

# STRATEGIC PLAN 2017-2021 BUSINESS AND MANAGEMENT PLAN

September 2016



# Disclaimer

## FORWARD-LOOKING STATEMENTS:

### DISCLAIMER

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In addition, this presentation also contains certain financial measures that are not recognized under Brazilian GAAP or IFRS. These measures do not have standardized meanings and may not be comparable to similarly-titled measures provided by other companies. We are providing these measures because we use them as a measure of company performance; they should not be considered in isolation or as a substitute for other financial measures that have been disclosed in accordance with Brazilian GAAP or IFRS.

### NON-SEC COMPLIANT OIL AND GAS RESERVES:

#### CAUTIONARY STATEMENT FOR US INVESTORS

We present certain data in this presentation, such as oil and gas resources, that we are not permitted to present in documents filed with the United States Securities and Exchange Commission (SEC) under new Subpart 1200 to Regulation S-K because such terms do not qualify as proved, probable or possible reserves under Rule 4-10(a) of Regulation S-X.

**WHERE WE ARE**

**WHERE WE WANT TO BE**

**HOW WE WILL GET THERE**

**LONG TERM STRATEGIC DRIVERS**





WHERE WE ARE

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## Uncertainties in the global economy

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- Stagnation in Europe and Japan
- Slowdown in China
- Middle East scenario
- U.S. elections and FED monetary policy
- *Brexit*

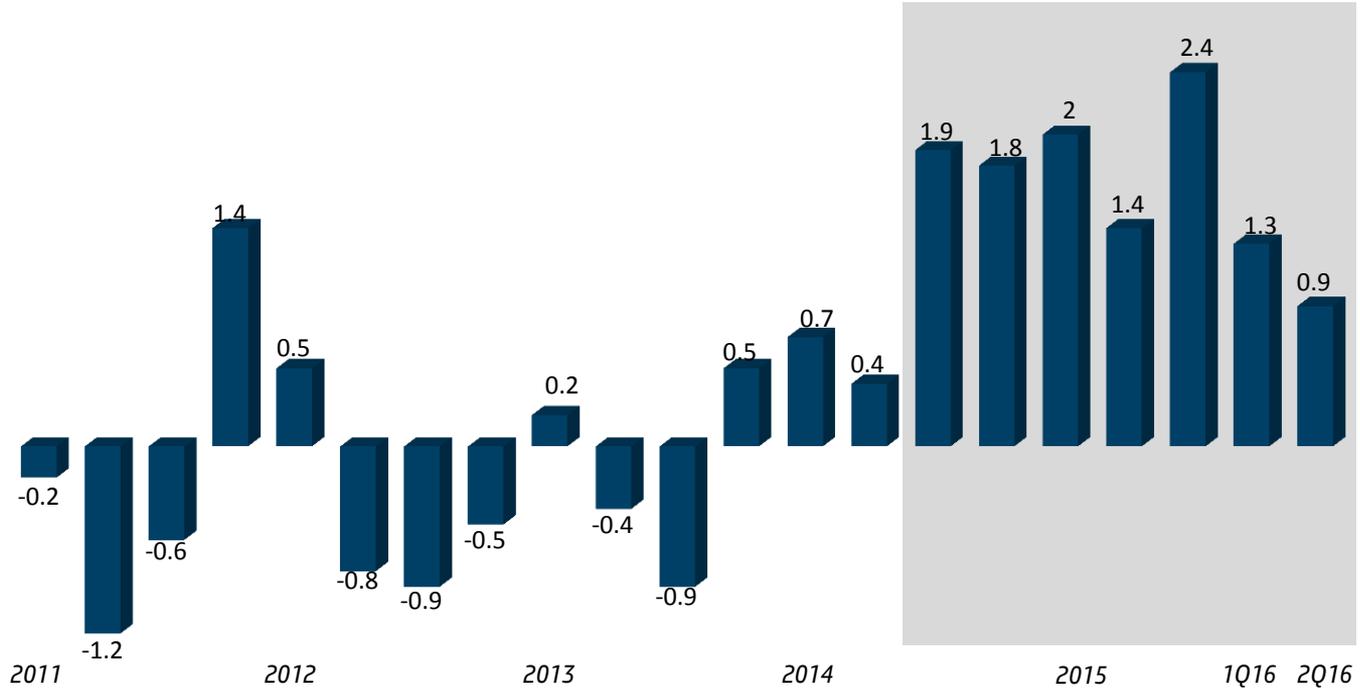


# Excess supply pushes oil prices down

## Crude oil supply and demand balance

Average deficit: 0.1 kbpd

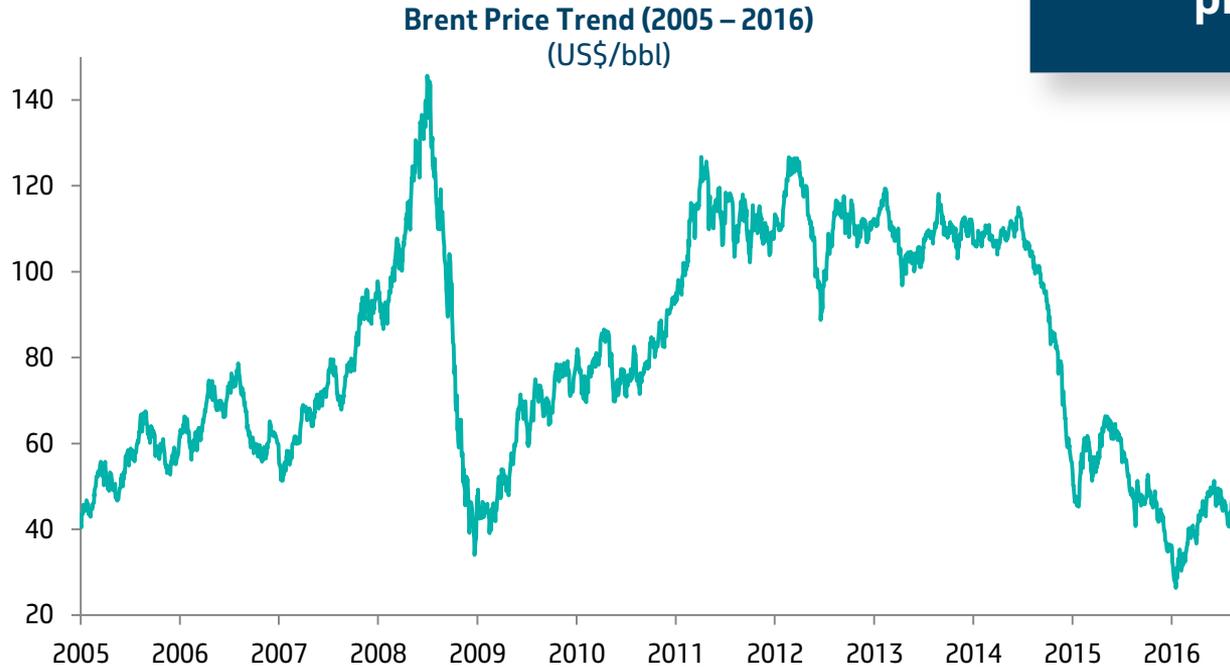
Average surplus: 1.7kbpd



Source: U.S. Energy Information Administration

# Uncertainties in the oil industry

**Sharp drop in oil prices**



Source: Bloomberg. Data as of 09/13/2016

## Transformations facing the oil industry

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- Changes in the competitive scenario: shale oil/gas
- Portfolio optimization
- Asset sales
- Lower investments and operating costs
- Capital and financial discipline
- Adjustments to the workforce



## The Brazilian context

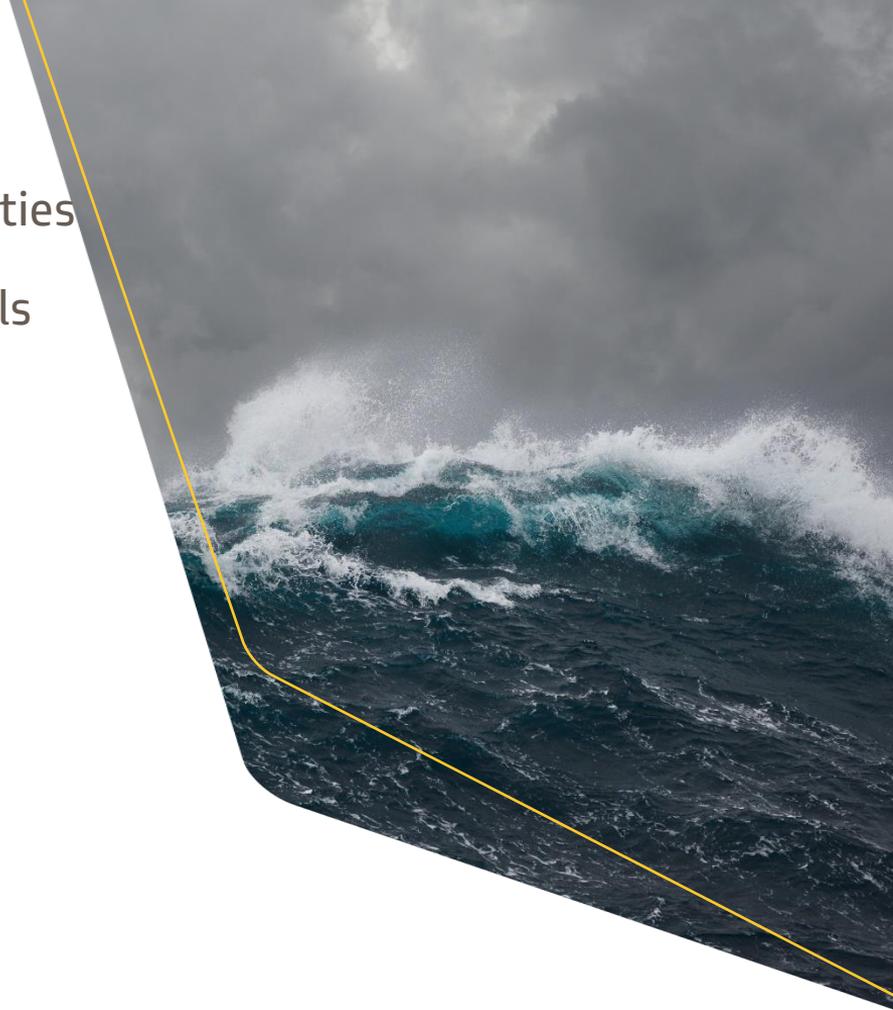
- Lava Jato
- Challenging economic scenario
  - Fiscal imbalances
  - Deep and prolonged recession
  - Rising unemployment
  - Inflation above target
- Political transition
- Program of Public Private Partnerships with the federal government



## Petrobras context

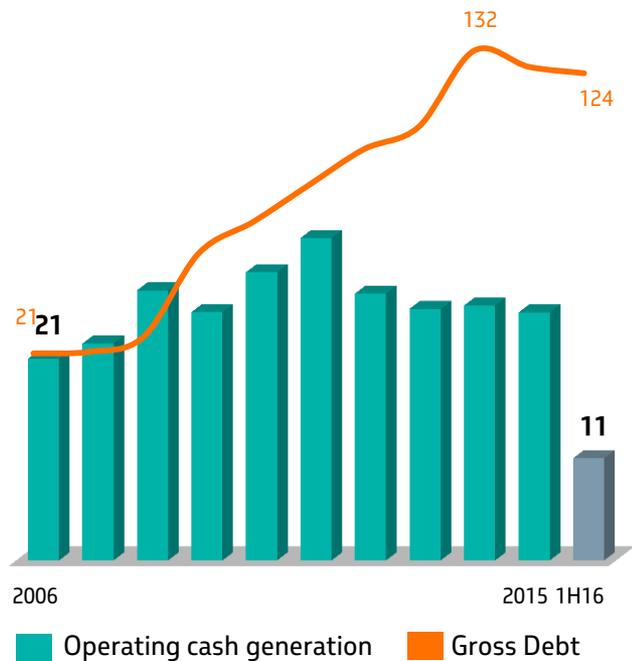
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- High levels of debt, with concentrated maturities
- Increasing costs associated with debt renewals
- Challenging regulatory framework
  - Local Content requirements
  - Obligatory Pre-salt participation
  - Frequent Structural changes  
(Unification of fields and tax creation/hikes)
- Judicial disputes

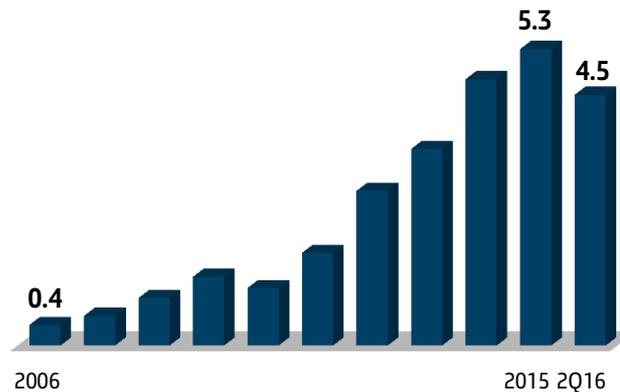


# Petrobras: financial situation

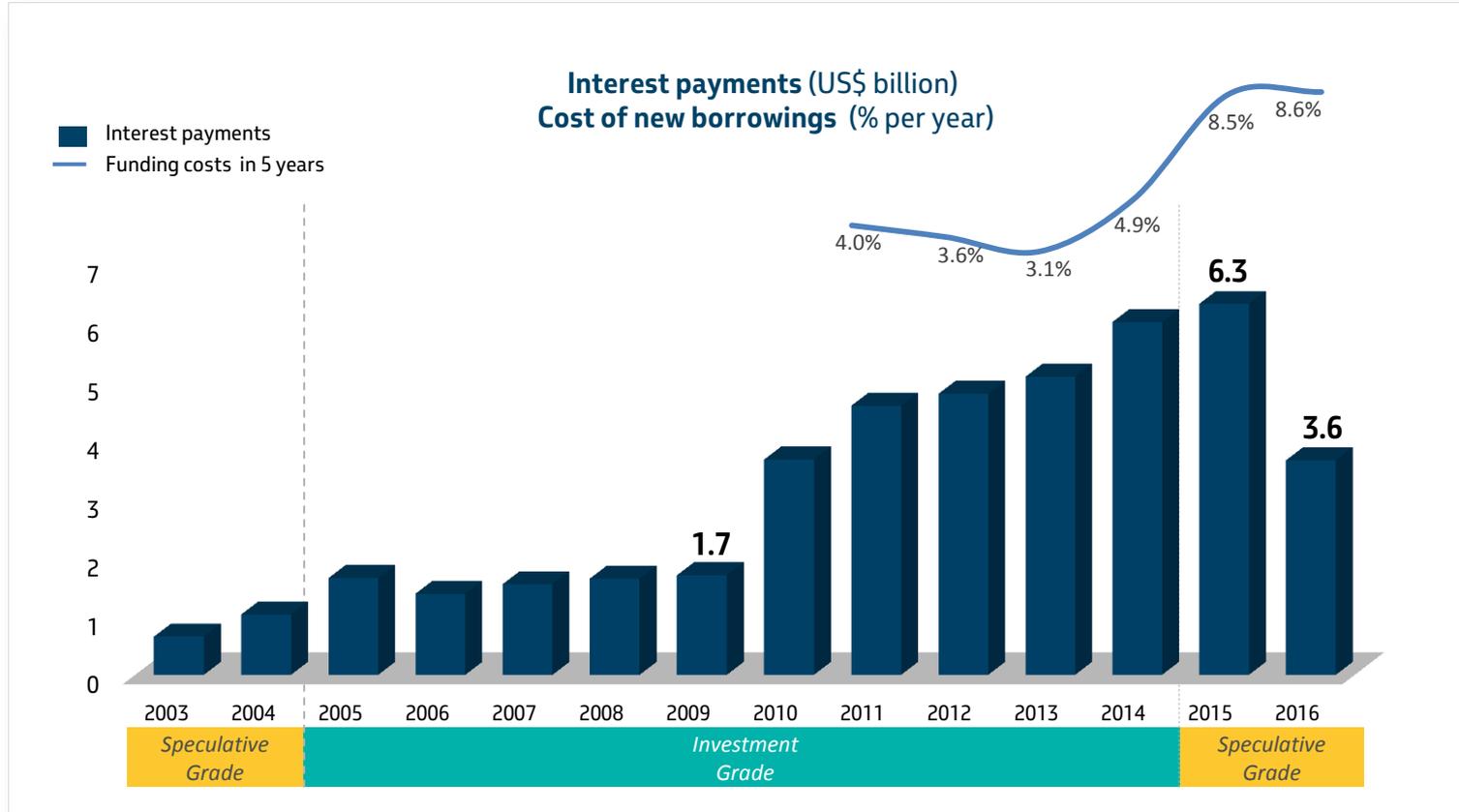
## Growing Debt relative to Cash Generation (US\$ billion)



## Net Debt / EBITDA



# Interest payments and cost of borrowing



# WHERE WE WANT TO BE

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# OUR VISION

An integrated energy company focused on oil and gas that evolves with society, creating high value and with a unique technical capability



# OUR VALUES

**Respect for life,  
people and  
environment**

**Ethics and  
transparency**

**Market  
driven**

**Overcoming  
and confidence**

**Results  
oriented**



# Main Metrics of Strategic Plan (SP) and Business and Management Plan (BMP)



## SAFETY

Reduction of  
**36%**

In the Total Recordable Injury  
Frequency Rate (TRIFR\*)

FROM  
**2.2**  
in 2015

TO  
**1.4**  
in 2018

\* TRIFR = number of reportable injuries per million man-hours



## FINANCIAL

Reduction in  
**LEVERAGE**  
Net Debt/EBITDA

FROM  
**5.3**  
in 2015

TO  
**2.5**  
by 2018

# HOW WE WILL GET THERE

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**Engagement** of the **leadership**

**2** main metrics drive the strategy

Unified Plan (**SP and BMP**)

**New management system**  
with targets up to supervisory level

Disciplined execution: systematic monitoring of  
**Goals with mid-course corrections**

New tools of  
**cost management**

**Meritocracy**



# Petrobras is working with 3 long-term scenarios

Base case scenario  
of the BMP

## STREAM



A world of change in the two leading global economies, the USA and China, but without any important changes to the energy matrix and the values and behavior of society.

## SHOAL



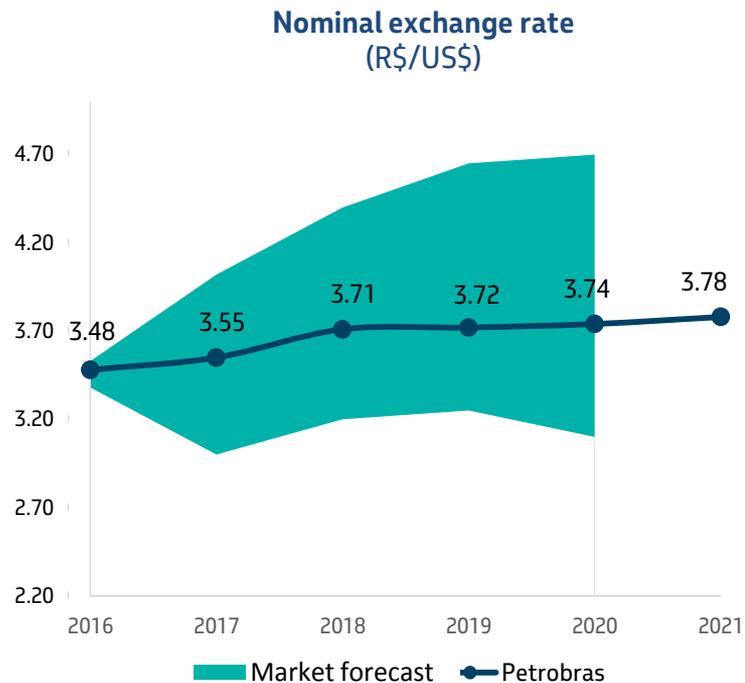
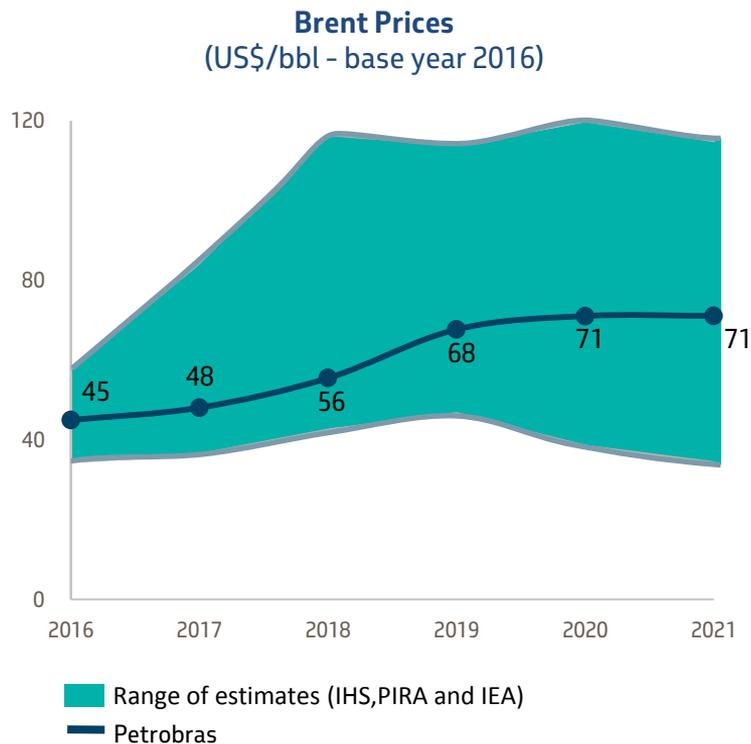
Natural gas assumes a more important role in the energy matrix while society is concerned with local environmental issues.

## CORAL



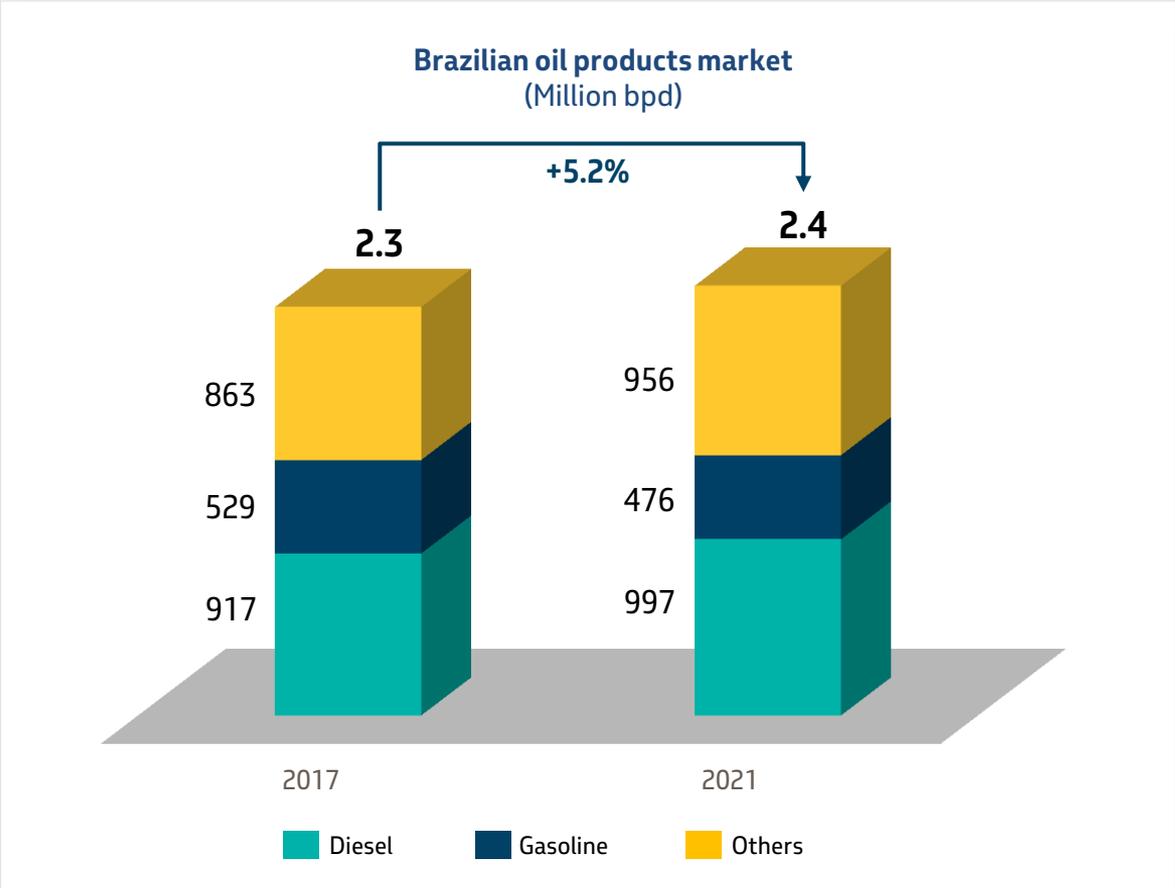
Transformation of consumer behavior and values, with transition to a low-carbon matrix.

# Main variables in the base case scenario

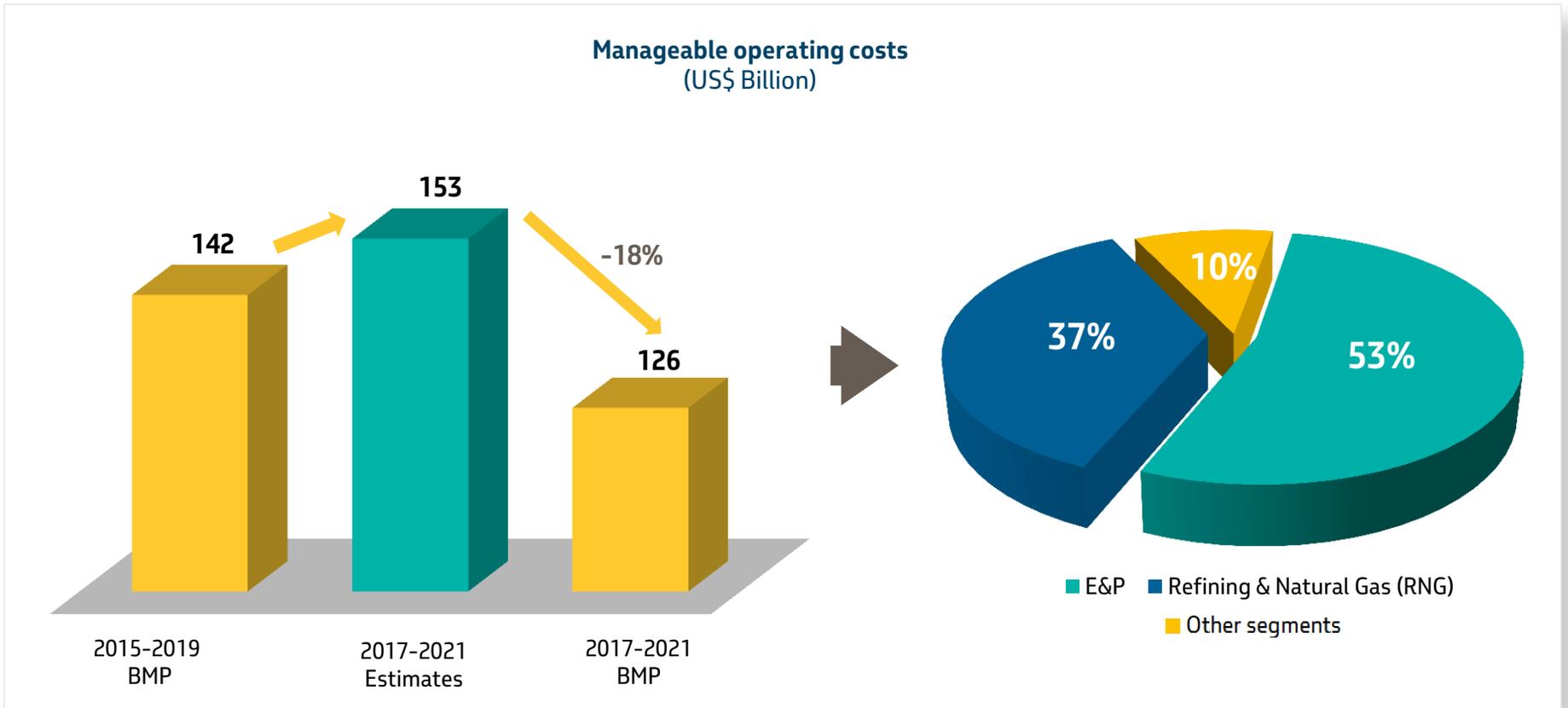


Source: Petrobras; IHS, PIRA, IEA, Focus report

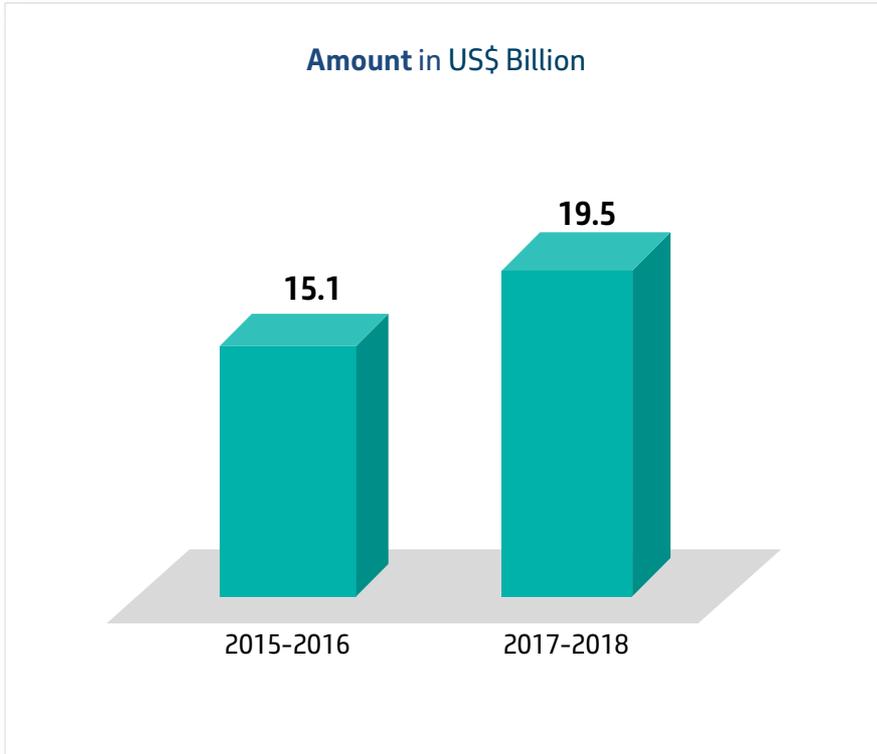
# Brazil's market for oil products resumes growth



## Cost reductions



## Partnerships and divestments



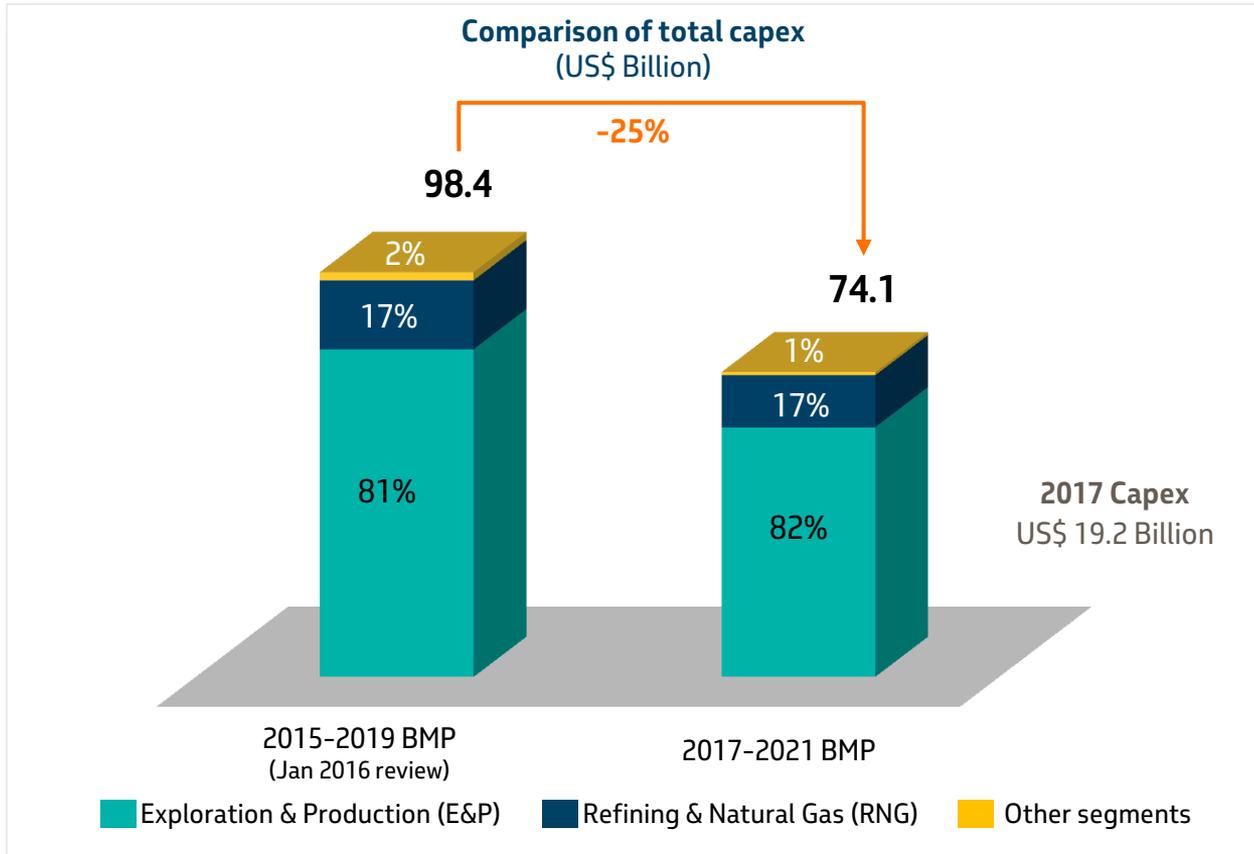
### Benefits of the partnerships

- Risk sharing
- Capex sharing/reduction
- Increased capacity to invest along the value chain
- Technological exchange
- Strengthening of corporate governance

The partnerships and divestments program of Petrobras leverages third parties investments that might surpass US\$ 40 Billion\* in the next 10 years.

\* Does not consider investment of suppliers to increase capacity

# Investment spending by Petrobras (Capex)



An **integrated** energy company focused on oil and gas that evolves with society, creating high value and with a unique technical capability

# 3 strategies

An integrated energy company  
**focused on oil and gas** that  
evolves with society, creating high  
value and with a unique technical  
capability

# 4 strategies

An integrated energy company focused on oil and gas that **evolves with society**, creating high value and with a unique technical capability

# 4 strategies

An integrated energy company focused on oil and gas that evolves with society, **creating high value** and with a unique technical capability

# 7 strategies

An integrated energy company focused on oil and gas that evolves with society, creating high value and with a unique **technical capability**

# 3 strategies

## Guiding principals of the initiatives



Strengthening  
of the safety  
culture



Reinforcing  
prevention  
against  
corruption



Merit-based  
performance  
management



Streamlining  
decision  
making



Implantation of  
Zero Based  
Budgeting



Strengthening  
of internal  
controls



Improvement of  
risk  
management

# EXPLORATION & PRODUCTION



An integrated energy company focused on oil and gas that evolves with society, creating high value and with a unique technical capability

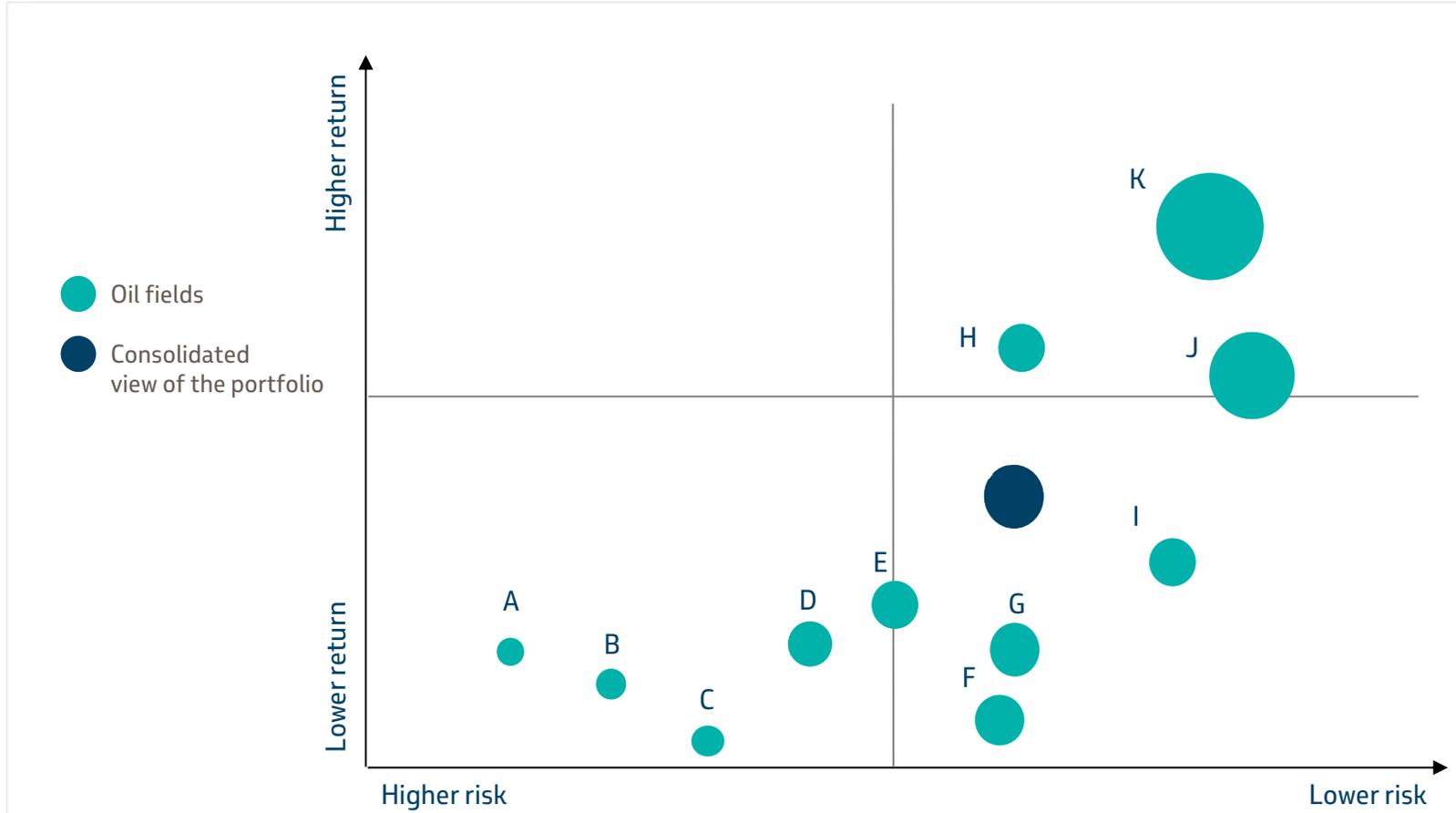
- **Manage the E&P project portfolio in an integrated manner.**
- Prioritize **development of deep-water production**, with a focus on strategic partnerships, combining technical competencies and technologies.
- Manage the **exploratory portfolio** in order to **maximize economic viability** thereby ensuring the **sustainability** of oil and gas production.
- **Continually improve upon productivity and cost reduction** while following best international practices.
- Strengthen **-reservoir management** to maximize the value of E&P contracts in all the regulatory regimes, seeking opportunities to continuously incorporate reserves.

## We still have many challenges ahead



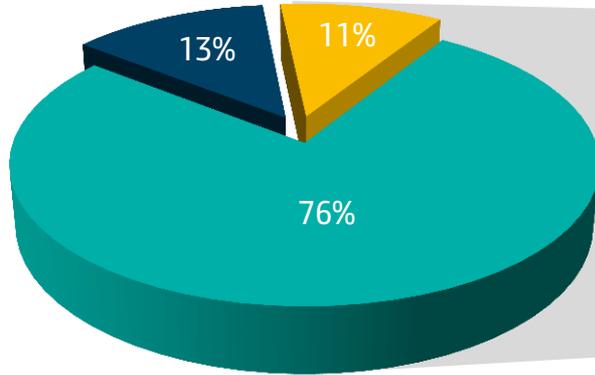
**MANAGEMENT** of reservoirs and increase in recovery factor

# Value creation through portfolio optimization



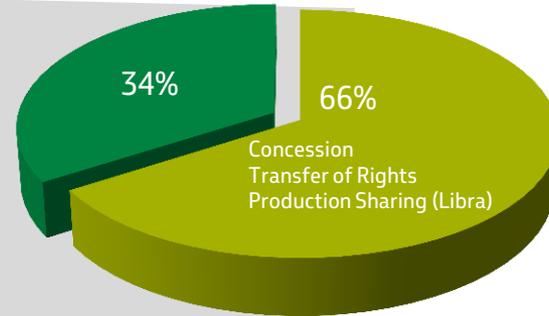
# Upstream Capex breakdown

**Total E&P  
US\$ 60.6 billion**



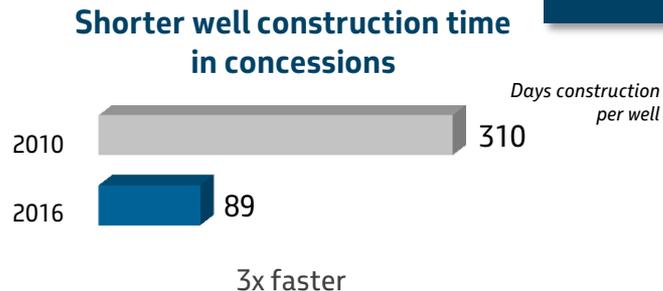
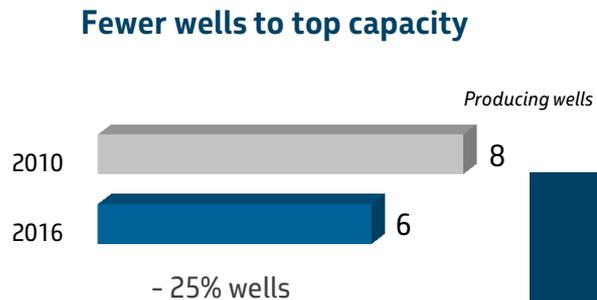
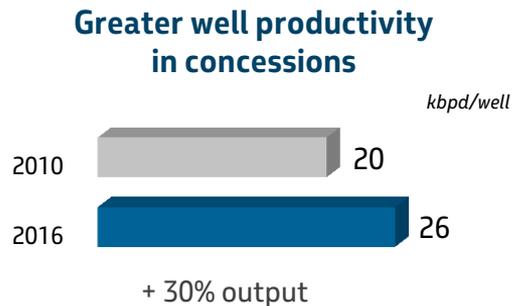
■ Exploration ■ Production development ■ Operational support

**Production Development  
+ Exploration**



■ Pre-Salt ■ Post-Salt

# Efficiency gains: Santos Basin pre-salt case



**Lower capex for the same production**

# Lula field: faster well construction and connection

2010

**1 unit** in  
Angra dos Reis



2016

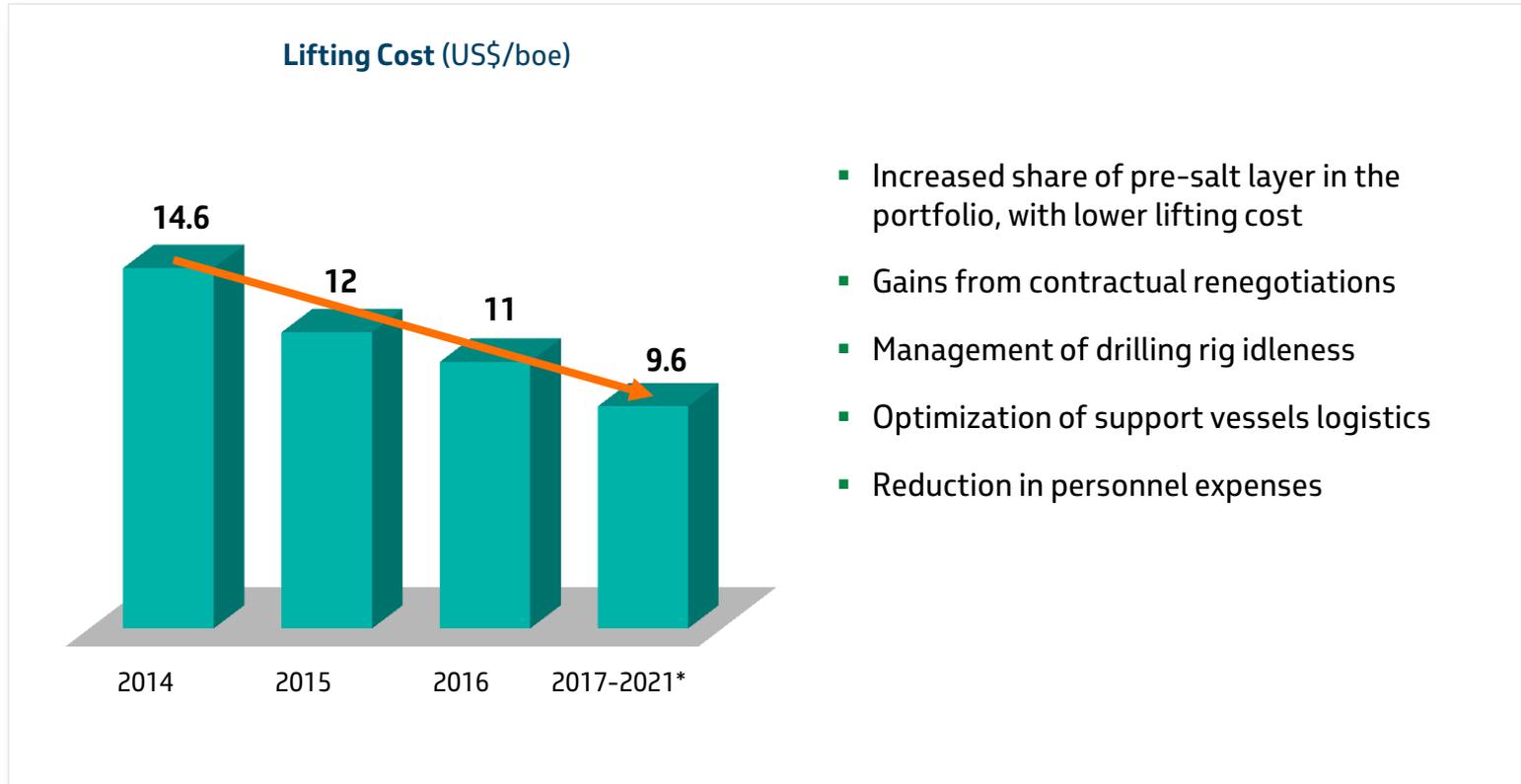
**6 units** in

- Angra dos Reis
- Paraty
- Itaguaí
- Mangaratiba
- Maricá
- Saquarema



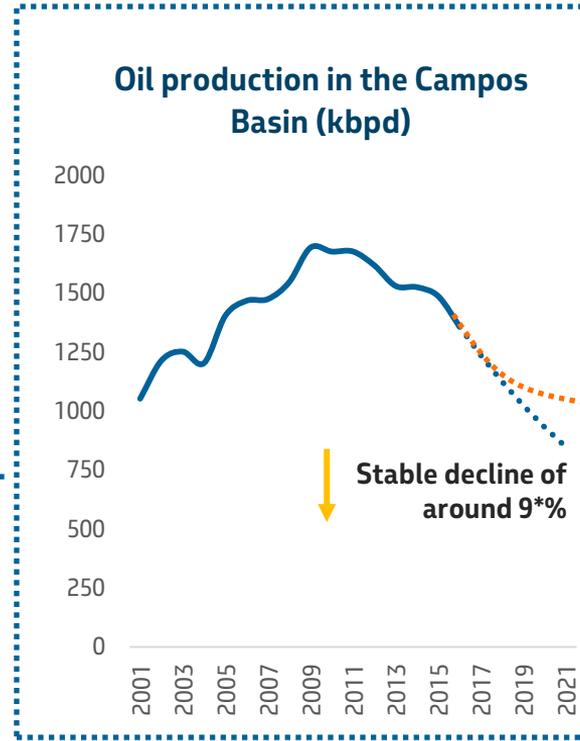
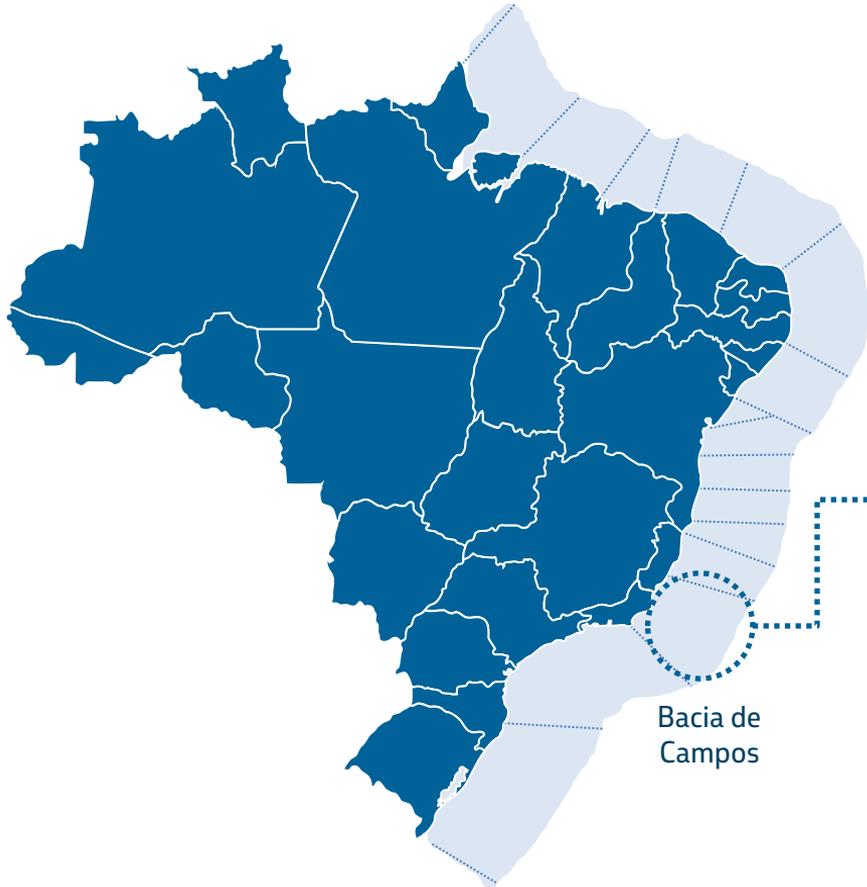
**60%** ↓ reduction in well  
construction and  
connection times

## Reduction in operating costs



\* Average for the period

# Opportunities in the Campos Basin

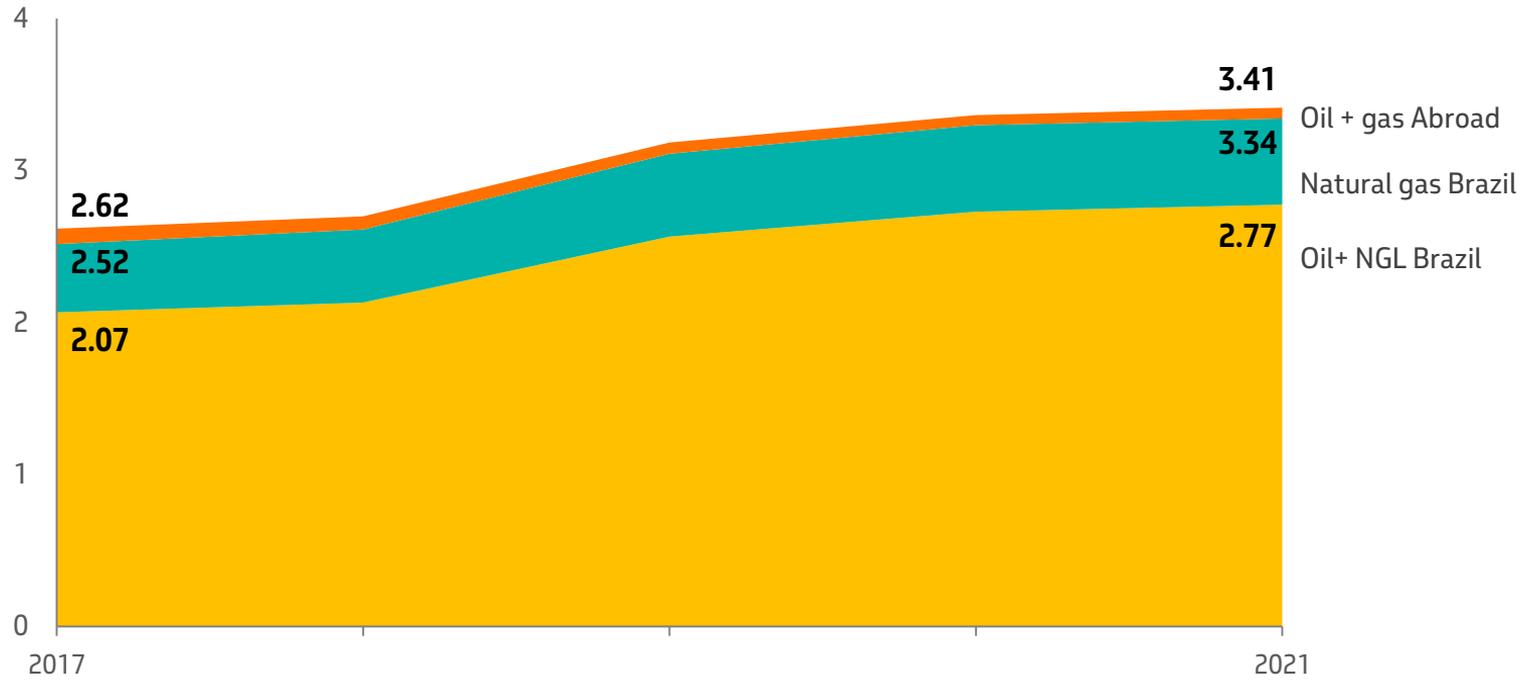


- Operations with emphasis on strategic partnerships, seeking to increase production potential
- Extension of concessions
- Revitalization of Marlim project

\*Below the industry average of 12% for deepwater wells

# Petrobras Production

Oil , NGL\* and Gas Production  
(million boed)



\* Natural Gas Liquids



# REFINING & NATURAL GAS

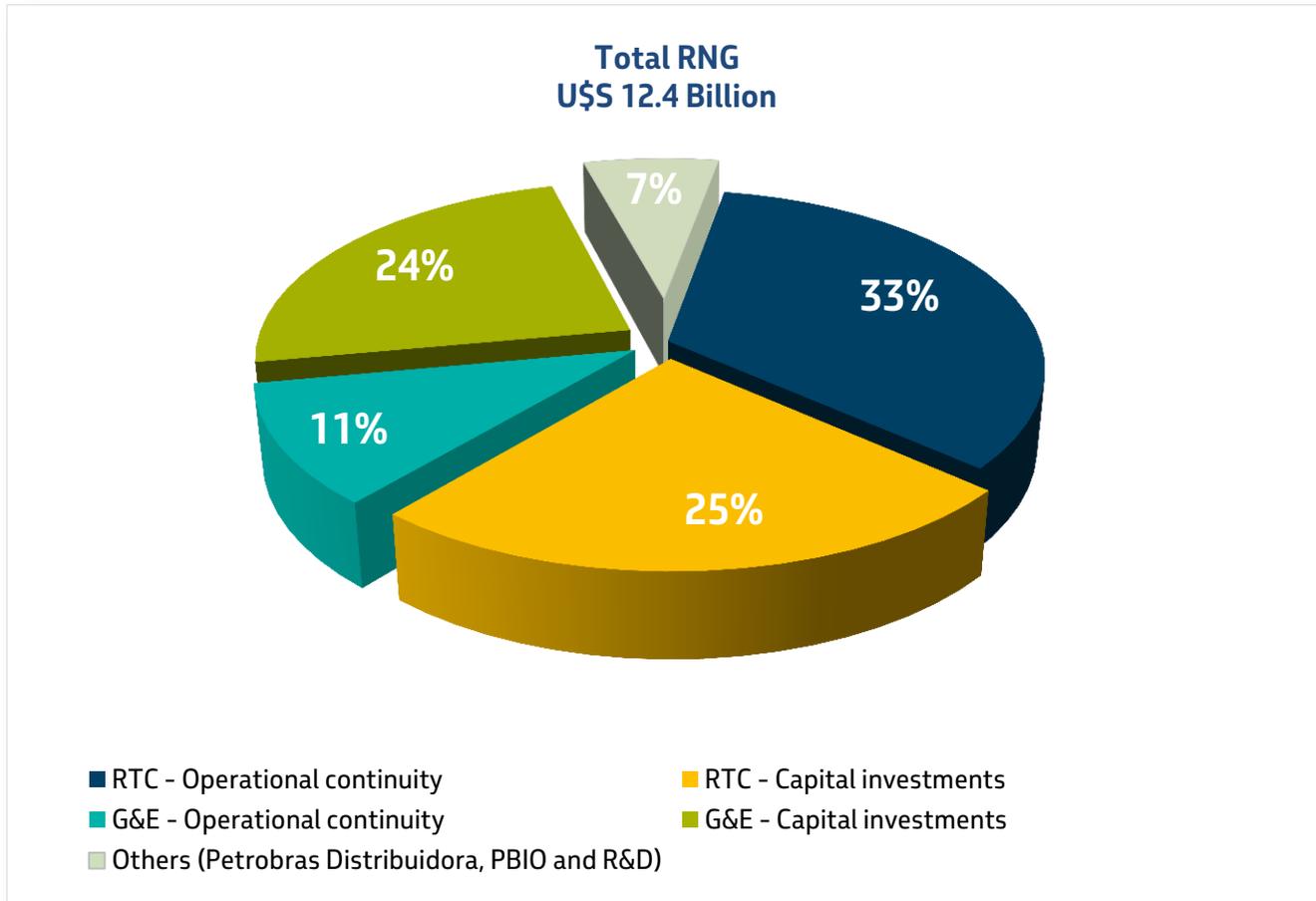
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# Strategies

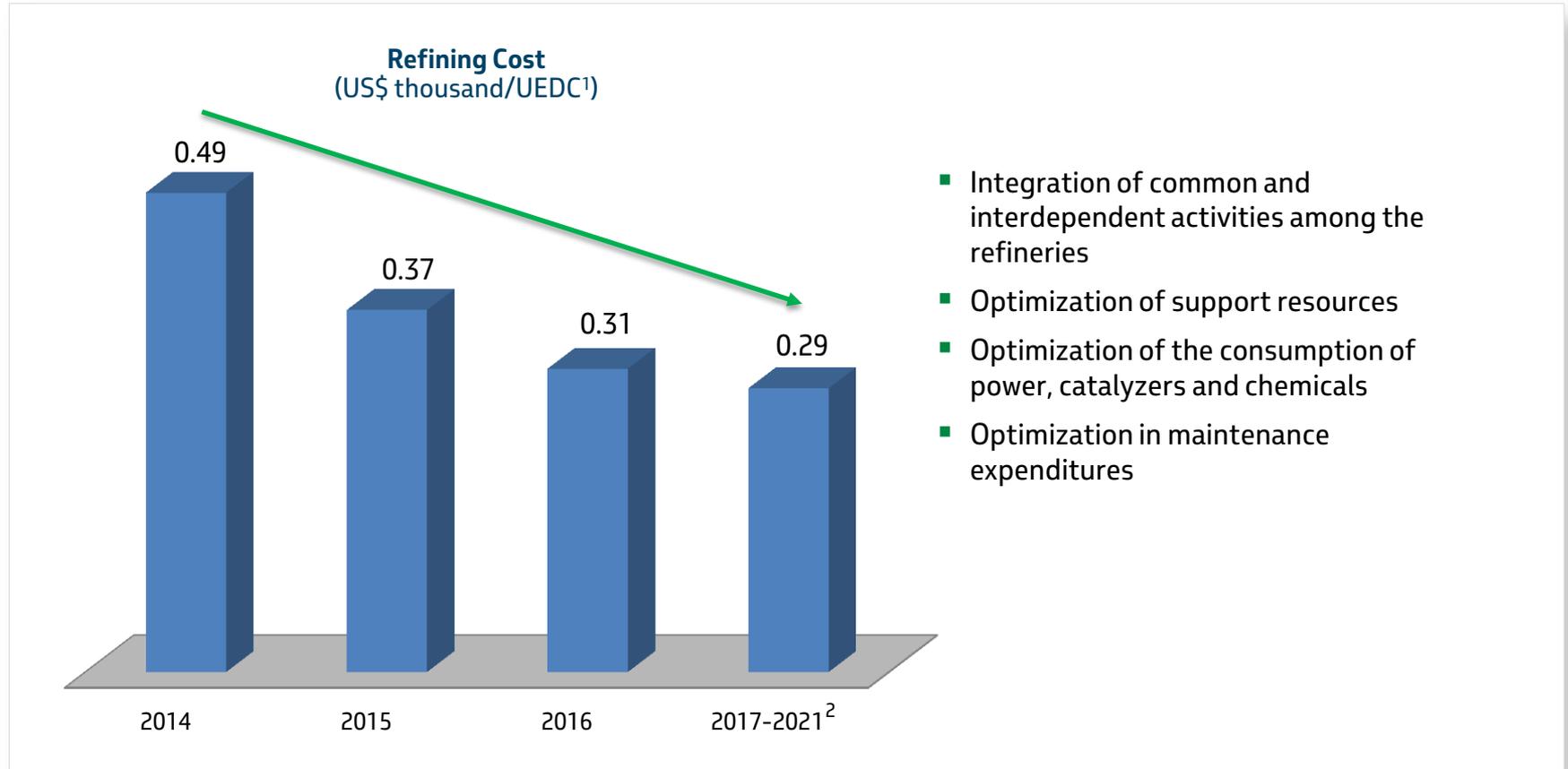
An integrated energy company focused on oil and gas that evolves with society, creating high value and with a unique technical capability

- Reduce Petrobras' E&P, Refining, Transportation, Logistics, Distribution and Sales risk **through partnerships and divestments.**
- Promote a **market price policy** and maximize margins in the value chain
- Optimize the business portfolio, **withdrawing entirely from biofuel production, LPG distribution, fertilizer production and petrochemical interests**, preserving technological competencies in areas with development potential.
- Maximize **value creation in the gas chain**, aligned with regulatory developments, ensuring the monetization of proprietary production and **optimizing participation in the chain of natural gas as a fuel of transition to the long term**
- **Restructure the Energy Businesses**, consolidating the thermoelectric assets and other businesses in this segment, seeking **the alternative that maximizes value for the company.**
- **Review the Lubricant business**, with the purpose of maximizing value creation

## Refining and Natural Gas Capex breakdown



## Reduction of operating costs



1. Unit of equivalent distillation capacity

2. Average for the period

## Main Projects

### RNEST (Abreu e Lima)

1st Refining set (Train I)	100 kbpd → 130 kbpd SNOX unit (under procurement)
2nd Refining set (Train II)	Seeking partnership

### COMPERJ

Gas Processing Unit	In final stages
Refinery	Seeking partnership

### Pre-salt gas flow

Route 1	Expansion of UTGCA under study
Route 3	Gas pipeline and Gas Processing Unit implementation



An aerial, top-down view of a yellow offshore oil platform structure. The structure consists of numerous vertical and horizontal beams, with many vertical beams having circular caps at their ends. The platform is situated over a deep blue ocean with white-capped waves. The text "DEVELOPMENT OF PRODUCTION AND TECHNOLOGY" is overlaid in white, bold, sans-serif font in the upper left quadrant. A thin white line curves across the image from the bottom left towards the top right.

# DEVELOPMENT OF PRODUCTION AND TECHNOLOGY

# Strategies

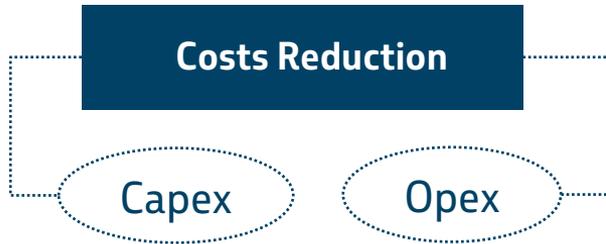
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An integrated energy company focused on oil and gas that evolves with society, creating high value and with a unique technical capability

- **Enable** the conception and implementation of **projects with a low break-even oil prices**, safety and in compliance with environmental requirements
- Ensure the constant **development of technological competencies in areas with development potential**, strengthening the performance of the current business and opening options for competitive operations with low-carbon and renewable energy technologies and refinery-petrochemical integration.

# What is the contribution of technology for the Business and Management Plan?

## Price Scenario



### Focus:

- Subsea system
- Wells optimization

### Improvement:

- Partnership between operators and suppliers

### History/future:

- Procap → Prosal → Cost Reduction Program

## Future Scenario



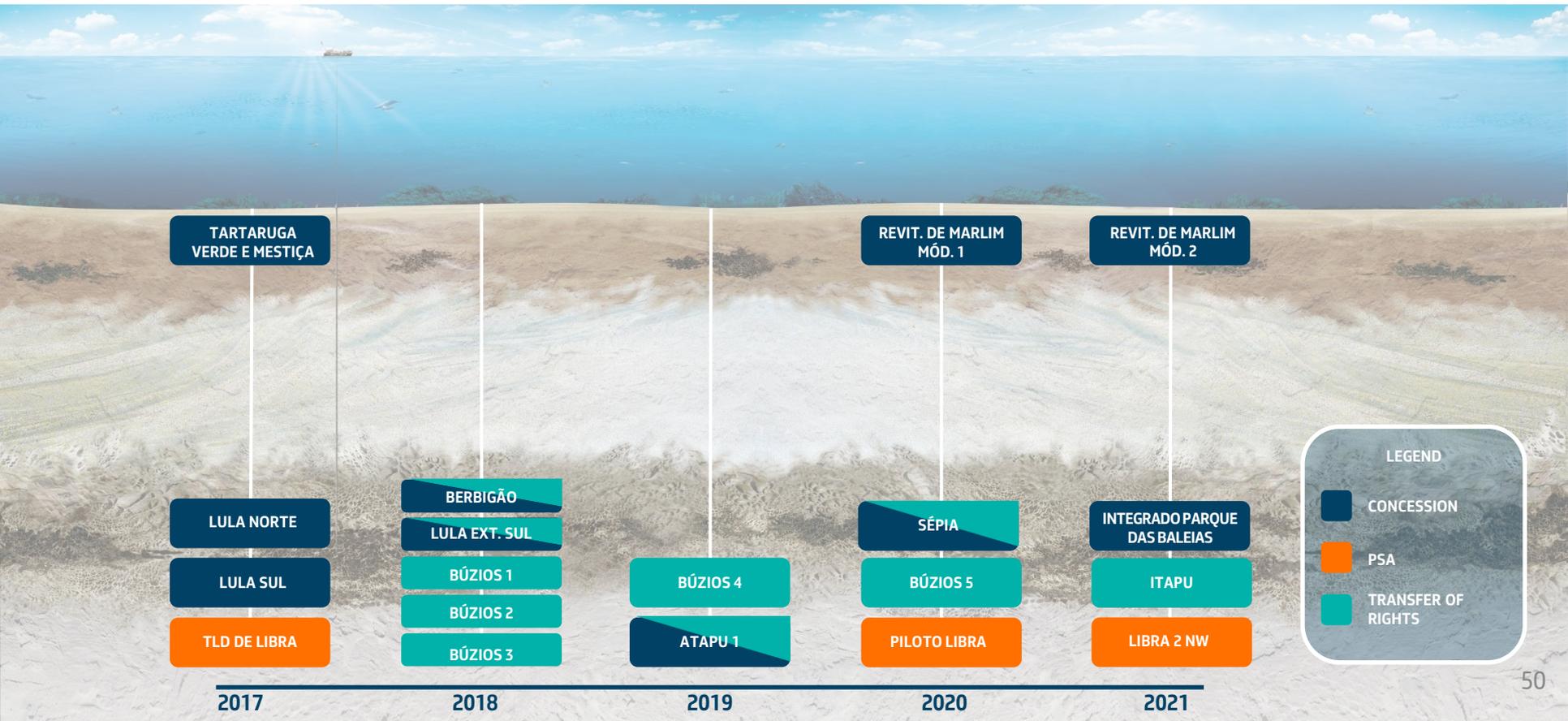
### Focus:

- Reduction of CO2 emissions
- Natural gas as a transition fuel
- Energy efficiency/water consumption

### Improvement:

- Monitoring new business opportunities

# Start-up of new production units



# CORPORATE



# Strategies

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An integrated energy company focused on oil and gas that evolves with society, creating high value and with a unique technical capability

- Promote the management of our workforce in an environment of **participatory culture** and mutual trust, **focused on results that add value**, with safety, ethical conduct, responsibility, encouragement of active debate, meritocracy, simplicity and conformity.
- Align **social responsibility** actions with the company's projects.
- Manage the **process of contracting goods and services with a focus on value**, aligned with international standards and metrics, meeting conformity requirements, maintaining flexibility in adverse and volatile demand scenarios and contributing to the development of the chain as a whole.

## Program: Commitment to Life

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- **Training focused on knowledge of risks** and processes
- Continuous **training program** to internalize the **Golden Rules**
- **System of consequences** and accountability with different approach to error and violation; appreciation of positive practices and attitudes
- **Management assessment process** with focus on process safety and risk management, with mandatory correction of critical deviations
- **Improvement of HSE performance management of suppliers**, with the application of the system of consequences

# Meritocracy

## Skills Management

Attracting and retaining **talents**

Assessment and performance management based on **objective metrics**

Compensation based on **performance**

**Results-oriented** cultural change

## Reduction in labor costs

### Voluntary Severance Incentive Programs 2014-2016

**9,270** employees, of which 2,470 from the 2016 Program

**9,670** employees are expected to leave by mid-2017, of which 400 from the 2014 Program

### Decrease of contractors

**114,000** since December 2014\*

\* Service contractors of worksite and assembly, administrative, operations, scheduled maintenance and abroad.

# Management of the procurement process



## PROJECTS AND OPERATION

- Planning
- Incentives alignment
- Inventory reduction



## COMPLIANCE

- Standardization
- Selection of suppliers
- Decision-making and controls



## VALUE GENERATION

- TCO – Total Cost of Ownership
- Co-engineering (supplier market)
- New business models
- Supplier development



## RISKS

- Supplier management:
  - Quality
  - Financial risk
  - Integrity risk
  - HSE risk
- Strategy to reduce budgetary risks



# GOVERNANCE AND COMPLIANCE

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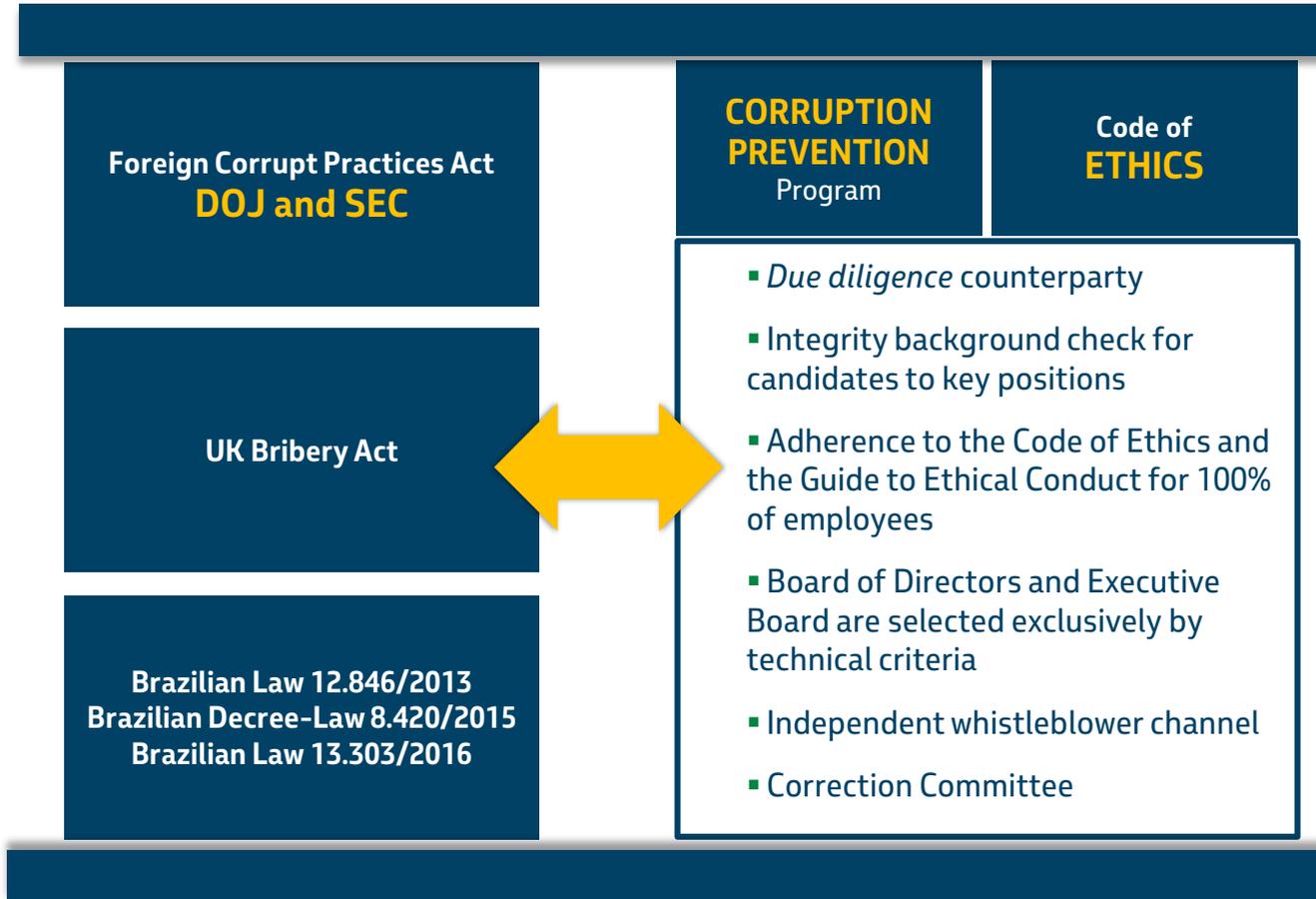
# Strategies

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An integrated energy company focused on oil and gas that evolves with society, creating high value and with a unique technical capability

- **Strengthen internal controls and governance**, ensuring **transparency** and an effective system for preventing and combating irregularities, without impacting the **agility in the decision- making process**.
- **Recover Petrobras' credibility and strengthen its relation and reputation** with all its stakeholders, including the controlling and supervisory bodies of the company.

## Measures adopted to strengthen compliance



## Measures adopted to strengthen governance

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- Review of the decision-making process
- Elimination of approvals by single individuals
- Creation of statutory technical committees
- Statutory Audit Committee
- New Advisories Committees for the Board of Directors
- Alignment of guidelines for all companies in Petrobras System
- Definition of succession process for managerial and executive positions
- Reorganization of the structure of the company

# FINANCE

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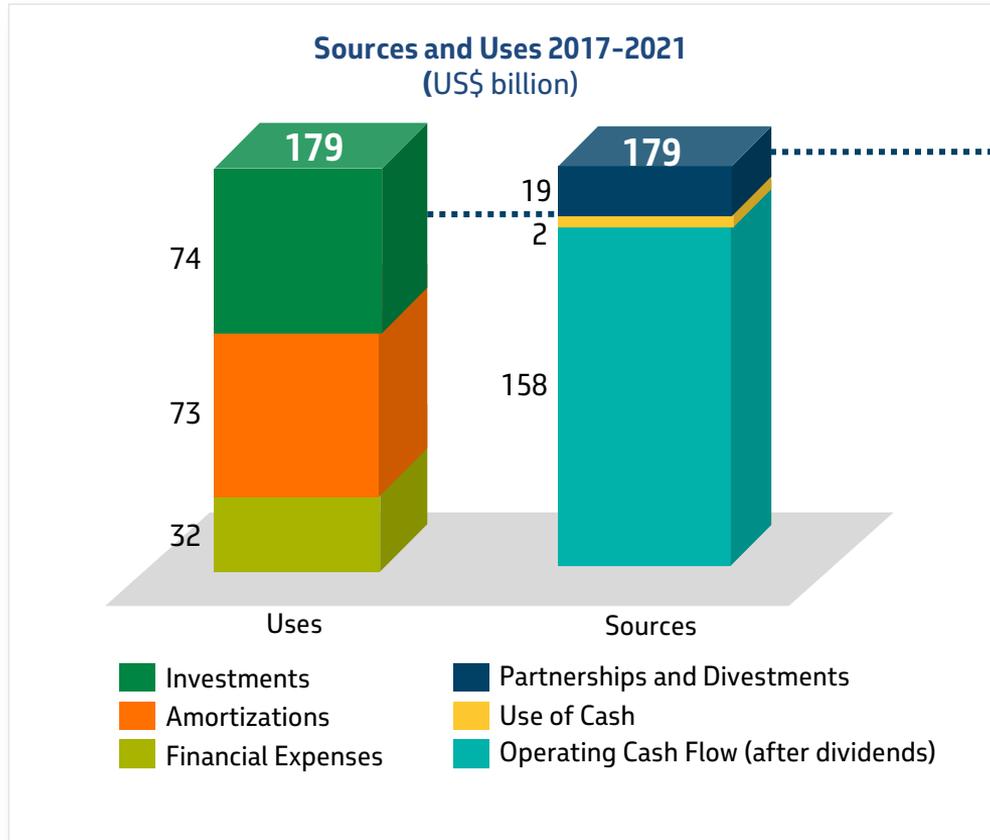
# Strategies

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- Ensure **disciplined use of capital** and **return to shareholders** in all Petrobras projects, with **high reliability and predictability** in the delivery
- Operate with an emphasis on **partnerships and divestments** as key **value generation** elements.
- Maintain **transparent, respectful and proactive dialogue** with all stakeholders, through the use of the best and most up-to-date internal and external communication practices.

# Sources and Uses



Partnerships and divestments are essential to enable all the planned investments

No requirement for new net debt during the 2017-2021 period

## Main risks\*

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Material changes to market conditions

Divestment and partnership below plan

Judicial disputes

Renegotiation of the Transfer of Rights

Impact of Local Content on costs and timing of the projects

Delays in the construction of platforms

Higher than expected investment costs

**Risks count on responsables  
and covered by mitigating  
initiatives**



# LONG TERM STRATEGIC DRIVERS

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We will continue to strengthen our management to become a reference in ethics, governance, process integrity, safety and productivity

Our company will be guided by business principles in compliance with its social objectives

We will move ahead with a prudent and sustainable approach, maintaining a long-term view on financial, environmental and social aspects

We will be one of the best companies to work for, with meritocracy as the key pillar for recognizing our employees' development

We will consider opportunities to increase our international presence, taking advantage of the learnings of the past



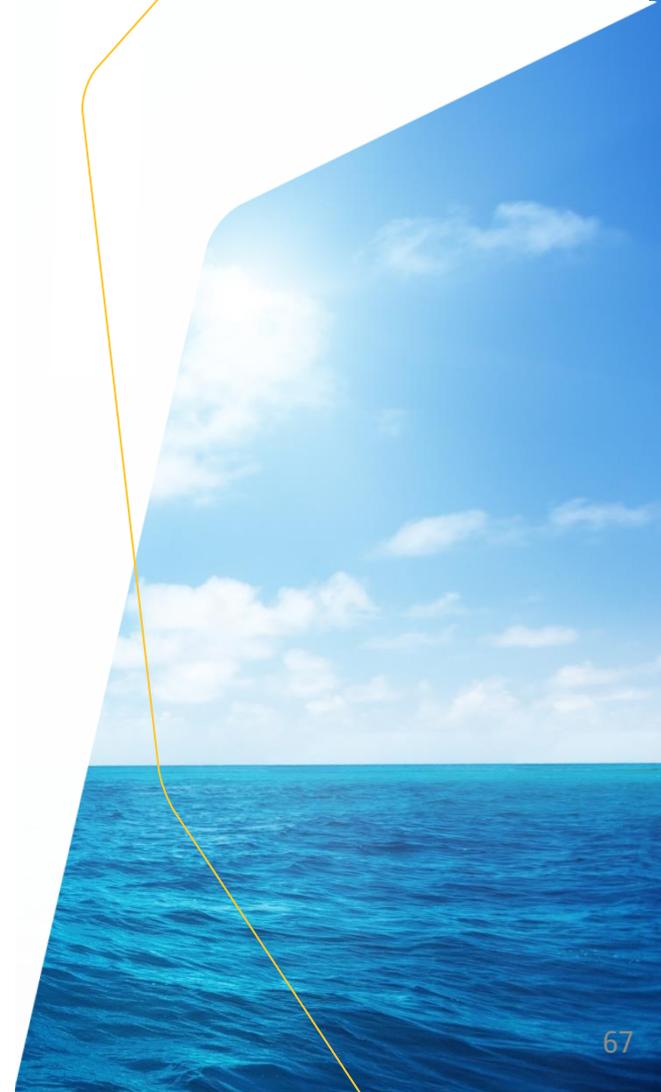
We will seek alternative higher value added uses for oil, including the integration between the refining and petrochemical areas

We will continue to be at the forefront in deep water technological development and knowledge

We will expand our expertise in renewable energy, seeking competitiveness in the medium and long term

We will pursue a relevant share in the market of gas as a transition energy to a low carbon society

We will continue to be Brazil's largest integrated energy company focused on oil and gas and with a growing presence in alternative energy



# STRATEGIC PLAN 2017-2021 BUSINESS AND MANAGEMENT PLAN

September 2016

