

STRICTLY PRIVATE AND CONFIDENTIAL

26 September 2016

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Subject: **OFFER TO PURCHASE PETROBRAS 100% INTEREST IN THE BM-S-40 CONCESSION / OFFER TO PURCHASE PETROBRAS 100% INTEREST IN BES-100 CONCESSION / OFFER TO PURCHASE PETROBRAS 50% NON-OPERATING INTEREST IN BM-C-36 CONCESSION (collectively, the “Package”)**

Dear Ivan and Anelise,

On behalf of Karoon Gas Australia Limited (“**Karoon**”), and further to our offer dated 14 September 2016 and your reply dated 20 September 2016, Karoon submits this amended binding proposal for the acquisition of the Package (which includes, but is not limited to, Petrobras’ interest in the Bauna, Golfinho/Canapu and Tartaruga Verde & Mestica fields) (the “**Proposal**”).

This Proposal supersedes and replaces that as set out in our letter dated 14 September 2016 and is valid until 28 September 2016.

**1. Consideration**

Total consideration for the Proposal is US\$1,251 million, with an effective date of 1 July 2016 (the “**Effective Date**”), comprising:

Base Consideration

- US\$200 million deposit payable after satisfactory completion of due diligence and execution of all sale documentation, including the Sale and Purchase Agreement;
- US\$1,430 million payable on Completion as defined under the Sale and Purchase Agreements (“**Completion**”); and

Contingent Consideration

- If the Realised Oil Price (“**Realised Price**”) for the production from the Package reaches and maintains a minimum level of US\$70/bbl for a continuous six month period between the date of this offer and 31 December 2018 (“**Relevant Period**”), then a one off additional payment will be made in accordance with the table below;

Average Realised Price for the Relevant Period (US\$/bbl)	70	71	72	73	74	75	76	77	78	79	80 or above
Additional Payment (US\$)	50	55	60	67	74	81	93	100	107	114	121

- A one off payment of US\$100 million, payable if the Realised Price for the production from the Package reaches and maintains a minimum level of US\$90/bbl for a continuous six month period between the date of this offer and 30 June 2019.

Please note that the oil price assumptions used in Karoon's formulation of an offer price are higher than the oil price forecast provided by Petrobras in its five year strategic plan.

The offered consideration is subject to fulfilment of all the conditions listed in section 2 below, to Karoon and its partners' (Woodside Petroleum Ltd) satisfaction. In particular, it is subject to satisfactory completion of the confirmatory due diligence outlined in that section.

On acceptance of this Proposal and acceptance of an exclusivity period, Karoon commits to complete confirmatory due diligence in Brazil as soon as possible. Karoon intends to complete and execute the SPA and relevant documentation within the exclusivity period.

## 2. Key Conditions

Petrobras will provide to Karoon an eight to ten week exclusivity period commencing from the date of acceptance of this Proposal (this period would be beneficial to both Karoon and Petrobras to allow expedient due diligence and SPA negotiation):

1. to negotiate and enter into Sale and Purchase Agreements for the assets subject to the Proposal:
  - in form and substance satisfactory to Karoon and its partner; and
  - which will be subject to obtaining all necessary approvals, including without limitation:
    - final approvals of our partner's and Karoon's board of directors; and
    - ANP approval of (a) the transaction and (b) the abandonment program and costs ("**Abandonment Program**"), as determined by Karoon after conducting relevant due diligence;
2. to negotiate and enter into a Gas Sales Agreement between Petrobras (as buyer) and Karoon and its partner (as seller) (to be effective upon Completion) for all gas delivered from BES-100 until completion of production, in form and substance satisfactory to Karoon and its partner; and
3. to undertake and complete confirmatory due diligence on all assets to the satisfaction of Karoon and its partner. Such confirmatory due diligence will be conducted in accordance with the proposed work program set out below and will include:
  - undertaking all relevant legal, technical, financial and environmental due diligence;
  - Karoon receiving an independent assessment of Petrobras' 2P reserves contained in BM-S-40, BM-C-36 and BES-100, and Karoon and its partner being satisfied that those reserves are sufficient to support the offered consideration;
  - Karoon and its partner being provided all necessary documentation and technical support from Petrobras to enable Karoon and its partner to determine an economical and sustainable Abandonment Program; and
  - without limiting the above, Karoon and its partner obtaining all relevant information, and being satisfied in respect of, the following specific confirmatory due diligence items:

Asset	Specific Confirmatory Due Diligence items
Bauna	<ul style="list-style-type: none"> <li>- Facilities that will be handed over to Karoon as part of the sale process such as the FPSO, subsea infrastructure including tools and jewelry.</li> <li>- All existing well logs and well designs for final abandonment due diligence completion.</li> </ul>
Golfinho	<ul style="list-style-type: none"> <li>- Abandonment liabilities. Karoon requires the BES-100 exact well locations, design schematics, all existing well logs and well designs for final abandonment due diligence completion.</li> <li>- Confirmation of remaining reserves and forecast production curves.</li> <li>- Facilities that will be handed over to Karoon as part of the sale process such as the FPSO, subsea infrastructure including tools and jewelry.</li> </ul>
Tartaruga	<ul style="list-style-type: none"> <li>- Confirmation of current development timelines and subsea modelling proving Petrobras 2P production forecasts for the Tartaruga field.</li> <li>- Confirmation of remaining reserves and forecast production curves.</li> </ul>
Commercial Due Diligence	<p>Specifically;</p> <ul style="list-style-type: none"> <li>- Tax Regime in Rio De Janeiro State (ICMS legislative outcome)</li> <li>- Asset holding company corporate structure for each asset</li> </ul>

Note: All Local content fines pertaining to Bauna and Tartaruga are the responsibility of and payable by Petrobras.

All other terms and conditions remain the same as outlined in our offer letters dated 29 February 2016 and 3 June 2016.

### 3. Bid Work Plan

The Proposal is based on current information available to Karoon and its partner. We will require further confirmatory due diligence, including management sessions and access to information, in order for us to confirm the offered consideration and agree a transaction. We believe the work can be completed during October 2016, and we estimate the work program below:

#### Proposed Work Program

Anticipated timing	Key work streams	Location
<b>Before end of Week 2 of bid period</b>	<ul style="list-style-type: none"> <li>▪ Karoon to provide a mark-up and commence negotiation of SPAs for each of BM-S-40, BM-C-36 and BES-100</li> <li>▪ Petrobras to provide a draft JVOA document for BM-C-36 and commence negotiations.</li> <li>▪ Petrobras to provide draft Gas Sales Agreements (for Golfinho and Tartaruga), Offtake or lifting agreement for Tartaruga</li> </ul>	Melbourne
<b>Weeks 1 to 6 of bid period</b>	<ul style="list-style-type: none"> <li>▪ Access to a Physical Data Room (“PDR”) and provision of relevant information to address due diligence items</li> <li>▪ On-site physical Due Diligence of all assets included in the Package</li> <li>▪ 3-5 day meeting with the Petrobras management team by Karoon and Partner in Rio de Janeiro over the initial three week period</li> <li>▪ Agenda to include: <ul style="list-style-type: none"> <li>▪ Subsurface technical review (geophysics, geology, reservoir engineering)</li> <li>▪ Field development and abandonment plans</li> <li>▪ Capex and Opex forecasts, including budgets for workovers and asset integrity programmes</li> </ul> </li> <li>▪ FPSO overview and key commercial terms</li> </ul>	Rio de Janeiro

	<ul style="list-style-type: none"> <li>▪ Proposed operator transition agreement</li> <li>▪ Legal, Commercial, Tax &amp; Structuring</li> </ul>	
<b>Week 3 of bid period</b>	<ul style="list-style-type: none"> <li>▪ Comments to all SPAs and JVOA</li> <li>▪ Confirmation of price</li> <li>▪ Internal approvals</li> </ul>	Rio de Janeiro / Melbourne
<b>Week 6 of bid period</b>	<ul style="list-style-type: none"> <li>▪ Finalisation of Gas Sales Agreements and Product Offtake Agreements</li> <li>▪ Due diligence completes &amp; contract negotiation finalization period</li> </ul>	Rio de Janeiro
<b>Week 7 and 8 of bid period</b>	<ul style="list-style-type: none"> <li>▪ Finalization of SPA agreement and JOA</li> </ul>	Rio de Janeiro

#### 4. SPA

Please find annexed to this letter a summary of our high-level material issues in respect of the draft SPAs provided by Petrobras in respect of the Bauna, Golfinho and Tartaruga Verde Fields. We have also attached detailed mark-ups of the SPAs provided by Karoon's legal counsel (Mattos Filho) which are still subject to final internal sign-off. We provide these to you now to facilitate early discussion and engagement on those documents during the exclusivity period.

We also note that the SPAs will require further amendment to reflect this Proposal, including without limitation, the offered consideration and its allocation across the assets, the Effective Date and the conditions set out in section 2 above. Furthermore, Karoon and its partner reserves all rights to make further amendments to the SPAs in light of the outcomes of the confirmatory due diligence program outlined above.

#### 5. Karoon Qualification to Bid and Operate

Karoon is a well-known multi-national energy company which currently holds 5 concessions and Operator A status in Brazil. Karoon has an established Rio de Janeiro based team who consist of local and international oil and gas industry professionals, all with significant experience. Karoon is prepared to work with Petrobras as well as take over operatorship of the Package at any time. Operatorship transition planning is pre-emptively underway and has been discussed with the relevant people at Petrobras in order to be prepared in the event of the award of the Package.

Overall Karoon believes it is the lowest risk option Petrobras has in terms of operator transition and abandonment approval with IBAMA and ANP.

Karoon has teamed up with a globally recognised industry partner to complete the transaction; this partner brings significant funding capacity and development expertise to be applied to the BM-C 36 concession.

Woodside is Australia's largest independent oil and gas company with a global presence, recognised for its world-class capabilities – as an explorer, a developer, a producer and a supplier. Further information can be accessed at [www.woodside.com.au](http://www.woodside.com.au)

Please find attached a summary of the Karoon Production and Development Team.

#### 6. Additional value considerations

Karoon has factored into its purchase price the risks associated with Abandonment at Golfinho and despite the economics of this field providing negative overall value has agreed to take this risk on at 100%. This factor should be front of mind for Petrobras.

Karoon acknowledges that the economic value of BM-C-36 has potentially increased however this concession remains a high cost field and reliant on a higher oil price assumption than that would otherwise be used for a bid in the current environment. To this end Karoon has attempted to provide additional value for Petrobras by adjusting its oil price based bonus hurdles.

## 7. Approvals

This Proposal has been considered by the Karoon executive team and was re-presented to Karoon's board prior to submission to Petrobras. All internal, corporate and other approvals required by Karoon have been obtained for this Proposal.

## 8. Confidentiality

This Proposal:

- (a) is confidential, is subject to the terms of the CAs signed on 2 December 2015 and may not be disclosed to any third party (other than Petrobras and its legal and financial advisors) without Karoon's prior written consent; and
- (b) does not create any legal or contractual obligations.

In conclusion, Karoon has worked diligently in the analysis of the information provided by Petrobras, and we consider that this offer is fully priced.

We believe that the combination of Karoon's experience in Brazil (where it has been present since 2007) and Category-A operator accreditation, coupled with Woodside's deepwater expertise and strong balance sheet, will provide a compelling and highly credible solution to Petrobras.

I look forward to your response.

Yours sincerely,



**Robert Hosking**  
Managing Director  
Karoon Gas Australia Limited

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