

BRAZILIAN WAVE

FEBRUARY 2013

ISSUE 18

THE BRAZILIAN FOCUSED MARKET REPORT



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The Petrobras' saga: What is behind the OSV chartering delays? Will it persist?

Being a publication specialized in the Brazilian OSV market where Petrobras is the main player/Charterer, it's natural that our "Brazilian Wave" editions often highlight the status and prospects of that Company according to our view. In the absence of a crystal ball to predict the future, it's important to look back and understand some movements and its consequences.

Just recapping the year of 2012, in the first quarter we highlighted Petrobras' appetite for OSVs in 2011 with circa 80 vessels being chartered, registering the trend of Far East Owners participating in the Brazilian market as well as the tonnage profile expected for 2013 onwards. On the chartering side, Petrobras started 2012 very busy with several tenders issued between January and April for AHTS (12000, 15000, 18000), OSRVs (A, B), AHTS 12000 OR and AHTS 15000 TO; where around 29 vessels were shortlisted and awaiting BOD approval. It all looked like a great start to the year, maintaining a nice pace for OSV demand.

While the BOD approvals were taking longer than expected, Petrobras announced its 2012-2016 investment plan in June, a couple of months later than usual, which contained investment at 5,25% higher than the previous year with the E&P department reaping the largest increases. The "mea culpa" tone marked the announcement when Petrobras publicly affirmed that targets are not being reached and as a consequence lower and more realistic oil production figures were made for the new plan, in addition the implementation of capital discipline in Petrobras' investment projects. The latter measure had a direct impact on the OSVs chartering department, requiring additional

reports and the need to assign each charter to specific projects, obeying an overall "S" performance curve.

This may have been only the tip of the iceberg, which was further discovered in August 2012 when an R\$ 1.34 bio loss was announced for the 2Q results, the worst in the last 13 years. The US Dollar appreciation against the "Reais" was making costs in the foreign currency higher, added by the inability to increase revenues with oil products sales (eg gasoline low price) were claimed to cause the drastic impact on that result.

From August 2012 until January, Petrobras has continued working in silence, implementing routines according to the efficiency and cost reduction programs, which were announced in October 2012 with targets disclosed in December. In the meantime, all outstanding charters were still awaiting BOD approval and a couple PSVs tenders were issued with wide delivery time.

On January 24th, and on a separate issue, President of Brazil Mrs. Dilma Rousseff was on public TV for an official and important announcement: The electricity power cost for Brazilian residences was going to be 18% cheaper. Five days later Petrobras BOD led by Brazilian Finance Minister Mr. Guido Mantega announced the increase of gasoline prices by 6,6% and diesel by 5.4%, illustrating a give-and-take move from the Government in a likely effort to improve Petrobras financial results, but also please the population at the same time.

Earlier this month Petrobras announced its financial results for 2012, with net profit of R\$ 21.1 billion, 36% lower than in 2011. Exchange rate variation, price of gasoline and the importation of oil products at higher prices than domestic

03 HEADLINE NEWS

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were among the main villains of the poor result. The oil production level for 2013 will be the same if not lower than 2012 due to the need of planned maintenance on production units. No new projects will be implemented this year, only the continuation of existing projects.

The president of Petrobras' own words were that 2013 will be as difficult as 2012, especially in the first half of the year. This comment is mainly due to a fall in oil production levels due to maintenance challenges, which directly impact revenue and costs for the Company results. But investment level and operations will stay as planned from the 2012-2016 investment plans: R\$ 84bio (16% higher than 2012),

being 51% destined to E&P department. As part of the industry cycle, all attention is now focused on the 2013-2017 investment plans, and the saga continues.

Despite the challenges, Petrobras has 40 UDW drilling units already secured and delivered, 16 being allocated to the pre-salt, where success ratio has been 82%, while 64% on average. Dry wells are only natural for the oil business and should not be faced as a risk, but part of the game. The outstanding charterers are expected to have first BOD approvals as from March when tendering process will resume, finally giving some life back to the OSV market.



A WORD WITH WESTSHORE



Daniel Del Rio
Managing Director

"High hopes from the global industry with a move by Petrobras to resume chartering activity with the AHTS 18000 ROV consult after a long period of inactivity."

04 VESSEL NEWS

THIS MONTH'S FIXTURES, REQUIREMENTS AND MARKET SCREENINGS



THIS MONTH'S SPOT FIXTURES

DATE	VESSEL	TYPE	CLIENT	OWNER	PERIOD	DAY RATE
30 Jan 2013	GEONISIO BARROSO	AHTS	SHELL	BOURBON OFFSHORE	50 DAYS	RNR

THIS MONTH'S TERM FIXTURES

DATE	VESSEL	TYPE	CLIENT	OWNER	PERIOD	DAY RATE
15 Jan 2013	SEA TIGER	AHTS	REPSOL	DEEP SEA	120 DAYS	RNR
15 Jan 2013	SEA BEAR	AHTS	REPSOL	DEEP SEA	120 DAYS	RNR
23 Jan 2013	CAMPOS COMMANDER	PSV	SHELL	EDISON CHOUEST	1 YEAR	RNR
23 Jan 2013	CAMPOS CHALLENGER	PSV	SHELL	EDISON CHOUEST	1 YEAR	RNR

THIS MONTH'S REQUIREMENTS

DATE	CLIENT	SCOPE OF WORK	PERIOD	COMMENCEMENT
24 Jan 2013	QUEIROZ GALVÃO	SUPPLY DUTIES	1 PSV, 2AHTSs - 5 months	30 April 2013

BOURBON – The AHTS Geonísio Barroso will after term docking is completed enter into contract with Shell Brasil to support the mobilization of Semi-sub Noble Max Smith

BOURBON - AHTSs Geonísio Barroso and Yvan Barretto are being marketed for sale, both Brazilian flagged.

CHOUEST - Brazilian flagged PSVs Campos Commander and Campos Challenger commence their 6 months term charter with Shell, with options in the contracts able to extend the contract to 1 year. The vessels will primarily support the campaign with Noble Max Smith.

BOURBON - AHTS Haroldo Ramos contract is coming to an end with Petrobras, thereafter the vessel is uncommitted.

OCEANPACT - OSRV Celia was awarded a contract with Perenco starting this month, whilst OSRV Maricá has been awarded a contract with Repsol. Conversations are also underway to fix the OSRV Magé for work with Chevron.

FAIRMOUNT - AHT Fairmount Expedition has arrived in Brazil to tow the Semi-sub Arctic 1 - GlobalSantaFe to the Gulf of Mexico.

ASTROMARITIMA - OSRV Astro Ubarana is docking as of the 20th February for her term docking after successful completion of her extended contract with Shell Brasil. The vessel is afterwards uncommitted with docking ending towards the end of March.

SEACOR - PSVs Seabulk Brasil and Seabulk Angra have both been upgraded by Owners Seacor and are now DP2. Seabulk Angra is finishing upgrade docking.

TIDEWATER - Brazilian built and flagged Danko Tide is concluding her term docking and conversion to full ORO class to commence her 18 months contract with Shell Brasil.

HIDROCLEAN - Jean Charcot has arrived in Brazil for her term contract with Petrobras.

MAERSK - AHTSs Maersk Handler, Maersk Helper and Maersk Provider have been extended with Shell Brasil for another 15 days set to complete this month of February on hire.

05 PETROBRAS NEWS

UPDATE ON THIS MONTH'S OUTSTANDING TENDERS



THIS MONTH'S MARKET SCREENINGS

Date	Scope of Work	Period	Exp. Commencement Date
February 15th 2013	AHTS 18000 ROV	4+4 years	August 2013

Petrobras is consulting the market for the availability of AHTS 18000 ROV. Some of the required specs are: minimum bollard pull of 177 tons, 16000 BHP, built as from 2000 (or 1997 if already under Petrobras contract with high availability), free deck area of at least 312 sqm, DP1, 8 passengers, winch static brake in the 1st layer of 500 tons, line pull of 345 tons and dynamic brake of 480 tons. This is the first movement in 2013 to resume OSV chartering activities.

MORE NEWS

New field in Tupi Sul

Petrobras made a new oil discovery in Tupi Sul, Campos Basin in January of this year. The company said that it is not possible to estimate if the field is economically viable yet. According to ANP, the well lies at water depth of 2,182 meters approximately 302 kilometers off the coast of Rio de Janeiro.

P-63 and P-58

The two FPSOs, P-63 and P-58, collided on Saturday, February 2nd after they broke free of their moorings due to high winds and bad weather in Rio Grande shipyard. Petrobras announced both vessels are undergoing inspections to assess the damages and have also opened an investigation commission to determinate the necessary steps needed to avoid a reoccurrence. The P-63 is docked for final conversion work ahead of its planned deployment in Papa Terra field, Campos Basin, and is valued at more than USD 1 billion. The FPSO is capable of producing 140,000 boed and 1 million cubic meters of gas. P-58 is still under construction by CQG Construções Offshore (Rio Grande Shipyard) and will operate in Baleia Azul field, Espírito Santo Basin for Petrobras.

Petrobras prepares to sell stake in Campos Basin

The company reported that is ready to receive offers for its 35% stake in the Shell-operated Parque das Conchas heavy oil project. The operation is result of a divestment initiative plan set to be launched by the company. The field is operated by FPSO Espírito Santo with a water depth of around 1,700 meters.

Domestic crude oil output rose 3.2%

Petrobras' production hit 2.02 million boed in December 2012, rising from 1.97 boed in November, while output from overseas operations average 145,158 boed in December, up from 119,300 boed in November. An increase in production is expected by Petrobras in the second half of 2013, now that the company expects six new platforms to begin production and to receive higher production rates generated by the well recovery program set forth in the Campos Basin.

Going further into Roncador field

Petrobras has extended its charter contract with SBM for the FPSO Brasil, on a 14 month plus a 4 month option. The unit, which has the capacity to produce 90,000 boed and 5 million cubic meters of natural gas has been operating in the Roncador field, Campos Basin since 2002 and is producing at a water depth of 1,259 meters, interconnected to 11 wells (nine producing and two injectors).

06 OPERATOR UPDATE

RECENT DEVELOPMENTS FROM BRAZIL'S OIL & GAS COMPANIES

PROGRESS IN KANGAROO-1

Pacific Rubiales announced the discovery of light oil in Kangaroo-1 well in Santos Basin. The Canadian company has an agreement with Karoon to drill the well, as a minimum work commitment for two blocks, S-M-1101 and A-M-1165, with 35% participating interest. Australian Karoon is the operator with the remaining 65%. The well has been drilled to a depth of 3,049 meters and is located about 300 kilometers southeast of São Paulo.

OGX HITS OIL IN TULUM

Brazilian company has informed of a new discovery of oil in Tulum, Campos Basin. The reserves were found 18 days after drilling commenced with the Ocean Lexington drillship in shallow waters. The oil company also reported drilling of the Cancun prospect until November 2014 by the Ensco 5004.



CHEVRON EYES NEW CAMPAIGN IN FRADE FIELD

The company obtained, from IBAMA, authorization to begin its 4D seismic campaign and expand Frade field's data acquisition. The operation is being performed out by vessel Western Neptune and intends to map the movement of oil within the Frade reservoir through July 31, but the restart of production remains subject to the approval of ANP.

SHELL EXTENDS BC- 10 DEADLINE

Shell is planning to increase the development of its operations in Parque das Conchas region, Shell has obtained "green light" from ANP to continue producing in Abalone field. The dead line, which should expire this month, was extended to January 2014 allowing the company to expand its strategies to boost production in Brazil up to 51,000 boed.



STATOIL PLANS TO INVEST HIGH IN BRAZIL

In order to not sustain losses due to the high investment, the Norwegian oil company requires an oil price above USD 100 to break even. Currently Statoil have plans on investing over USD 19 billion in Brazil in 2013. The group had a net profit of USD 2.36 billion in 2012 after reaching a production of approximately 2 million boe, and recently got the approval from the Administrative Council for Economic Defense (Cade) to buy Vale's 25% stakes in two blocks (ES-M-468 e ES-M-527) located in the Espírito Santo Basin. The remaining 75% in the two blocks is owned by Petrobras.

OSX-1/OGX

The FPSO completed one year of production on January 31st, in Tubarão Azul field (Campos Basin). The unit has already produced over 3 million boed and completed five offloading operations until now. During 2012, OSX-1 reached an operating efficiency of approximately 99% and guaranteed the demand of the offshore industry.

New Drilling Rig/Karoon

The company announced that it is planning to acquire another rig to drill its recent discovery called Kangaroo-2. The evaluation well would expect to penetrate a larger hydrocarbon column which is 350 meters wide. The Blackford Dolphin, responsible for the operations in Kangaroo-1, will be repositioned to drill blocks S-M-1102 and S-M-1037.

**Briclog/Wilson Sons**

Through its subsidiary, Brasco, the company paid BRL 125 million to acquire Briclog (a port services provider to the oil and gas industry). The area covers a total of 66,860 sqm and it's located in front of Guanabara Bay. Wilson Sons will also have to spend over BRL 100 million to conclude the construction of all docks and then start the operations. They expect a strong growth in the business through synergy with the existing Brasco operations and client base, together with overall growth in the Brazilian offshore oil & gas industry.

**FPSO Cidade de São Vicente/Petrobras**

The unit has already arrived in Sapinhoá Norte after accomplishing a production test for a long period in Lula field, where it was producing around 3,000 boed and 150,000 cbm of natural gas per day. The FPSO has obtained approval from IBAMA to operate and to conclude the Anticipated Production System (APS), in order to be capable of anticipating the production and at the same time providing detailed field information before a permanent production system, like a fixed platform, is in place.

Petrobras Platforms/IESA

GSF Arctic 1 ended its operation with Vanco in the first week of January, after drilling three wells. The rig is currently close the Pai and Mãe Islands in Rio, going through its demobilization

process. Vanco is expected to redeliver the rig to Transocean in mid-January. GSF Arctic 1 will be towed to the Gulf of Mexico as soon as the vessels Fairmount Expedition and Fairmount Sherpa arrive in Rio with the rig Noble Max Smith.

Equipment to FPSO/GE Oil & Gas

Petrobras has signed a contract with the American company GE Oil & Gas worth in USD 500 million to supply turbo machinery equipment and services for FPSOs. The equipment will be installed on four units (P-74, P-75, P-76, and P-77) which will be deployed in the Onerous Transfer region of the Santos Basin. GE will also provide technical support for installation and start-up commissioning, as well as extensive services, which include repairs, dedicated local field service engineers and customer training.

08 LOOK AHEAD

WHAT'S UPCOMING OVER THE NEXT FEW MONTHS

WHY INVEST IN BRAZIL? WAKE UP CALL

Like most emerging markets, investing in Brazil involves a trade-off between risk and reward. The country's higher growth rates when compared to the developed countries, as well as the relatively stable economy and the vast natural resources and reserves have been driving many foreign companies into Brazil for the long run. Nonetheless, recent projections of the Institute of International Finance, an organization that brings together more than 470 financial institutions worldwide, estimate that the flow of foreign funds to Brazil has been reducing in the past year. The institute attributes this decline to what they described as the "Brazilian currency (Real) anti-appreciation activism", where the main tools were the entry barriers for investments in the country. Established in 2010 to prevent a decline of interest in Brazil given the many incentives granted by developed countries to revive their economies, barriers were partially withdrawn in 2012.

Also according to these projections, installing and removing barriers reduced capital flows into the country and created uncertainty among investors. Foreign investment in production increased in 2011, reaching a record of USD 66 billion, which unfortunately has retreated to around USD 63 billion in 2012, as was expected by the Brazilian Central Bank. Even though the decrease is negative, specialists say that Brazil remains attractive and that there was a general reduction of investment globally, with even China feeling that trend.

The country, however, seems unable to take advantage of the positive flow of capital to improve or enhance its production capacity. In order to strengthen domestic production linkages, one would need to combine the foreign investments with local Brazilian companies in order to provide more dynamism to the economy. Brazil should pay attention to the demands set by the Chinese government for foreign companies interested in setting up in China, which includes the establishment of joint ventures and technology transfer to domestic firms, in order to develop their own domestic production capacity to compete locally and even globally.

Home of one of the largest offshore oil discoveries in decades, Brazilian government determined what is called the "local content" requirement to protect local producers, which is the minimum percentage of equipment and services contracted by the operator that must be supplied by local companies. On average, 70% of the production development phase (and growing) needs to be proven through inspections by accredited companies, and it is one of the most relevant components of the bid for acquisition of E&P blocks by the oil companies.

FOR FOREIGN KEY SUPPLIERS....

Therefore, given that the local suppliers are not able to fully assist the O&G market expansion in the long term with efficiency, punctuality and the required technology, Brazil becomes an attractive location for foreign companies to individually set up their production sites or to create joint ventures, most importantly to continue reinvesting in the Brazilian market, since progress is only beginning...

Challenges to be faced would not only be some barriers placed by the government pushed by local producers fearing competition, but also bureaucracy, corruption, high level of taxation and lack of some specific qualified labor force. Companies coming to Brazil should rationally assess all these risks, and most importantly be willing to take them in order to reap the real rewards from being part of one of the most relevant and prosperous O&G markets in the world.

The Brazilian output from deepwater fields is around 25% of global oil production, and these figures will increase significantly because of the pre-salt discoveries. Heavy investments in all offshore-related segments are needed from platforms, drillships, OSVs, pipelines and shipyards. Among several companies which perceived these opportunities, we can mention the Singapore-based oil services company Sembcorp Marine Ltd., which is building its first shipyard in Brazil as Petrobras awards more contracts to local suppliers. Also, in late 2006, Edison Chouest Offshore opened its Navship yard in Navegantes, where it has 1,000 employees, building mainly PSVs. Likewise, Caterpillar has been operating in Brazil for decades, developing a dealer network, and maintaining a major parts distribution facility in Piracicaba employing over 5,800 people. The operation recently expanded to include assembly lines devoted to production of generator sets, in order to rapidly respond to demand from OSVs as well as meet the local content requirements.

As Brazilian manufacturers are struggling to deliver equipment as quickly and cheaply as their more established overseas counterparts, and operative shipyards are fully booked with backlogs, we see local content laws affecting the offshore industry in several ways, with higher costs, below-standard quality and longer delivery schedules. Thus, this is not only a wake-up call for operators like Petrobras which are trying to lower the minimum percentage of demanded local content in their blocks, but also to the key market suppliers to enter Brazil as soon as possible to establish their firm presence and clientele as the industry keeps developing.



OLYMPIC MARITIMA

As part of the strategy for strengthening and expanding their operations in the Brazilian market, Olympic Shipping opened its first branch office in Brazil. Olympic Maritima's office is located in Botafogo, a district south of Rio de Janeiro city and will attend the company's commercial and operational demands.



OLYMPIC
OLYMPIC SHIPPING AS

This investment reinforces Olympic's commitment to Brazil and represents the most recent step in their global expansion policy. It is also a way for the offshore company to standardize its procedures and policies and operate in Brazil with the same quality, efficiency, professionalism, social and environmental responsibility that it has done while operating in Norway for more than 16 years.

The Company currently operates five vessels in Brazil: 3 PSVs (Olympic Progress, Olympic Elena and Olympic Promoter) and 2 AHTS (Olympic Hercules and Olympic Pegasus), all five on contract to Petrobras. Shell Brasil had the Olympic Octopus under contract on a challenging scope of work last year.



The new office is running the operational, commercial, human resources, technical, QHSE, purchasing, financial and administrative departments. The team is composed of Hans Ellingsen (General Manager), Ricardo Cotrim (Operational Manager), Carolina Périssé (Commercial & Administrative manager), Fernanda Midoux (HR & Crew Manager), Marcílio Barros (Technical Manager), Eduardo Lima (QHSE Manager), Luiz Carlos (Purchase Manager), Eduard Claassen (Controller), Leandro Tintel (Operational Coordinator), Renata Sousa (HR & Crew Coordinator), Marcos Ribeiro (Safety Technician) and Isis Natureza (Recepcionista).

10 INSIDE STORY

A LOOK AT SOME OF THE ISSUES



To build a vessel is not an easy task. The plans and due diligence for construction finance is very complex and involve numberless measures to avoid any investor losses. This is due to the fact that the construction of an offshore support vessel could require up to 24 months of work, potentially longer depending on the details of the project. Vessels can be designed to meet the specific requirements of a charter contract, following the market and service in which the vessel will be employed.

Generally, anyone interested in the construction of a vessel selects a shipyard based on experience, the yard's track record regarding on time delivery, reliability and the political and economic conditions of the geographic location of the yard. All these factors may positively or negatively impact the costs for the construction of a vessel, all the way down to the margin charged by your financing institution. In recent years the shipbuilding sector has been showing great dynamism mainly in Japan, Korea and more recently in China, which is taking a large share of orders of new-building activity worldwide.

In Brazil, the first yard built was by the Baron of Maua in Niteroi, where his first vessel was delivered in 1850 and up until 1961 the yard built 72 vessels, a 50/50 mix between military and civilian. Brazilian shipyards had their golden years when the government under former president Juscelino Kubitschek created the FMM - Fundo da Marinha Mercante in 1972, when Brazil was one of the leading nations in newbuilding tonnage, only behind Japan. However the major obstacle in Brazil has always been its dependence on orders from national shipowners. In addition, Brazilian shipyards are linked exclusively to the FFF and a special tax titled Merchant Marine Renewal Tax (AFRMM), received on all vessel freight in national waters.

Meanwhile, shipyards in Asia have long been present in the worldwide industry of building ships, with the ability to build for most shipping sectors. The truth is that Asian shipyards occupy a firm leadership position in the market as major suppliers worldwide. Specialists cite the main factors for such prominence to be the experience, cheap labor force, tax incentives and low-interest financing that together constitute the formula that attract companies from all over the world to build mainly in China, Japan and South Korea with lower prices than the world average. In order to inform about every corner in Asia, pointing out the pros and cons of every country would require an entire magazine, but it is worth reflecting on the events that are more apparent.

Who hasn't bought something with a little tag that reads "Made in China"? It is possible to find it in several segments: clothing, toys, decorative artifacts, automotive parts, cars and more. Who, nowadays, doesn't have a Chinese pastry place across on the corner street from home in Brazil? What about the cars? Here, in Brazil, for example, some Asian brands opened dealers and are winning the market of car sales due to competitive prices and much more complete configurations than other traditional brands in the market. Within the navigation market it has been no different, as many vessels imported to Brazil to work in the offshore market come from Asia. The ultimate goal for everybody, Brazilian and Asian companies alike is to succeed by firmly enrapturing the global market with technological competence, innovation, professional capacity, the best price and sustainability for the future.

by Eliana Lazarini



HAPPY NEW YEAR! BRAZILIAN STYLE.



Custom has it that in Brazil the year only truly begins after Carnival. If we look at the fact that Petrobras has just released its AHTS 18000 consult and the current pace of contract confirmations pending since last December, the custom may just be right!

Jokes apart, Carnival in Brazil does end a more relaxed season following summer vacations, which here in the south hemisphere happens at this time of year as opposed to Europe's June/July. And with the end of this season, Brazil is off to a heated start for 2013. Oh, and no... we are not necessarily talking about Petrobras.

Preparations are under fast pace for FIFA's second largest event after the World Cup, the Confederations Cup. Composed of six continental champions, the 2010 World Champion and Brazil as the home side country; the Cup up for grabs by those 8 teams kicks off the infrastructure being put together for the World Cup in 2014. It is in anticipation of the awaited event that will shake Brazil in less than one and half years from now.

The Confederations Cup starts June 15th and the important equipment is expected to be ready, like for instance the remodeled largest football stadium in the world "Maracanã" in Rio de Janeiro. Tickets are sold out. Brazil will play against Japan (opening game June 15th in Brasília), Mexico and Italy in the first part of the tournament. The last game is set to take place in Maracanã, Rio de Janeiro, on 30th June. Every Brazilian expects to see Brazil playing that match and of course winning!