



Doing Business in BRAZIL

Oil & Gas Sector

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November, 30th 2011
Brazil Texas Chamber of Commerce

GDP Ranking



WE	Index WE
Pg 1/3 Panorama Econômico Global	
PIB anual (Bil US\$)	
Mundo	
1) EUA	\$ 14,582.399 12/10
2) China	\$ 5,878.629 12/10
3) Japão	\$ 5,497.813 12/10
4) Alemanha	\$ 3,309.669 12/10
5) França	\$ 2,560.002 12/10
6) Reino Unido	\$ 2,246.079 12/10
7) Brasil	\$ 2,087.890 12/10
8) Itália	\$ 2,051.412 12/10
9) Índia	\$ 1,729.010 12/10
10) Canadá	\$ 1,574.052 12/10
11) Rússia	\$ 1,479.819 12/10
12) Espanha	\$ 1,407.405 12/10
13) México	\$ 1,039.661 12/10
14) Coreia Sul	\$ 1,014.483 12/10
15) Austrália	\$ 924.843 12/09
16) Netherlands	\$ 783.413 12/10
17) Turquia	\$ 735.264 12/10
18) Indonésia	\$ 706.558 12/10
19) Suíça	\$ 523.772 12/10

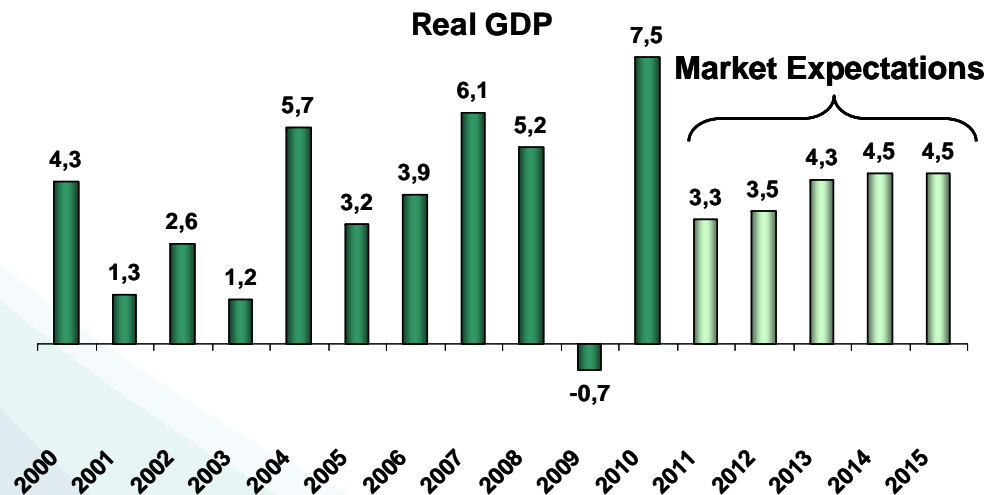
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 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2011 Bloomberg Finance L.P.
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BRAZILIAN ECONOMY HIGHLIGHTS



The economic activity perspectives are favorable in the coming years, mainly due to:

- ❑ healthy credit allowance is increasing;
- ❑ expanding real household income (from \$400 to \$1050 in 7 years);
- ❑ significant levels of corporate investments (capital goods)
- ❑ high employment generation (6% unemployment rate).



Source: IBGE and Brazilian Central Bank



External Sector

- ✓ Foreign direct investment at an all-time high
- ✓ Brazil's balance of payments has taken little notice so far of the global turbulence
- ✓ The current account deficit is being financed mainly by foreign direct investment
- ✓ Trade balance worries a little because we have good figures due to high commodity prices, and not to quantum performance
- ✓ As a result of the global slowdown, the bias is for lower prices of commodities in the future, although to a limited extent due to the restricted supply in important markets

Inflation x Monetary Policy

- ✓ If on one hand, the global outlook and easing of the output gap continue to suggest there is room for loosening the monetary policy, on the other hand there are factors which points to the need for caution:
 - i. inflation core at the upper limit of the targets;
 - ii. market expectations for inflation are also at a high level;
 - iii. the inertial component of inflation is pretty significant in Brazil; and
- ✓ So, it is not expected any sharp easing in inflation in the coming months and in consequence IPCA will be close to the superior interval of the target in both 2011 and 2012

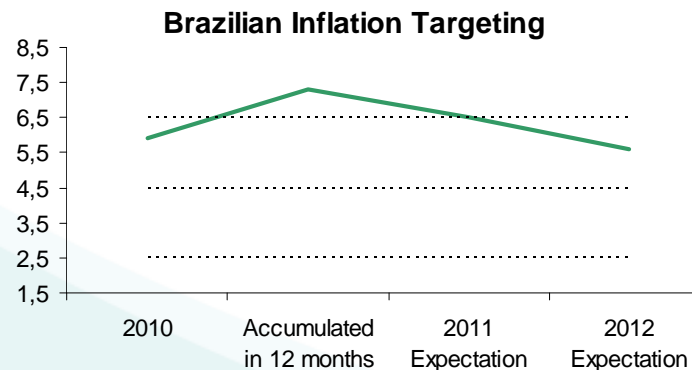
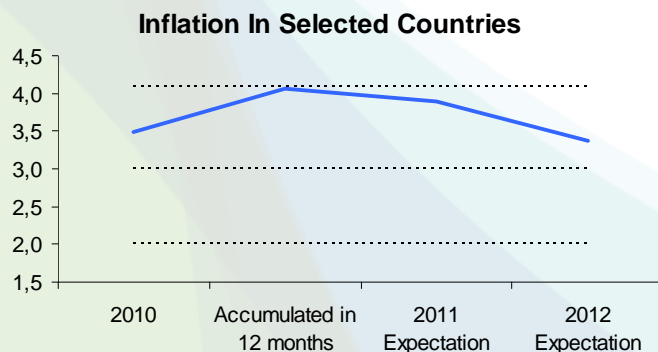
INFLATION TARGETING COMPARISON



✓ But an international comparison shows that most countries have their inflation close to the superior interval, so Brazil is not an isolated case

Inflation Target vs Expectation							
Selected Countries	Floor	Target	Ceiling	2010	Accumulated in 12 months	2011 Expectation	2012 Expectation
New Zealand	1,0	2,0	3,0	4,0	5,3	4,4	2,6
Canada	1,0	2,0	3,0	2,4	3,1	2,8	1,9
United Kingdom	1,0	2,0	3,0	3,7	4,5	4,4	2,7
Sweden	1,0	2,0	3,0	2,3	3,2	2,9	1,9
Australia	2,0	2,5	3,0	2,7	3,6	3,4	2,9
Brazil	2,5	4,5	6,5	5,9	7,3	6,5	5,6
Chile	2,0	3,0	4,0	3,0	3,3	3,5	3,0
South Africa	3,0	4,5	6,0	3,5	5,3	5,0	5,6
South Korea	2,0	3,0	4,0	3,5	4,3	4,3	3,2
Mexico	2,0	3,0	4,0	4,4	3,1	3,4	3,6
Norway	1,5	2,5	3,5	2,8	1,6	1,6	1,6
Hungary	2,0	3,0	4,0	2,0	3,0	3,9	3,7
Turkey	5,5	6,5	7,5	6,4	6,2	5,9	7,1
Euro Zone	1,0	2,0	3,0	2,2	3,0	2,6	1,8
Mean	2,0	3,0	4,1	3,5	4,1	3,9	3,4
Median	2,0	2,8	3,8	3,3	3,5	3,7	3,0

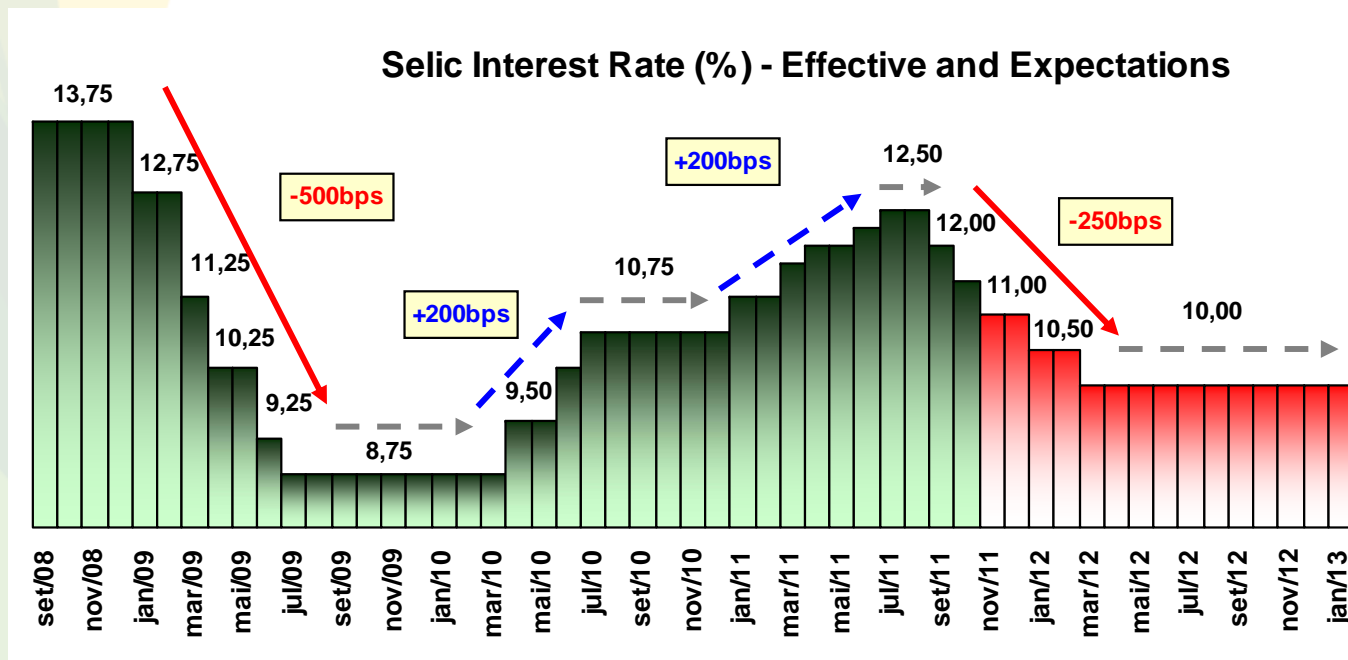
The countries with target in green do not have a specific target and just na interval (the target was calculated as the mean)



MONETARY POLICE – FALLING INTEREST RATES



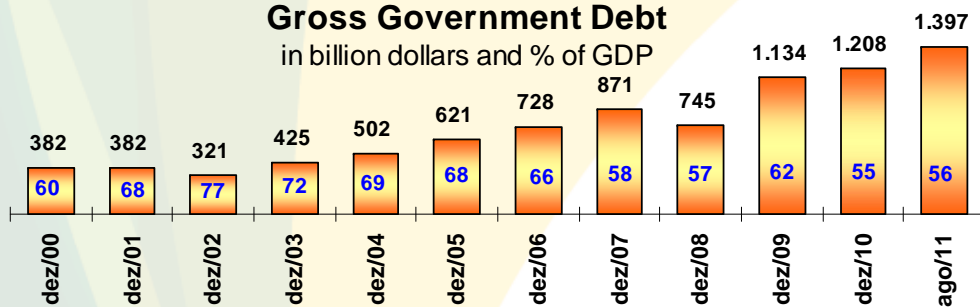
- ✓ Despite the inflation hike, Brazilian Central Bank is expected to continue diminishing the basic interest rates;
- ✓ The beginning of this moderate adjustment was based on the expectation that the domestic impact of the international crisis will be stronger than the market prevented
- ✓ An acceleration in the rhythm of interest rates cutting is expected by the analysts after the recent slowdown in Brazilian industry



FISCAL FIGURES ARE IN A CONFORT SITUATION

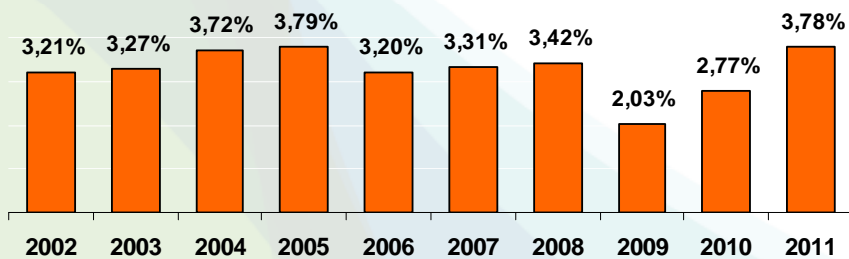
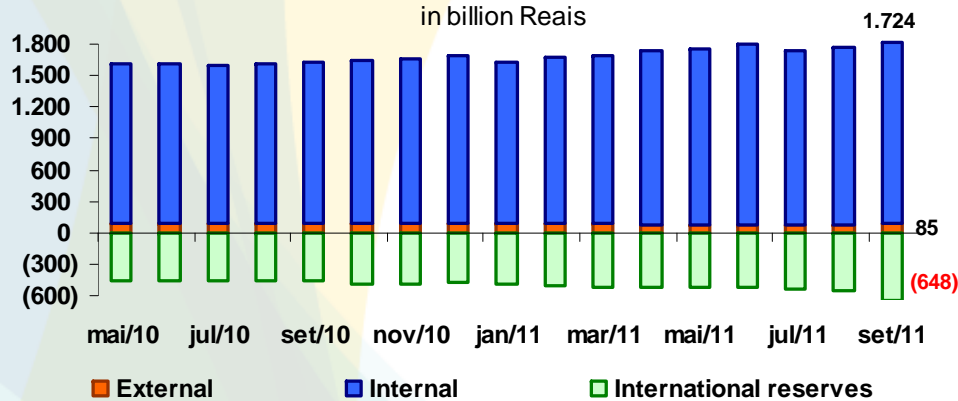
Gross Government Debt

in billion dollars and % of GDP



Federal Public Debt

in billion Reais

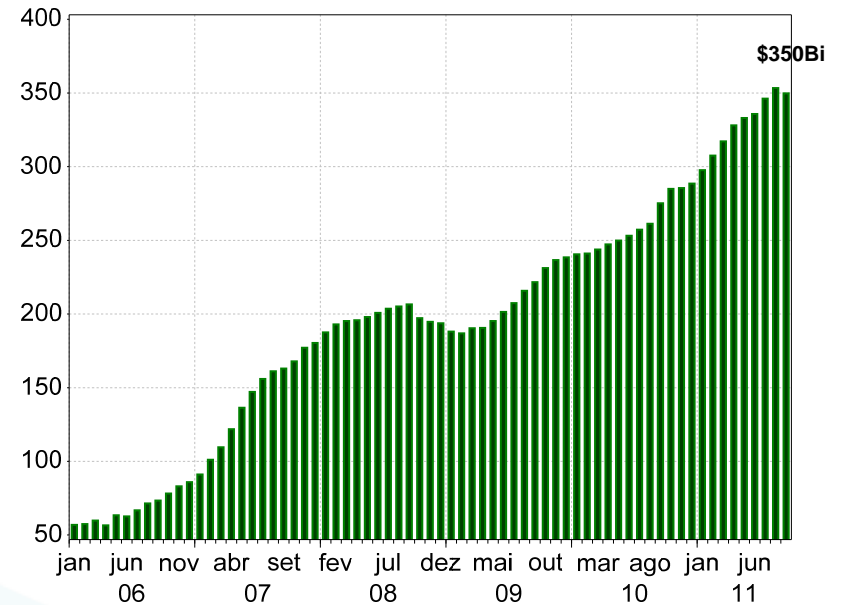


Primary surplus TARGET=3.5%

✓ Barring any major surprise in the rest of the year, spending restraint and strong tax collection suggest the government will deliver its 2011 fiscal target

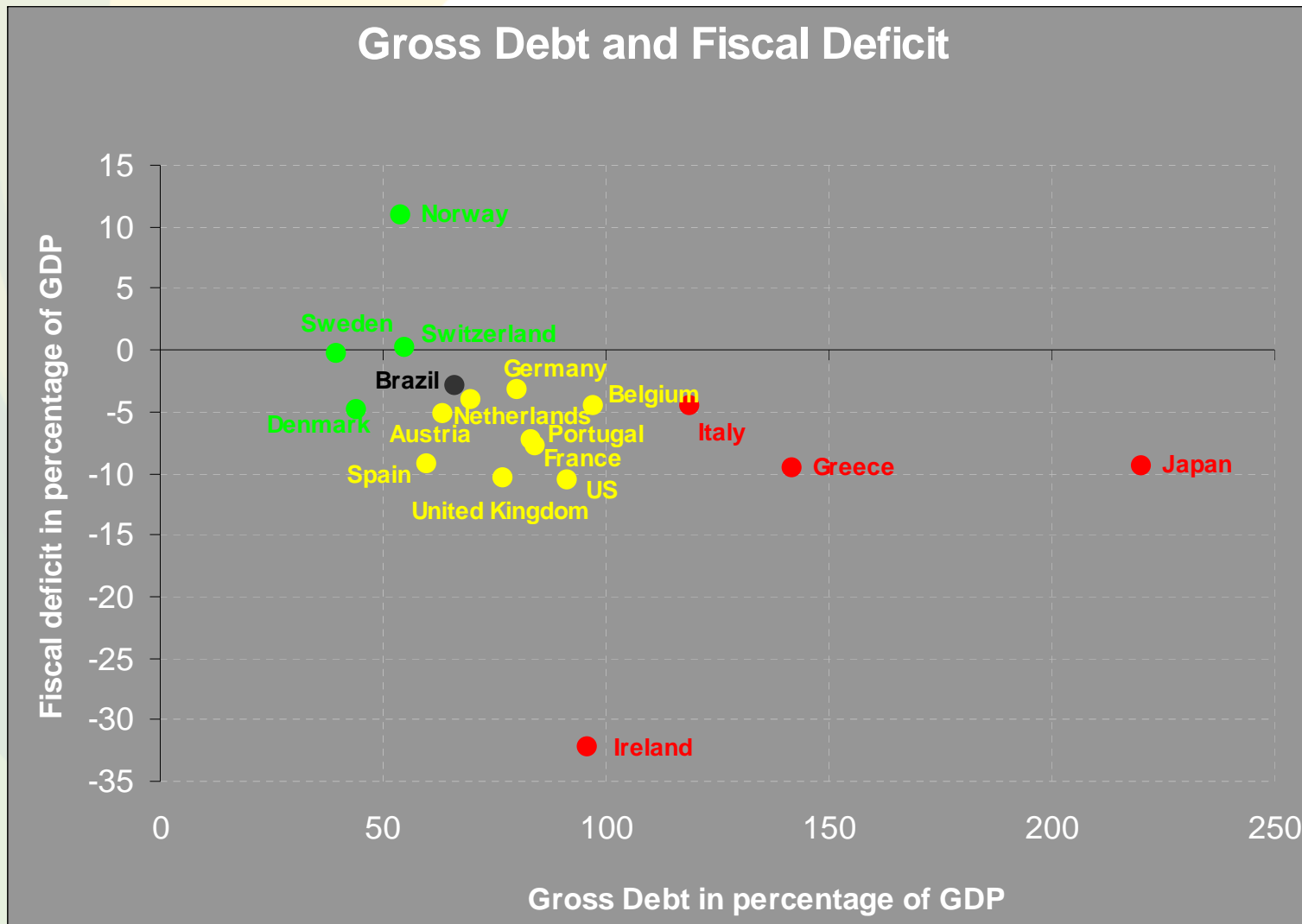
✓ With an amount close to US\$ 350 billion of international reserves, Brazil is a creditor in dollar terms, so the currency depreciation causes an improvement in the debt figures

International Reserves



Source: Reuters EcoWin
BR PETROBRAS

FISCAL FIGURES ARE IN A CONFORT SITUATION

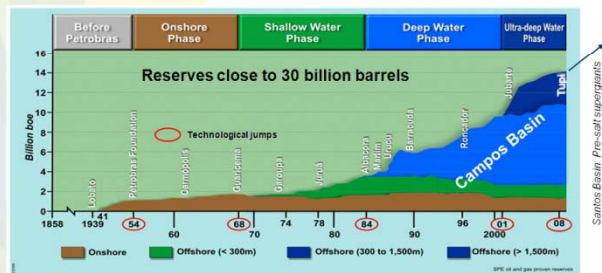


THE SUPPLY CHAIN CHALLENGE

Reserves

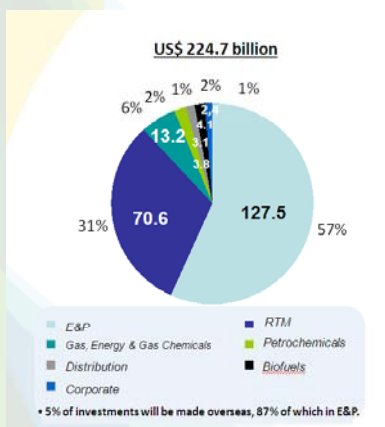
Continuous and sustainable growth:

Proven Reserves



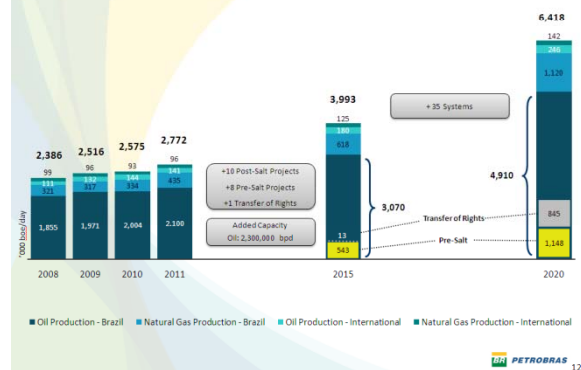
Brazilian political regime	Democracy	Military dictatorship	Democracy
Brazilian Oil & Gas regulatory framework	E&P Petrobras monopoly in Brazil	Exploration risk contracts Private oil companies competing with Petrobras	E&P Petrobras monopoly in Brazil E&P open market in Brazil
Petrobras ownership	State owned (100%)		State controlled

Capex



Production

Petrobras' production targets...



Demand

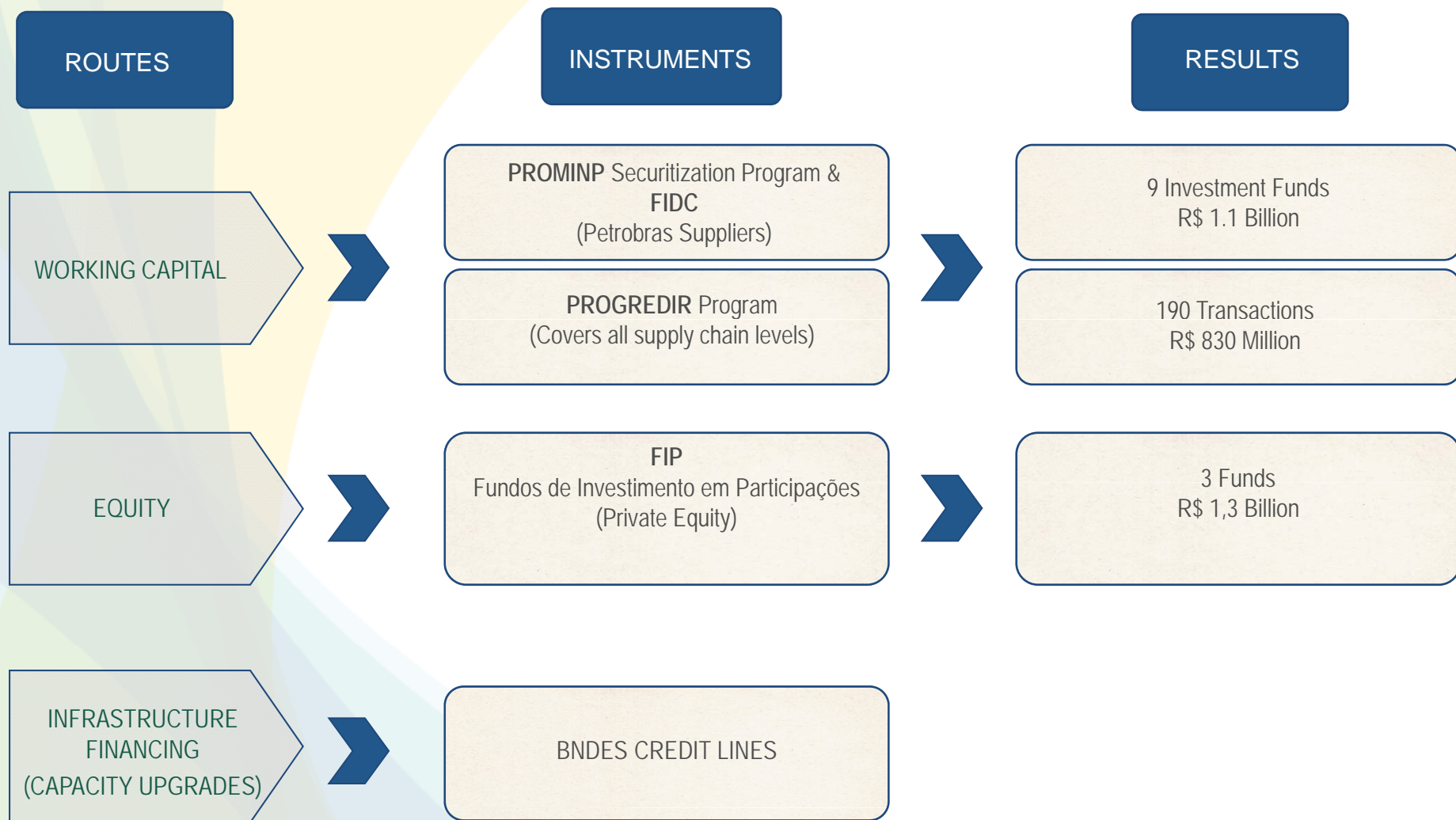
Critical Resources	Current Situation (Dec/10)	Delivery Plan (to be contracted)		
		By 2013	By 2015	By 2020
Drilling Rigs Water Depth Above 2,000 m	15	39	37 ⁽¹⁾	65 ⁽²⁾
Supply and Special Vessel	287	423	479	568
Production Platforms (SS and FPSO)	44	54	61	94
Others (Jacket and TLWP)	78	80	81	83



DRILLING RIGS UNDER CONTRACT

Water Depth	2006	2008	2010	2011	2012	2013
Up to 1,000 meters	6	11	11			
1,000 to 2,000 meters	19	19	21	+2	+1	+1
Over 2,000 meters	2	3	15	+10	+13	+1

FINANCIAL INSTRUMENTS FOR THE SUPPLY CHAIN



PROMINP: O&G Brazilian Industry Mobilization Program

November, 2011



Ministério de
Minas e Energia



ABCE - ABDIB - ABEMI - ABIMAQ - ABINEE - ABITAM - BNDES - CNI - IBP - ONIP - SINAVAL

O&G Demand Driven Industrial Policy

Concepts and Main Roles

PIDD - P&G

Supply

National Industry
(Supply Chain)

- Joint Venture with International Companies
- Build Facilities in Brazil

Industry Competitiveness

Purchase Power

Export

O&G Operators

Goods & Services Demands
(Scale)

Sustainability Actions

Support Actions

Physical Infra-structure

Technology

Human Resources

Foment Actions

Tax Policy

Financing

Foreign Companies

Industry

O&G Operators

Government

Articulated Actors (Prominp)

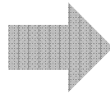
COMPETITIVE NATIONAL SUPPLY OF GOODS AND SERVICES



Adequacy of The National Supply Industrial Complex

GOOD AND SERVICES SUPPLY

National Industry



Increase in National Supply Capacity of G&S

Imports

National Industry



Current Demand

National Industry



Future Demand

Imports



PATH

5. Incentive for international companies to establish operations in Brazil
4. Incentive for association between national and international companies
3. Incentive for new national entrants
2. Develop competition among medium competitive sectors
1. Increase productivity capacity of highly competitive sectors



Progridir

Petrobras Financial Program for Supply Chain

THE DRIVES FOR PETROBRAS

WHY PETROBRAS IS INVESTING IN A PROGRAM THAT BENEFITS, PRINCIPALLY, THEIR SUPPLY CHAIN?

Petrobras Found:

- In promoting the financial health of suppliers, the risk of failure in the supply of goods and services decreases;
- The risk of delay in supply also decreases with the encouragement of the financial health of suppliers;
- In the long term, Petrobras may have significantly reduced their cost of goods and services, by transferring part of the financial gains of their suppliers along the chain;
- The sustainability of the supply chain is essential to enable the expansion plans of Petrobras



MAJOR IMPACTS TO THE SUPPLIER

What are the main impacts on the Supply Chain of Petrobras?

CURRENT SITUATION

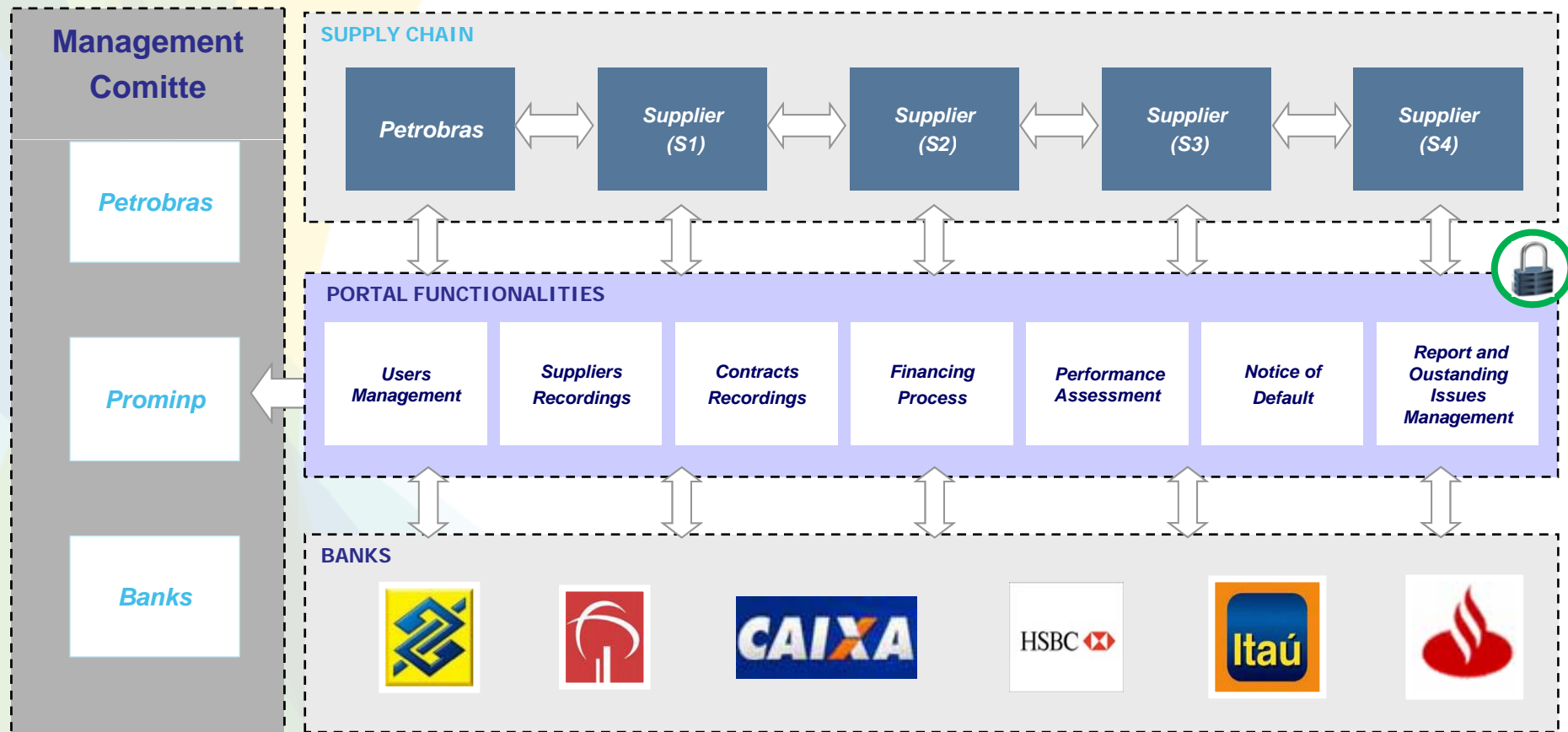
- Difficult to make guarantees requested by banks for financing
- Difficult to credit access (high risk perception)
- High financial cost for working capital and new investments
- Insolvency risk and delays in delivery due to financial problems

EXPECTED RESULT

- Use of supply contracts as guarantee
- Reducing the risk of credit providers will favor their access to financing
- Decrease interest rate due the conditions offered by the Program
- increased strength and financial health, especially in small & medium sized Co`s.

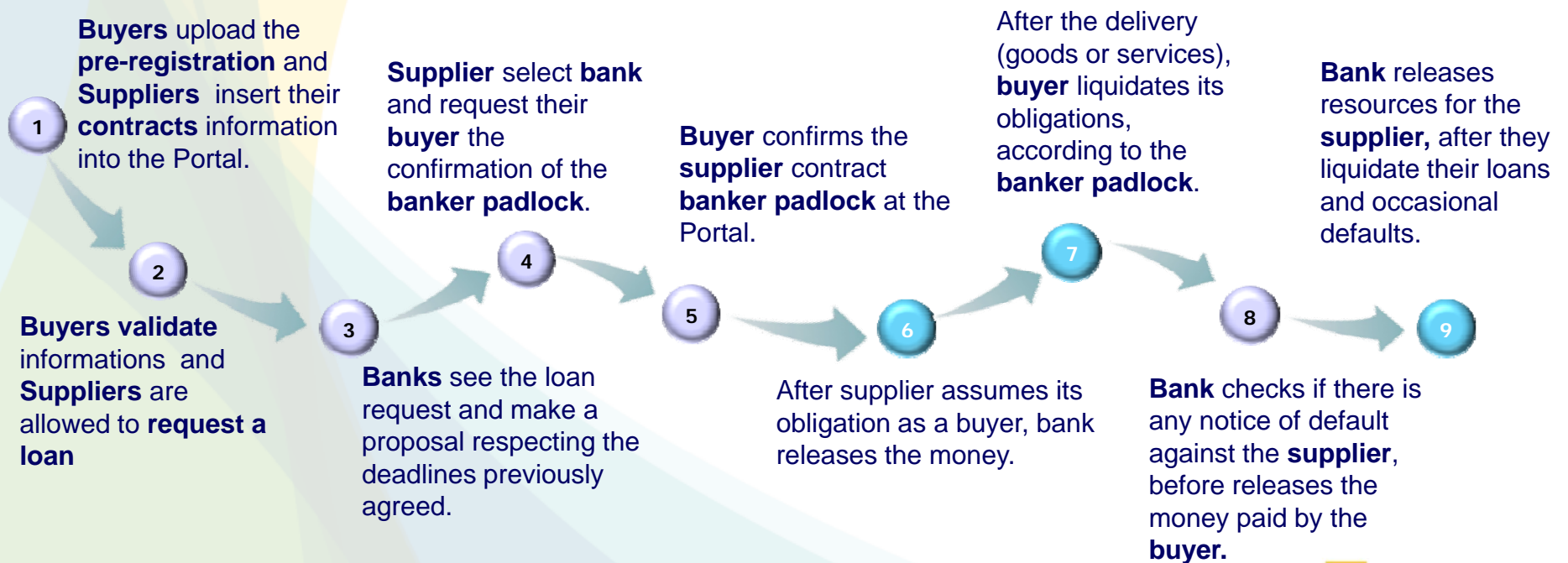
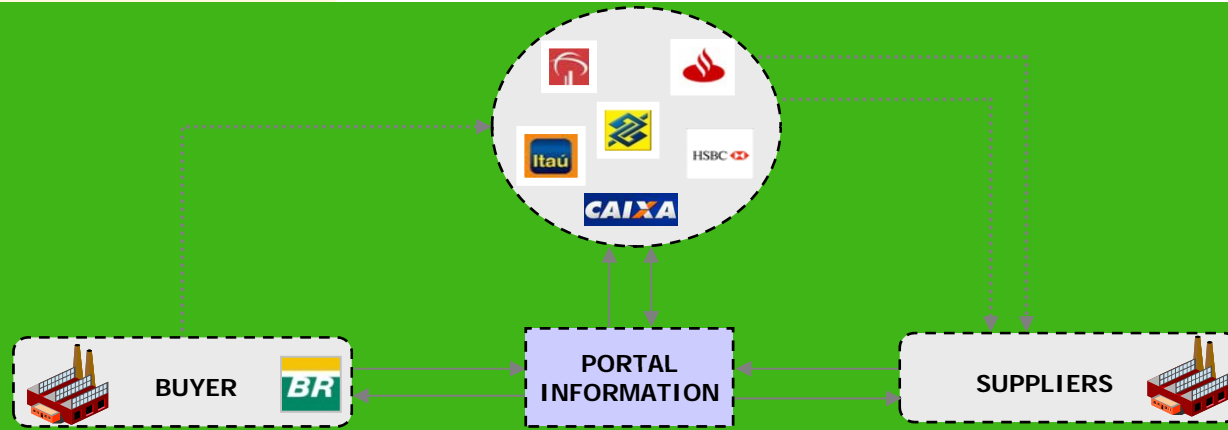
WEBSITE PROGREDIR

- » Unique and standardized environment for the relationship among program participants;
- » Secure technology solution for information storage.



Information segregation and confidentiality are guaranteed among chain levels.

PROGRAM WORKFLOW



● Stages Performed inside the Portal

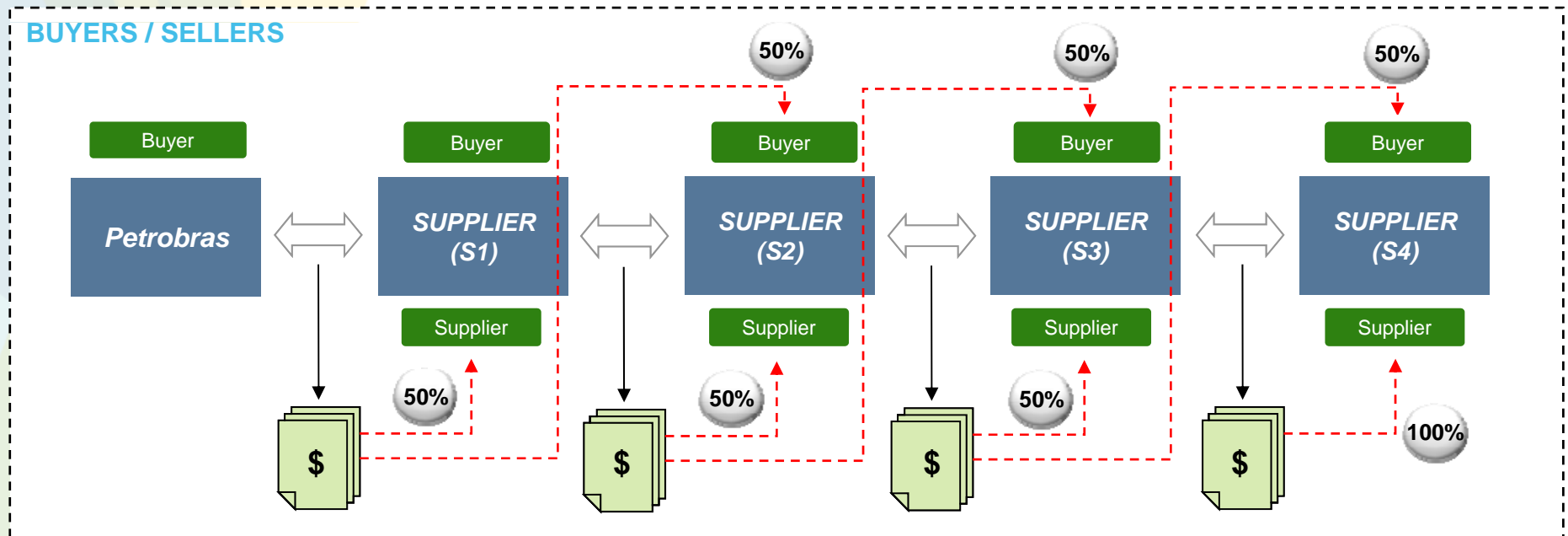
● Stages Performed Outside the Portal

FINANCING LIMITS

Petrobras credit rating transferred for its supply chain:

The supplier may advance 50% of the receivables for each of its sales contracts signed among chain participants.

The remaining 50% of the receivables shall be preserved to grant credit for the other chain links.



In order to make the Program a success it's vital the indication of sub-suppliers.

Suppliers

- **Credit capacity** improvement
- **Agility** to get the loan approval (1 to 20 business days)
- Reduction of **fund-raising costs** → expected average reduction of **20%**
- Part of suppliers financial earnings shall be shared with buyers, through the expected **cost reduction**
- Increase **financial strength** and less solvency risk
- Increase **competition in the banking market**

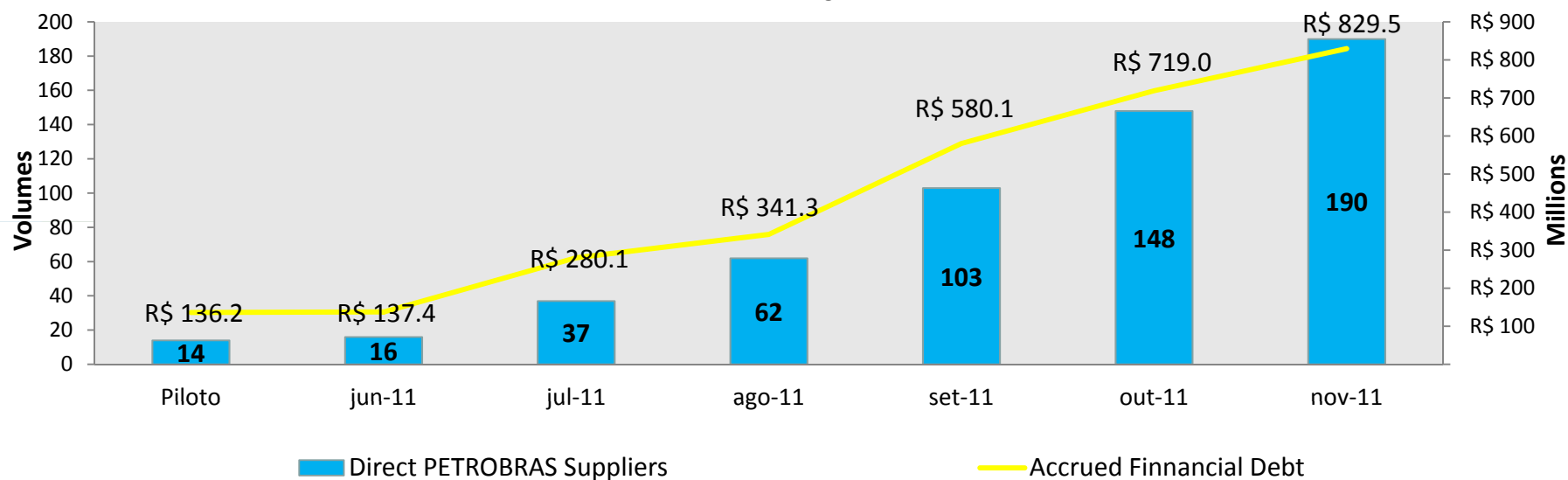
Petrobras

- Increase financial strength and decrease insolvency risk of its direct and indirect suppliers
- Stimulates the entry of **new suppliers** in its supply chain
- **Reduce risk of delays** caused by suppliers financial problems, specially related to the shortage of working capital
- Potentiality of decrease on **advance payments** to suppliers
- Part of suppliers financial earnings shall be shared with Petrobras, through the expected cost reduction

Progridir – Actual Figures

Financial Debt Evolution

- Accrued Figures-



Pilot Phase
(Sept-10 / May-11)

- 14 Financial Debts in Pilot Phase
- Total Volume : BRL\$ 136 (MM)

Current
Implementation
(Jun-11 / Today)

- 176 Financial Debts in Current Phase
- Total Volume: BRL\$ 693 (MM)

FIDC and FIP (Instruments of the Brazilian capital markets)

FIDC (RECEIVABLE FINANCING FUNDS) PROGRAM

- The FIDC Program aims at financing contracts for Petrobras' suppliers of goods and services through receivables securitization which is not debt for the suppliers.
- Currently, 58 suppliers have obtained R\$ 573 million financing from 9 FIDCs which have a combined net worth of R\$ 1.1 billion.

FIP (PRIVATE EQUITY FUNDS)

- Petrobras aims at stimulating the suppliers' operational and technological capability and increasing the level of guarantees through the creation of FIP.
- Current position: 3 FIPs have been set up with a total net worth of R\$ 1,3 billion (no Petrobras equity).

- Despite of all economic turbulences Brazil has a steady growth pattern on the coming years
- Internal market is the major portion of the growth
- PETROBRAS has a massive demand for goods and services
- Local content is mandatory
- Huge business opportunities
- Either partnering with Brazilian companies or stand alone are possibilities.
 - It is time for Business in Brazil!

WEB SITES



PETROBRAS:

www.petrobras.com.br

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www.prominp.com.br

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THANK YOU