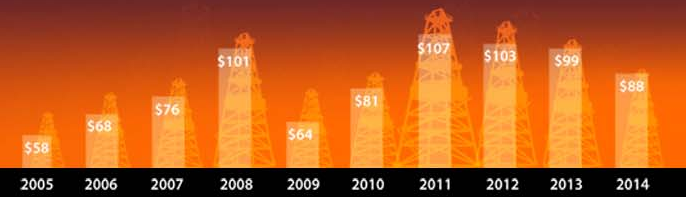
- **April 22, 2015** – Petrobras issues its financial statements with a USD 2,1 billion write down for corruption and a USD 14.8 billion impairment
- **April 29, 2015** – Several of the arrested executives from the accused engineering contractors were moved from jail to house arrest with ankle bracelets, while await for conclusion of the process. The investigations are still in course, with some politicians in jail and new arrestments expected at any time.
- **May, 2015** – Petrobras vows to seek reimbursement for the write down

Perspectives and Opportunities



- **The other side: Opportunities for EPC Contractors and IOCs**
 - Petrobras is taking the opportunity to reorganize its governance structures and to shift its current partnership and contractors portfolio to a more reliable basis, opening opportunities to contractors – mostly international - not involved in the scandal
 - Petrobras also manifested the intent to be less participative in upcoming ANP bidding rounds, which will increase the availability of areas, reduce the value of bids and force the creation of new partnerships, representing a unique opportunity for new players to step into the country

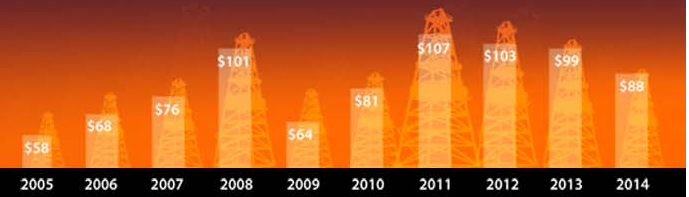
Perspectives and Opportunities



- Petrobras Divestment Plan

- The financing constraints resulting from the Car Wash scandal summed to low oil prices and fuel price control are forcing Petrobras to reevaluate priorities. A **US\$ 13.7 billion** divestment plan will be implemented until 2016, including:
 - **E&P (30%)**: farmout of onshore and offshore exploratory blocks and producing fields of small and medium size, and possible partial farmout in large fields
 - **Distribution (30%)**: sale of participation in retail network (BR); petrochemicals; ethanol and biodiesel plants; and local gas distributors
 - **Gas and Energy (40%)**: sale of participation in thermal plants.

Perspectives and Opportunities



- Expected Regulatory Changes
 - Our view at the Global Energy Conference 2014

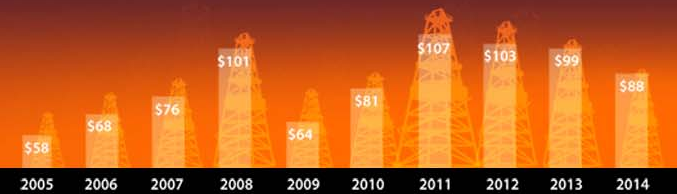


“The good thing about it is that we have got to the end of the hole, and they [the government] understand now they have to change it. It will not change until the elections, because they need to take some decisions that are not popular” - Conference Highlights, Mayer Brown

“Brazil’s government is considering proposals to open operatorship of its pre-salt projects to companies other than state-run Petrobras, and this change might be made, Mayer Brown partner Alexandre R. Chequer told the law’s firm’s annual energy conference in Houston on May 15. ‘There is too much oil for one company to develop,’ Chequer said. ‘I think the government realized it made a big mistake’” - Oil&Gas Journal, May 15, 2015 - Paula Dittrick

“I think the government believes it was a big mistake to have Petrobras as a single operator of the pre-salt areas,’ Mayer Brown partner Alexandre Chequer said during the firm’s Global Energy Conference this week.” - Hart Energy, May 16, 2015 - Velda Addison

Perspectives and Opportunities



- Expected Regulatory Changes
 - Government announcements in May 2015:

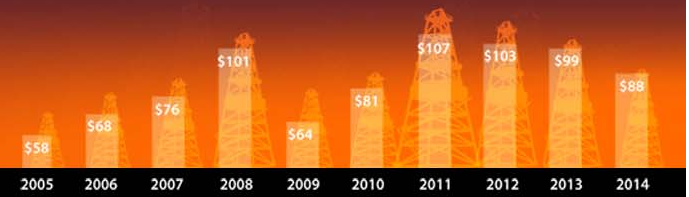


“The reality has changed, there’s no way Petrobras can do all the investments needed for the Brazilian economy’ Energy Minister Eduardo Braga said in a May 3 interview from a conference in Houston. Braga and Chambriard told an audience of foreign companies and investors that they are preparing a joint proposal on local content to be presented in 30 to 60 days” – Bloomberg, May 12, 2015 – Sabrina Valle

“The reality today is to attract investment” Eduardo Braga, Energy Minister of Brazil said. – Upstream Online, May 12, 2015

“We will reinforce the local content policy and simplify some items’ ANP general director [Magda Chambriard] said during her participation at the OTC, Houston. When inquired if changes would be in time to the 13th bid round, she confirmed that “at least partially yes”. ‘If everything works as we plan, the 13th bid round tender protocol will already bring some improvements.’” - Estadão, May 5, 2015 - Altamiro Silva

Perspectives and Opportunities

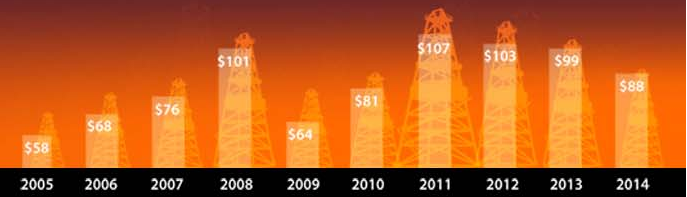


- Expected Regulatory Changes

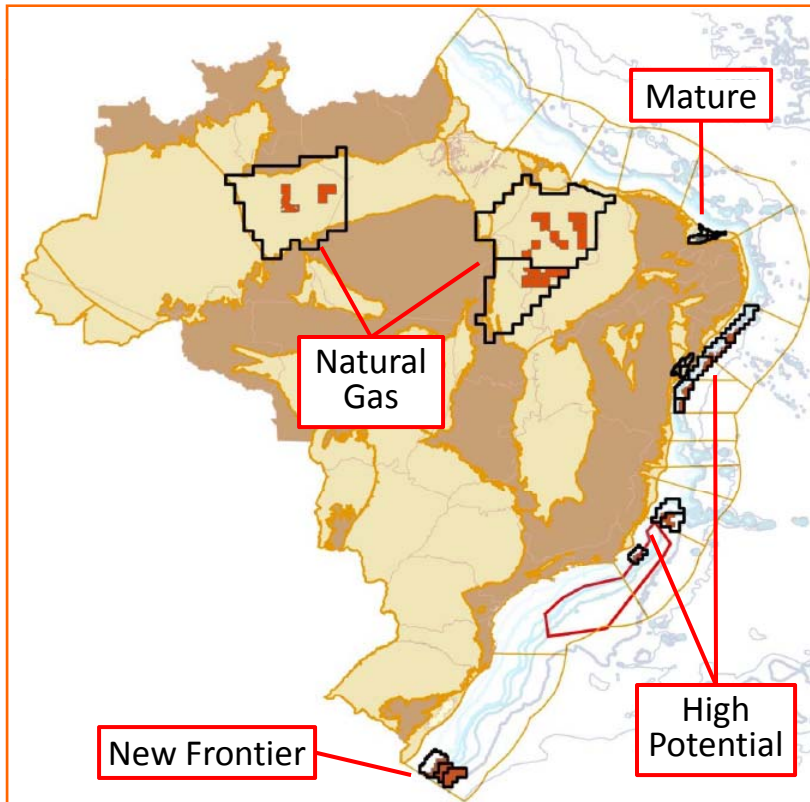
- The crisis scenario is forcing the government to move on with long awaited regulatory changes in order to incentive investments:

- **Pre-Salt Operation** - The government has confirmed a possible change in the rule that requires the sole operatorship of Petrobras in the pre-salt areas
- **Local Content regulation** - With several major local contractors involved in the scandal (some of them facing severe financial concerns), there is also an increasing consensus that the current local content rules will be reviewed:
 - Simplification of requirements and reduction of percentages
 - Possible removal of local content as a judgment criteria from the bidding rounds (as already done for the pre-salt bidding round)

Perspectives and Opportunities



- What is next
 - New Bid Rounds are expected to occur at least on an annual basis and under a previously announced long term schedule:



13th Bid Round

- Announced to October 7, 2015
- 269 exploratory blocks (84 offshore and 185 onshore)
- Focus on offshore areas in the east coast, including high potential and new frontier areas

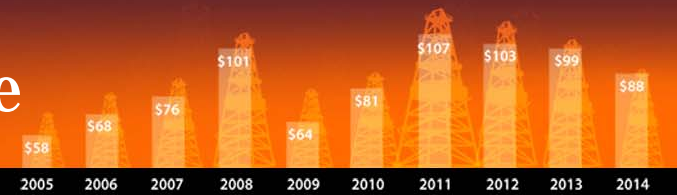
Next Concession Bid Rounds

- Government announced the intent to ensure a new bid round every year (i.e. 14th Bid Round in 2016)

2nd Pre-Salt Bid Round

- A new pre-salt bid round is expected to 2017

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Questions?

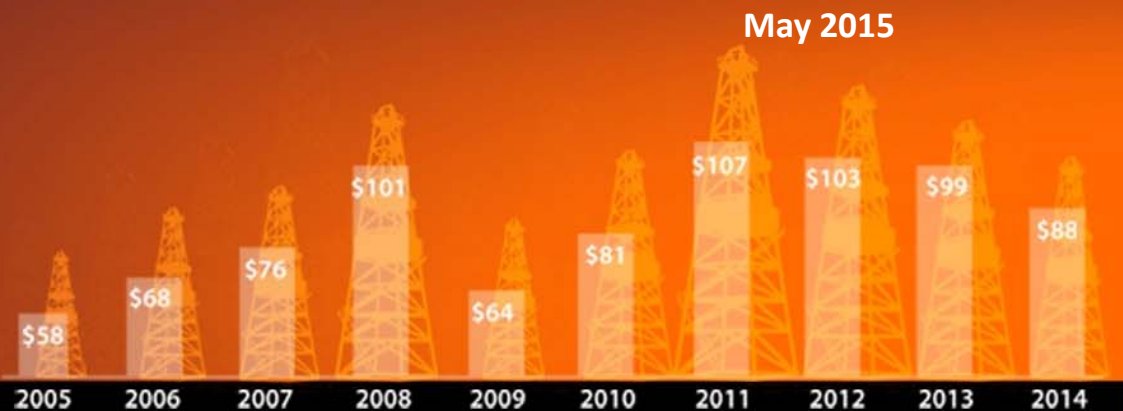
Thank You!

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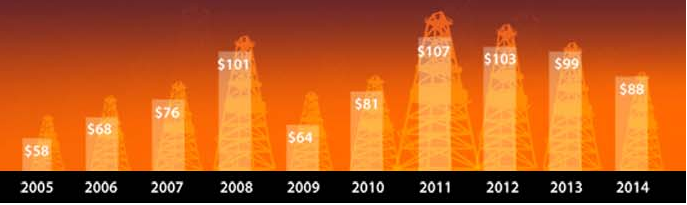
Mexico's Round One: What has happened so far? What's to come?

Francisco Mendez
Partner

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Round One

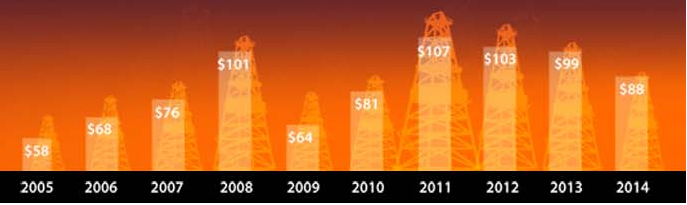


- August 2014, SENER announced Round One to include 169 blocks
 109 exploration blocks
 60 production blocks.

SENER Timeline

Tender	Bidding Invitation	Final TORS & Contracts	Contract	Offers due
Shallow waters (E&P 14 blocks)	Dec. 2014	May, 2015	Production Sharing	July, 2014
Shallow waters (production 5 blocks)	Feb. 2015	August, 2015	Production Sharing	September, 2015
Onshore (E&P 26 Blocks)	May. 2015	November 2015	License	December 15, 2015
Deepwater	TBD	TBD (July/December 2015)	TBD	TBD (2015/2016)
Chicontepec Basin and Unconventional	TBD	TBD (July/December 2015)	TBD	TBD (2016)

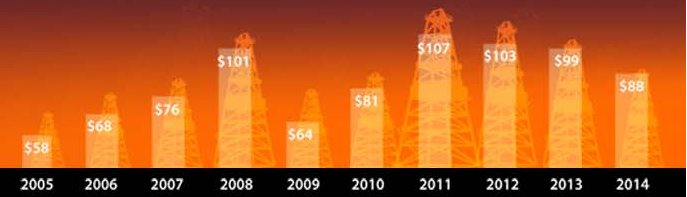
Legislation



- **Constitutional amendment (Article 25, 27 and 28) December ,2013**
- **Secondary Laws**
 - 9 new Laws
 - 12 amendments to existing Laws
- **Regulations**
 - 9 new regulations
- **Administrative Rulings:**

— CNH:	<u>Issued:</u> 8	<u>Pending/critical Measurement</u> Mining Coalbed Methane
— CRE	11	Transportation/ Tariffs
— Environmental		ASEA Regulations

What's To Come



- PEMEX
 - Service Contracts
 - Migration to Production Sharing Contracts
 - Assignments
 - Migration to Production Sharing Agreements
 - 4 requests have been filed (May 2015)
- Energy Ministry/CNH
 - Round 0
 - PEMEX partners (qualification process)
 - Joint Ventures and Joint Operation Agreements
 - Round 1 First Tender. Final TORS and PSC (May 29th)

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Africa Update

Global Energy Conference

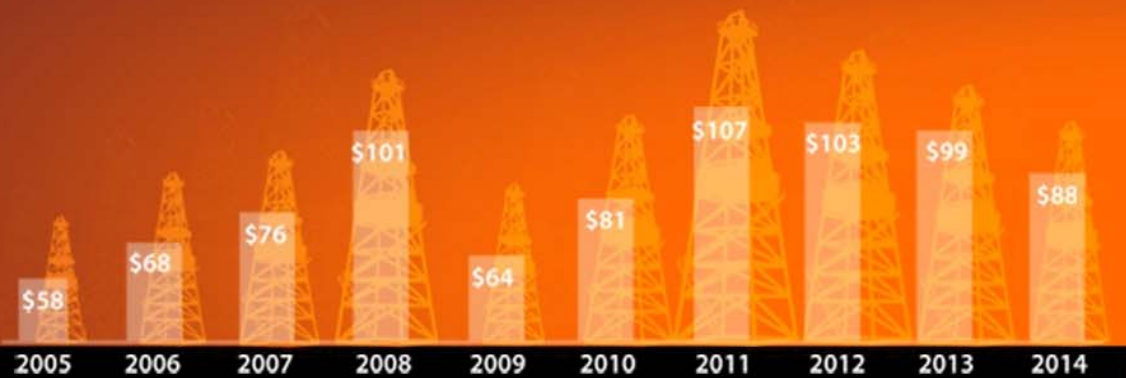
May 2015

Gonçalo Falcão

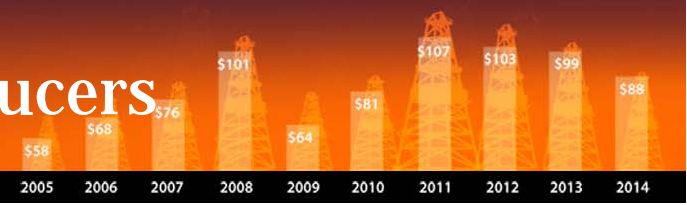
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Oil price – Impact on major oil producers

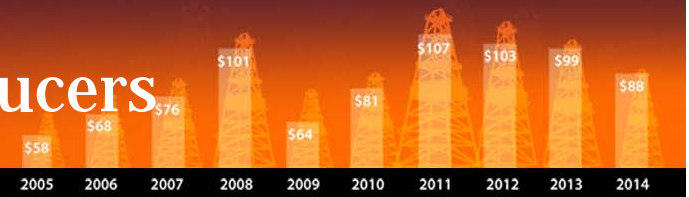


Brent Crude Oil 1 year to Apr 1

Latest 67.32 USD

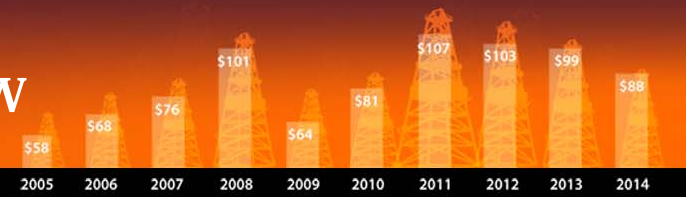


Oil price – Impact on major oil producers



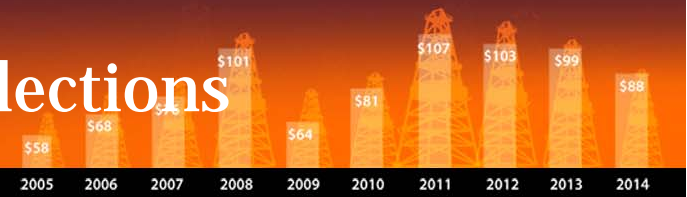
- Focusing on sub-saharan top producers – Angola & Nigeria;
- Both countries are heavily impacted;
- 90% of GDP is direct/indirectly linked to oil production;
- 70% of tax revenues comes from oil producers;
- Cash shortfalls – impact on the entire value chain;
- Currency devaluation;
- Declining production - New E&P prospects are delayed;
- Difficult to implement power reforms;
- Foreign currency shortfalls;
- Outlook for the next months.

Mozambique new Hydrocarbons Law



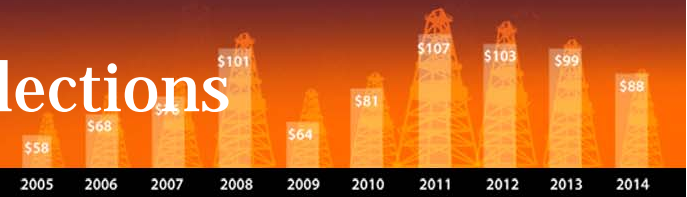
- New hydrocarbon package, replacing the 2001's;
- This package is a response to the new gas prospects;
- Complemented by a special “Rovuma Basin” package;
- The “Rovuma” package was requested by ENI & Anadarko;
- Investment effort estimated at USD 100 Billion over 10 yrs
- Favorable tax, foreign exchange and local content rules;
- Gas reserves estimated at 120 Tcf (trillion cubic feet);
- Mozambique to compete with Qatar and Australia;
- Delayed due to Mozambique elections.

Update on Nigeria & Mozambique Elections



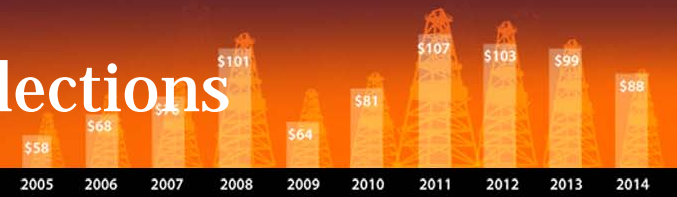
- Great expectation on Nigeria Mr. Muhammadu Buhari;
- First democratic political transition;
- From Peoples Democratic Party (PDP) to All Progressives Congress (APC);
- This is unprecedented in Nigeria and generally in Africa;
- Insiders say Mr. Buhari is not “more of the same”;
- Challenges include, reduction of corruption levels, control of insurgents, tax reform and guarantee a friendly investment environment.

Update on Nigeria & Mozambique Elections



- Filipe Nyusi – Frelimo party continues to rule;
- Is from a new generation of politicians (56 years old);
- Rapidly enacted the “Rovuma Basin” package;
- Challenge – stability for exploration of country resources;
- Achieve internal piece and demilitarization of insurgents;
- Diversify economy.

Update on Nigeria & Mozambique Elections



Thank you