3rd Latin American Energy and Natural Resources Conference

ENR 2014

Oil, gas, electricity, mining, infrastructure and logistics

November – Rio de Janeiro - KPMG

kpmg.com/energylatam
Challenges and opportunities

For the past three years, KPMG in Brazil has provided the Brazilian and Latin American energy and natural resources Market with a rich source of content, that is designed to prepare decision makers for the challenges of the next term and to seize the opportunities of a highly globalized and integrated environment.

Exchanging experiences, trends, perspectives and viewpoints is the focus of our meeting, always aiming to capacitate the leaders, in all regions, with the necessary tools for the growth of their organizations, enabling them to become more apt and fast in dealing with the complexities of an ever-changing world.

In the 2014 conference, year of World Cup and elections, the issues that troubled the industry were the same in the previous years, though with one difference: this conference was the industry's first large event following the electoral decision for presidency of Brazil and for states governments. For that reason, I believe that this issue comes with an important purpose of outlining and influencing the industry's courses for this and the following years.

Enjoy reading!

Pedro Melo President,
KPMG Brazil
It is with great pleasure that I introduce the summary of our 3rd Latin American Energy and Natural Resources Conference of KPMG in Brazil, held in Rio de Janeiro, on November 7th of 2014.

In the same way as in previous years, the goal of our meeting was to promote a space for exchanging experiences and knowledge between the leaders of the Industry in Brazil and Latin America.

In the year of 2013, in the second conference, a little more than half of attendants were C-Level, representing 116 companies.

It was also during that year that we inaugurated the Latin American Energy Center of Excellence, KPMG Latam Energy Institute, currently located in Rio de Janeiro. Three other centers were also created to form the industry’s largest relationship network in the world.

In 2013, the conference program encompassed several topics related to our Industry and offered two very important lectures: one with Magda Chambriard, Director General of ANP, which set the tone of the regulating entity about the topics of our lectures, introducing a complete scenario of the oil and gas industry in Brazil to the attendants, and another one with Gustavo Franco, former President of Banco Central, outlining an overview of the economy for next year.

In this third event, the topic of the main lecture was Perspectives and Trends of the Energy and Natural Resources Industry, which we divided in two panels including leaders on the segments of Oil and Gas, Electric Energy and Mining. At the end of our event, the lecture Trends and Scenarios of the Economy, presided by the former Revenue Minister and former President of Banco Central, Pedro Malan, discussed the potential scenarios for the global, Latin American and Brazilian economy, as of recent elections in Brazil, Colombia, Mexico, Peru and Chile, and the possibility of reversing the global economic and financial crises scenario.

It is also worth mentioning that our event was the introduction of an important survey carried out by KPMG in Brazil and by Exame magazine, featuring Brazil’s most important infrastructure projects currently in progress, some of which are significant projects within the energy industry and others that were anticipated for representing significant leaps of quality in national infrastructure.

For this third edition, we count on 427 attendants. Among attendants from the industry, 51% were C-Level, representing 194 companies. See bellow:

I hope you find this issue to be an important reference for the business decisions of your organization. We hope you can join us on the next event and participate in one of the many discussion forums available on social networks, the internet and others. Good reading!
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The energy and natural resources industry is key for KPMG worldwide. For that reason we invest several resources on the development of solutions as well as on ongoing professional improvement for our team. KPMG Energy Institute – comprising four global centers of excellence, with one based in Rio de Janeiro city – currently has a team of 35,000 associates, which in addition to being the largest industry specific debate network in the world, is also the most significant example of the relevance of this industry to our company.

As Brazil’s Energy and Natural Resources Conference sponsor, KPMG Latam Energy Institute consolidated its reputation as a highly qualified and specialized information provider.

In the past two years, the institute offered several Webcasts, articles and debates with the participation of executives from KPMG and the industry in general, providing a virtual space dedicated to helping organizations and their communities of interest to understand the industry’s challenges, trends, risks and opportunities, therefore supporting their decision making process.

The institute’s Latin branch is in full expansion aggregating more and more content with each passing day, having become a reference in the Industry. Join us!

The KPMG Latam Energy Institute website may be accessed at kpmg.com/energylatam, and registration for the conferences is free.
Perspectives and trends for the energy and natural resources industry

Perspectives associated with the Industry’s main challenges from a broad technical outlook

Ricardo Anhesini, COO and KPMG’s Markets head-partner, began the ENR 2014 with a brief informative overview of the relevant facts that would be discussed from that point on. Information which, incidentally, in addition to having as background the topic Perspectives and trends for the energy and natural resources industry also received the attendants’ opinion about the outlook for 2015, detailed in the following charts.

Coordinated by Manuel Fernandes, KPMG partner, manager in charge of the Oil and Gas division in Brazil, and facilitated by George Vidor, economist, Globo News announcer and O Globo’s economy journalist, the session’s first part had the participation of Jerson Kelman, president of SABESP and professor at UFRJ; Nelson Silva, president of BG Brasil; Pablo Wagner, president of Genesis Capital and former Assistant Secretary of Mining in Chile; Renato Bertani, Executive Director of Barra Energia; and Wilson Ferreira Jr., president of CPFL, who all shared their opinions and viewpoints informed by their market experience.

Starting his discussion on the drought issue that has been affecting the Southeast region, especially São Paulo, Kelman affirmed that, even considering what TV and newspapers have been reporting, Brazil, as a whole, is not facing the worse drought period of its history. “We are not in the worse moment of
fluent whole, is not facing the worse drought period of its history. “We are not in the worse moment of fluent energy compared to others seen in different systems we had. The national grid system offers a power output guarantee, but Brazil’s real power capacity must be further analyzed. It’s a complex problem and I won’t suggest another change. After all, the electricity industry has undergone several reforms, though it is crucial to defeated this situation. There is an excessive number of bylaws that must be reviewed”, he considers.

Silva elaborated on that topic, highlighting, during discussions, the increase in thermal generation capacity of the Brazilian energy matrix. “There is an ongoing debate over the thermal electric plants, while at the same time there is much being said about gas, which will probably occupy an important position in the world’s power generation, due to the occurrence of several natural phenomena”; he highlights, listing issues caused by the tsunami in Japan, the switch from coal to gas in China and geopolitical matters in the United States. “In Brazil, certainly we will see an increase on the share gas occupies in the energy matrix.” According to him, one matter worthy of specific discussion is nuclear generation. “Today the country records between 2% to 3% of generation in the electric matrix, though ideally that should be between 10% to 15% taking in consideration real territorial needs”; he analyzes. In the executive’s opinion, the trend is that gas will occupy a larger share in the Brazilian energy matrix, as well as in other countries.

He declared feeling optimistic about the industry, affirming that, since power restrictions were sanctioned, Brazil evolved considerably in terms of regulations. “The electric industry relies on private investments, government financing, a pool of governances, planning and reserves, among others factors. Therefore, the capacity for generation was extended to 23%”; he points out. However, the executive did not leave out the containment of fees as one of the main challenges. “The incautious search for low rates reduces the remuneration of enterprises, resulting in inferior quality. If energy is important, there must be a balance between remuneration of the agents and reasonable rates. We should not have a constant shock of demand, but of offer, so that we may have the correct cost”, he explained.

When questioned about the expectations of the world mining performance, with special regards to Chile, Wagner explained that the country, along with Peru and Colombia, is going through a very important trade moment. “We have an issue with trade, as well as social and community agreement issues that must be resolved, since Chile’s environmental regulations are extremely demanding. The challenge is to design better strategies, increase extraction capacity and enable the industry to balance the low prices of copper”, he points out, while stating that Brazil has production and workforce capability able to contribute for Chile’s development in this industry.

When the challenge refers to the production of oil, Bertani described it with projections – today the world consumes nearly 90 million barrels of oil. The forecast for 2035 is for a consumption of approximately 110 million barrels/day. “In order to meet this demand it is not enough to produce more barrels, but also to manage the fields, which will fade with the increase in production. Therefore the challenge is bigger but so are the opportunities. This could be possible through technology and investment”, he ponders. The executive explains that currently Brazil is investing nearly US $35 billion/year in production and development and has the means to raise this investment to roughly US$ 60 to 70 billion/year, given its geology. “However, obstacles must be dealt with, such as insufficiency of auctions, especially on pre-salt layers, so that a better oil and gas industry performance is seen. The potential is there;” he alerts. The lack of predictability is pointed by investors of this industry as the main factor of common ground. Challenges and opportunities were also a specific topic of the program with regards to electric energy, analyzed by Wilson Ferreira Jr.
Real expectations

Four questions regarding the economic and industrial performance in Brazil and worldwide started the sessions on Perspectives and trends of the energy and natural resources industry, informing the speeches of the invited speakers:

What is the expectation for the global economy in 2015, compared with 2014?

- Better (clear rules and contracts and adjusted rates)
- Instability prevails (1% to 2% growth)
- Pessimistic (no growth)

What is its expectation for the oil and gas industry in Brazil for 2015 over the previous year?

- 3 to 5% growth (optimistic view)
- Instability prevails (1% to 2% growth)
- Pessimistic (no growth)

What is its expectation for the electric energy industry in Brazil for 2015, compared with 2014?

- Better (clear rules and contracts and adjusted rates)
- Same (contained rates due to inflation effects)
- Worse (continuous use of costly sources in order to minimize drought effects)

What is its expectation for the mining industry in Brazil for 2015, compared with 2014?

- Better (provider business plans are executed increasing production of oil and gas)
- Same (providers freeze investments delaying delivery of the assets and maintaining current levels of production)
- Worse (fuel prices are contained due to inflation effects and production of oil and gas decreases. World’s oil and gas offer increases and prices fall)
Rolla approached the subject from the acquisition of Therma’s (currently Taesa) assets by CEMIG, through a corporate partnership with an investors fund. “This strategy provided a much superior investment return guarantee than what we had expected. Currently, we rely on investors who help CEMIG grow in other markets,” he explained. If on one hand there are opportunities in this industry, there are also roadblocks along the way in need of a deeper look, which might favor the development of infrastructure and communities. To illustrate this fact, Martins cited the reality of some industrial development sites in the Northern region of the country, funded by Camargo Côrrea, case in point the Belo Monte Plant, known as one of the most typical examples of this. “The deadlocks related to aboriginal landmarks have caused enormous delays and high costs, without even having affected any tribes. This is one example of how much it costs to finance the development of Brazil, which has a direct impact on investment. You might estimate, for instance, a cost of R$ 500 million to take care of the environmental aspect but you might end up with a cost of R$ 3.5 billion,” he explains.

Gathering from the picture Rolla described, it can be concluded that the medium and long-term investments demand much more than budgetary and strategic planning. When the discussion shifts to pre-salt, Pedrosa advised that projects require massive capital, production is long-term and gradual. “To get a better idea, the full development of the Libra Oil Field will only happen between 2027 and 2028, when roughly 10 to 12 production systems with floating rigs will be permanently built.” But, according to him, pulling financial resources to invest in projects of such dimension is not impossible to achieve. “There are challenges for the pre-salt. We are dealing with projects of high technological and operational complexity, but today it is a reality. Currently Brazil produces more than 550,000 barrels of oil, of which more than a quarter of production totals is extracted from the pre-salt reservoirs,” he advises.

The resources in store for the oil industry are also ambiguous with regards to shale gas, resulting from an exploratory study, which incidentally occasioned technological and incremental improvements on the United States’ sedimentary basins. Queiroz commented on the topic “for a country in which energy dependence has always been government domain, this is a significant change, with potential geopolitical impact on oil and gas”.

According to him, the lack of market demand for this has resulted on a price drop “In 2013, we saw less oil price inconsistencies, and now prices fell flat,” he noted.

Elaborating on the subject outlined by Queiroz, Luca explained IBP’s views of the current situation. “There are several challenges for the oil industry, therefore we are working on a priority management plan to guide the industry. In exploration and production, we prioritize offer frequency and production segments. Calls for bids must be resumed on a regular basis, in order for it to be as well succeeded as in 1998. We have no doubt about the industry’s potential, but it must be improved,” he suggests.
Mexico’s new regulatory framework

In what way the changes in the energy and natural resources industry impact Brazil and the world

As a global initiative in the energy and natural resources industry, Mexico’s new regulatory framework has quickly become the focal point in latest discussions. Gilbert Alfaro, former KPMG Energy and Natural resources leader in Mexico, noted that, with this initiative, the country joined the global community, becoming competitive in natural resources exports. “For over 70 years, Mexico has relied on monopolies, especially in the oil industry and in 2014 the country turned to national and foreign private investments in oil and gas,” he declared. This also occurs in the electric energy industry, allowing the Comissão Federal de Eletricidade (Federal Electricity Committee) to compete in the market.

What will be the impact of such changes? According to Alfaro, the 21 laws – which must be approved in order to control all regulatory framework – represent, for foreign investors, an opportunity to be part of the new dynamic. “Seeing that hydrocarbon resources were government owned, Mexico had not yet been a part of the worldwide market. Oil resources were also government owned, while private investments resulted from private bid contracts,” he explained.

With respect to the government’s energy strategy, the executive advised that there should be distinctive regulatory bodies, whose responsibilities will be determined by the government’s Energy Department, which will also determine a long-term energy strategy. “This concerns Revenue as well, who will define the economic values of these contracts. The industry will have technical regulating agencies, in charge of guiding the execution of this reform,” he added.

Since the industry’s investments expansion, national and foreign companies will be able to participate equally in upstream projects, signed during bidding process. Downstream and midstream areas, in turn, will not require approval, but previous consent by the regulating body, if proving technical and operational ability to perform such jobs. “Oil income is another important element, and, in that sense, upstream contracts will be made by the financial value offered, decided through the bidding process. Therefore, each part will have enough time to develop projects and foster investment,” said the executive, while reminding that transparency is the all-important factor in doing business.

According to the new regulatory framework, opportunities still take strategical upstream activities, only now aided by private investment. “Until then, PEMEX was in charge of such alliances. Now, the government, represented by the Energy Department, will have the ability to hire a private contractor for the purpose of exploring a specific field. In the case of midstream and downstream, all those who have technological, operational and financial capacity will be able to compete,” informed Alfaro.

Regarding PEMEX’s current views, the executive advises that the state-owned company maintains its initial prerogative, known as Ronda Cero, which allows for the selection of projects already currently in progress. “Therefore, PEMEX will be able to...
convert these projects into contracts and seek partners who complement their strategical and competitive capacities for the exploration of their wells in a profitable manner. As to new contracts, they may also be acquired by PEMEX and another government body, but without receiving any form of sponsoring from the government. “These contracts are basically defined in four templates, which we will go over shortly,” the executive added.

In addition to contract templates (see box), a set of rules will be introduced that will help promote transparency with open access criteria, preventing regional concentration and the creation of new monopolies. “Government issued guidelines for the development of small and medium size companies intend to create stronger financial management with lenient credit. Certification and training projects will enable these companies to compete in their industry,” finished Alfaro, emphasizing that innovation and transparency are the motto of the Mexican energy industry’s new phase.

**New horizons**

Four contract templates guide Mexico’s oil fields exploration. Next, check out these templates and their fundamental differences:

1. **Shared utility**
   Will receive an investment percentage from the government and from private investors, in addition to a set of elements that aim to apply best practices and a collections model generally adopted worldwide.

2. **Shared production**
   Allows contract liquidation with the sale of oil barrels, which should attract foreign companies planning on continuing their integration process with the Mexican market.

3. **Licences**
   Has same effect of a shared production contract and is very similar to a concessions contract of embargoed concessions. Structurally designed in the same way as a license contract, meeting foreign companies need for flexibility.

4. **Services**
   Currently in use, this contract is essentially paid on compensation by extracted volume. It applies mainly to the exploration of seasoned fields.
Local content and partnerships

Even with market generated opportunities, there are still difficulties related to these two factors which can be defeated.

Cases of success and failure are part of partnerships between companies in Brazil and the world. Nonetheless, market opportunities motivate great companies to share their expertise. New partnership models are being built in order to defeat possible obstacles. This was the discussion facilitated by Ina Kjaer, Integration and Separation head-partner of KPMG in Brazil, together with Armando Guedes, Firjan’s vice-president of Oil & Gas; Dennis Palluat, president of TOTAL Brazil; Eloi Fernández, Director General of ONIP; Maurício Figueiredo, vice-president of Baker Hughes of Brazil; and Antonio Guimarães, Executive Secretary of Exploration and Production of IBP, during one of the simultaneous sessions of the ENR 2104.

TOTAL began the discussion on the Libra Consortium. Considered by Palluat a natural part of the oil and gas industry, partnerships are formed with the intent to minimize possible market risks. “These risks are then shared with other companies in the same industry, promoting everyone’s success in the end. In the case of Libra, we have a strong group with each one contributing for the full success of the process. In order for the partnership to work rules must be clear”, he reminded.

Of the same opinion as Palluat, Figueiredo added that one of the biggest problems related to partnerships is the atmosphere of slight instability in the industry due to undefined norms and rules. “Frequent legislation changes can cause several problems for partnerships when, normally, these already have challenges of their own”, he explained. While agreeing that there are indeed problems of this nature to be addressed, Guedes believes partnerships tend to grow, since it is practically impossible to embark on a large project alone. “Companies must diversify with other activities, occupy a larger space in the market and develop high quality work. In order for that to happen, having good partners you can rely on is essential”, he summoned.

The foundation of this success in that case, is the governance contract, which must describe in great detail the responsibilities of each partner and the development of the entire project, in Guimarães’s opinion. “This industry already has a very clear contract foundation in Brasil. We had 12 concession rounds and a good part of it has worked well with this model. I believe issues tend to be minimized,” he advised.

While stressing that exploration and production is the most used partnership format, Fernández decided to open the discussion for another topic: supply networks. “This partnership occurs, particularly, due to technological challenges and the ability to defeat them. This might apparently not work, but I believe that they can be well-succeeded”, he affirmed.
The debate continued on the topic of Local Content, which, according to the facilitator Andres Donha, director of KPMG in Brazil, is a frequently commented subject, considered the top 10 by companies in the industry. “It was created with the purpose to achieve a commitment by acquisition, purchase of goods and services on a competitive basis. It was with such intent that programs in qualification, technological development and job creation were put in place by the industry with the government’s support;” he noted before leaving it to Fernández to comment further, who believes new grounds must be explored for Local Content in order to foster competitiveness and sustainability. “This topic has been chaotically discussed in recent years, but with no long-term sustainable political strategy as an outcome. We must reexamine our views of the process so that it’s built coherently,” he declared.

For Figueiredo, Local Content derives from a consistent industrial political strategy. “First, we must identify our true call and the raw materials available to us in order to determine incentives including in taxes, so as to encourage the entrepreneur to invest in the industry,” he clarified. Taking the lead on this, Guedes elaborated, considering this to be a matter of national interest. “I believe Local Content is a fact, a desire, an asset for a country such as Brazil, with serious intentions to occupy an important position in the world. It is a question of the relationship between Local Content and cost. Local Content cannot be achieved at any cost,” he declared, explaining that whereas knowledge is acquired through partnerships and technology, market competitiveness increases.

Guimarães examined this matter further through investment estimates, after explaining that Local Content is no more than an element of industrial political strategy. “Currently, in Brazil, this corresponds to a 36 to 40 billion dollar/year investment and if we want to make it 50% Local Content, the interested parties must have the ability to look at the future, in addition to believing that it is possible to transform these scenarios and products into something competitive,” he explained.

From the perspective of a foreign company, Palluat ended by emphasizing that oil companies like to find in the countries in which they operate quality goods and services at competitive prices. “But this is a current problem in Brazil. The country must invest in capacity and offer alternatives of price, services and delivery time,” he concluded.
The role of renewable energy in the regional and brazilian energy matrix

The trends of an industry that is increasingly more in evidence in the country, with its many natural energy sources

When comparing the worldwide demographic and economic growth with the offer of renewable energy, the discrepancy is evident. The consumption of coal, even despite some reduction measures, increases at full speed, which creates well-known environmental issues caused by fossil fuel emissions. But it is starting to become evident that Brazil is turning the page on this issue. Considered one of the world’s cleanest models with its enormous potential and the interest of investors, the country’s reputation is growing in this area.

On that note, Franceli Jodas, director of KPMG in Brazil, started the next session, joined by Armando Casado, CFO of Eletrobras; Elbia Melo, CEO of Abeólica; Elizabeth Farina, Executive Director of Unica; Marcelo Llévenes, President of ENDESA Brazil; Olga Simbalista, Director of Gestão de Novos Negócios e de Participações de Furnas (Furnas New Business and Participation Management); and Rodrigo Lopes Sauaia, Executive Director of Absolar.

Starting with the session’s opening speech, Casado highlighted the guidelines of the Decennial Energy Plan for 2014 to 2023, which foresees a growth from 103.399 mW to 164.135 mW in generation capacity for renewable sources, including hydraulic generation. “In relation to nonrenewable energies, there is special interest on natural gas, which will jump from 10,000 mW to 20,000 mW. This depends, basically, on the pre-salt gas supplement,” he explained, adding that currently Eletrobras works in this field with five wind power sources in the Northeast and four in the South. “We work in partnership with Proinfa, and we are in charge of the commercialization of 144 existing renewable sources projects,” he added.

The importance of Proinfa was stressed by Elbia, who regards it as an important political strategy for the renewable and wind energy industries with the approval of the 2002 law. “Proinfa was crucial for wind energy, since we learned to create an aeolian park, we had environmental apparatus and knowledge of the workings of Brazilian wind, which justified the competitiveness of aeolian energy,” he pointed out, while adding that currently this industry grows at full speed. “When we are asked what is the change on the political scenario, what is the industry’s perspective, looking specifically at aeolian energy, I can confirm that we are in a very comfortable position,” he pointed out.

Even though not being a part of Proinfa, the solar industry has been occupying a significant space. Sauaia said that from 2012 reality changed in a positive way, which was marked with the first auction in 2014. “The fact marked the effective participation of solar energy, which managed to consolidate its success by breaking into the energy matrix being able to supply 1048MG in terms of total installed..."
capacity,” he revealed. According to him, that was a defining moment in terms of competitiveness. “There is space for this energy source in the market, which indicates the political development strategy of the chain in Brazil, contrary to aeolian which is still in its early stages. There is no fully developed productive chain at the moment, but it is a globally advanced industry,” the executive explained, stressing the industry’s potential.

Long before the arrival of aeolian and solar sources, self-sufficient sugar and ethanol plants already existed in Brazil. “We outsource power to the grid since 1987. 31,000MG goes to selfconsumption and the remainder is contracted out to the grid. It’s a considerable contribution, which last year was enough to supply the equivalent to eight million residences,” said Elizabeth. As well as the other speakers, she also affirmed that, in case the Decennial LIDE-Rio Energy Plan is of planning nature, biomass expectations are the best possible. “We expect 22 average GW, whilst today we record 17. A biomass increase of such proportions means having almost five times the supply guarantee of Belo Monte and twice as much as Itaipu can provide. Without a doubt, this is an excellent growth,” she estimated.

The potential for renewable energy did not go unnoticed by Furnas, which maintains 51 aeolian energy partnerships today in the country. Olga explained that currently the company intends to form an aeolian holding in order to assist with managing the content from this partnership. “They are in total 51 companies, since we have the support of the legislation which encourages wind and solar generation partnerships of proportions as small as 30 MGW. Furnas is associated with nine wind power ventures today and each one of these partnerships has the same generation capacity,” she clarified.

Predicting the future, she affirmed that the goal is to continue to invest in new renewable sources, with special attention to wind and the solar power. “We believe that solar energy will be the solution for many electric energy problems, particularly due to the simplicity of this technology and its potential use with distributed generation, which is the key factor of the electric energy production industry in the 21st century,” she justified.

ENDESA, acquired recently by the Italian company Enel, according to Liévenes, recognizes the potential for growth of the renewable energy industry in Brazil, in particular for its diversity of sources. “The country is very sought after for investments. We succeeded on wind power and we are very satisfied with the existing offers for this kind of investment. However, we think that the biggest revolution will come from the market and, in long term scenarios, we see the increasing importance of distributed generation to solve low and medium voltage issue,” he considered.
How energy and natural resources main infrastructure projects are contributing for the future of brazil?

Main energy and natural resources projects and their contributions to the country’s development

Fernando Faria, partner of KPMG in Brazil, started the debate based on the simultaneous session’s opening question. With the intent to create and idea-package in order to improve planning, delivery, infrastructure project financing and to promote a discussion on the current context, the panel invited Claude Sales, president of Instituto Ascende Brazil; Rodolpho Tourinho, president of ABDIB; David Zylbersztajn, head-partner of DZ Negócios com Energia; Virginia Parente, specialist in energy and environment applied strategy from the Post- Graduation Energy Program of USP; and Mauricio Endo, government and Infrastructure leader of KPMG in Brazil.

Endo began the discussion describing a study carried out by KPMG, in collaboration with Exame magazine, regarding 15 priority infrastructure projects in Brazil. “We proposed this study based on the Future State 2030 methodology, carried out by KPMG together with University of Toronto, which identified global megatrends that will influence governments’ decisions in next the 15 years”; he explained, identifying megatrends such as demographic profile, individual ascension, technological inclusion, economic interconnection, public debt, economic power change, climate changes, resources and urbanization pressure.

“Another study used to better understand Brazil’s infrastructure was the Global Competitiveness Index, of the Economic Forum. These are 2014 statistics, which take into account 148 countries. If we observe the first number, which indicates the general infrastructure quality, Brazil is # 114. A very critical situation for a country that represents the seventh world economy,” considered the executive, while adding that, the two studies looked at a list of more than 1,500 infrastructure projects of Exame’s Directory in energy, sanitation, telecommunications, transports, health and education.

“After thorough analysis, each sector remained with about 10 to 15 projects in the categories of energy, oil and gas, sanitation, telecom, social infrastructure and urban mobility, and we asked specialists to identify which would be the industry’s four priority projects. We narrowed it down to a group of projects, three in the energy industry, that is the concession of the Belo Monte hydroelectric plant, the Smart Grid program from Light, and the São Luís de Tapajós hydroelectric plant; and two in the oil industry, which are the Libra Field and 29 deep water drill-rigs within the complex,” revealed Endo, while explaining that these are some of the projects that KPMG believes might contribute for
the future improvement of Brazil as a country in several aspects.

On that note Tourinho affirmed that Brazil has learned a lot over time. “We developed a document having in mind a list of the government’s priorities in order to expand financing options: reduction of the participation of BNDES, better project organization, risk allocation improvement, BNDES financing cost reduction, and more incentive financing for private capitals,” he declared, while adding that in reality such problems are dealt with on a daily basis and then our biggest challenge in the country will be how to finance all that is necessary in order to rescue the past and improve the present while thinking about the future.

About the energy industry, Sales described the evolution occurred since the implementation of the law Eliseu Resende, with the introduction of energy auctions. “It was a difficult road, which had its important challenges, such as the 2001 crisis. But it was an evolution, firmly interrupted by provisional measure 579, from which we can see results today,” he considered, while sharing the results of a study carried out by Acende Brazil, in February of 2014, which divides the electric industry in three parts: adequacy of offers, tax affordability, credibility and trust. “The matter of delays causes concern. There is an enormous number of plants that cannot operate due to lack of transmission or inactive power lines caused by delays in substations. The auctions demand improvement and there must be a tax reduction,” he summarized.

Zylbersztajn highlighted that the oil industry must introduce the best international practices, demanding that Brazil adapt to a worldwide reality. He mentioned that the country needs, through countless measures, to recoup its level of market attractiveness, lost with the introduction of some internal measures. “With regards to attracting investments, we face today a very serious credibility, trust and rule changing issue. Market data show that the country once had about 100 companies operating in its territory, but a good part of them is now gone. Currently, the buzz is around the auctions, including pre-salt, which will only be possible through the financial capacity of Petrobras,” he said.

For Virginia, the attraction of international investments must take into account climate changes. “We must believe that our matrix is diversified and competitive in order to advance in the worldwide market,” she concluded.
According to Malan, the worldwide economy will still face some years with obstacles, except for the United States.

Trends and scenarios of the economy

The economist Pedro Malan offers an overview of Brazil’s and the world economy in 2015

As asked to summarize all information debated during the ENR 2014, from a global and regional economic perspective, the economist Peter Malan began his lecture stating that the results from the interactive session (see box on page 19) or any other data depend solely on the interaction between what is happening and will happen in the world, on what can happen and is happening in Latin America and what happens and might happen in Brazil, especially with regards to the new presidential mandate. “There is a complex interaction between these factors and that involves the energy industry”, he explained.

From the United States’ economic reality, Malan started to outline the subject matter of his lecture. “In December 2007, it was announced that the country had entered recession, something specialists had noticed since the end of 2006, when residential and commercial real estate prices started to drop drastically. Seven years later, the United States has been most well-succeeded in dealing with the issue, but the American level of income per person registered in 2007 was surpassed only in early 2012. The majority of European countries has not yet reached the same level of income per person of 2007, and some will only reach it late in the decade or in the early years of the next.”

Malan mentioned that the crisis - “which we have not yet overcome” – is worse than the one of 1930. He affirmed that the economy is still undergoing a deleveraging process, with an excessively high - of families, companies, financial institutions and governments – level of debt, partly due to what happened before 2007 but also due to responses to the crisis.

“The fact is that this legacy has to do with the response to the crisis. When there is a collapse in the private sector,
governments – that is financial reserves and central banks – need to inject available resources, which must be taken as loans and should be spent in consumption or investment. But this is no replacement for the private sector, in the same way that the private does not replace the public,” he justified.

Analyzing the economic expectations for the United States, Europe and Asia, the economist emphasizes that the US has a great advantage compared to the European continent. “It is a mature monetary union, with a central fiscal authority, a Central Bank created 101 years ago as a last resort lender for the 1907 great financial crisis. Today we see a still fragile recovery on the economy. The American labour market is beating unemployment levels, but there is still a great number of workers without options,” he explained.

According to Malan, the worldwide economy will still face some years with obstacles, except for the United States “In the next years, we will have a not so extraordinary situation, compared to previous years. The prices of commodities that had dropped in the last two years will increase in 2015, but that will not be enough to overcome the drop of the last two years. In short, the international context is more challenging, but it does not mean that the arguments for problems faced by regions such as Latin America, are justified by the international crisis, because the worse of the crisis has already passed.

It is a challenging period, which no doubt will be defeated regardless of the high cost. Therefore, we must think about what we should have done and what we can do in the future,” he advised.

With regards to Latin America, the economist said that the region is seen particularly by investors as three great country blocks: the Bolivarian Peronist, the countries of the Atlantic Treaty - which seek to integrate with the American, European and Asian economy by means of an alliance with the Pacific (in this case, Mexico, Colombia, Peru and Chile) - and Brazil, too large to join another country block. “With particular regards to Brazil, I think this conference happened at a suitable moment. Regardless of the results of the elections, I always try to look forward to the future, and I see a fog,” he considered.

Malan explained that this “fog” is the wage of the three mandates of the current government: first - Brazil was not built from January 2003; second - from 2007, the decision that the country had to change, resulted in economic overheating; and now the legacy from the last four years. “I hope now for the acknowledgement of matters that must be reviewed. The idea of raising the bet on ‘more of the same’ seems dangerous to me. It is impossible to imagine a scenario in which governments and their companies are capable of leading an investment process of more than 20%, whic was the goal of this government whose mandate ends in January 2015,” he affirmed.

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Financial scenario

Before Pedro Malan’s presentation started, four questions about the local and global economy had been offered to the attendants of the ENR 2014, whose answers are shown below:

- **What is your expectation for the GDP growth in Brazil in 2015?**
  - Above 3%: 5,41%
  - Between 2% and 3%: 35,91%
  - Between 1% and 2%: 11,97%
  - Between 0% and 1%: 41,7%
  - Below 0%: 37,7%

- **What is your expectation about the dollar rate in Brazil in 2015?**
  - Above R$2,80: 6,75%
  - Between R$2,60 and R$2,79: 15,08%
  - Between R$2,40 and R$2,59: 39,29%
  - Between R$2,60 and R$2,39: 37,7%
  - Below R$2,19: 37,7%

- **What is your expectation about the Selic Tax for the end of 2015?**
  - Above 6.5%: 7,63%
  - Between 5% and 6.5%: 54,66%
  - Between 4% and 5%: 36,44%
  - Between 0% and 4%: 1,27%
  - Below 4%: 1,27%

- **What is your expectation about the inflation in Brazil in 2015?**
  - Above 6.5%: 1,27%
  - Between 5% and 6.5%: 54,66%
  - Between 4% and 5%: 36,44%
  - Between 0% and 4%: 1,27%
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