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BRAZILIAN WAVE

PETROBRAS SEEKING OSV'S FUEL EFFICIENCY. FINALLY OR REGRETFULLY?

IS PETROBRAS ENTERING THE SPOT MARKET?

WESTSHORE

DO BRASIL

contents

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Ocean Rig/Ocean Rig Mylos

Ocean Rig has announced it successfully took delivery of its newbuilding drillship the Ocean Rig Mylos. The unit is the first in a series of three 7th generation ultra deepwater drillships and is currently mobilizing to offshore Brazil and is expected to commence drilling operations under the 3-year contract with Repsol Sinopec Brasil.

Diamond Offshore/ Ocean Quest

The company has notified OGX of non-compliance for its payment obligations under the Ocean Quest contract and is running the risk of having the contract cancelled. Diamond Offshore is pursuing other contracting opportunities to substitute OGX if the contract is terminated. The Ocean Quest is currently committed until late December of this year.

McDermott/DB-50

The TLWP platform P-61 is set to be installed at Papa Terra field next week with the derrick barge DB-50 in charge of the operation which will last around 35 days. This is the only work on McDermott's agenda in Brazil for now. P-63 is expected to join the campaign after concluding its construction in Rio Grande shipyard, also scheduled to be operating in October.

Dolphin Drilling/Blackford Dolphin

The semi-submersible has concluded its campaign with Anadarko after being involved with activity offshore in Brazil over the last three years. Now the unit is on its way back to the UK where it has secured contracts in the North Sea market set to commence early first quarter 2014. Dolphin Drilling has entered into contracts with MPX North Sea Ltd for one well in UK and Capricorn Ireland for one well offshore Ireland.

Odebrecht/Norbe VIII

Total postponed the drilling campaign in Xerelete field, which was originally planned to begin this month. According to the company, operations will start by the end of this year with Norbe VIII.

PETROBRAS SEEKING OSV'S FUEL EFFICIENCY. FINALLY OR REGRETFULLY?

For the last 1.5 years we have been highlighting Petrobras' efforts towards efficiency, listing actions and measures which are expected to enhance Company's results by doing things better, quicker and cheaper. None of these actions have a bigger and more direct impact on OSVs than the recently adopted tender ranking judgment criteria taking into consideration vessel fuel consumption. The question mark is: can the present model punish more than benefit owners?

HSE standards are also part of the judgment criteria but the impact is not the same as on the fuel consumption. The fuel efficiency ranking process will comprise of owners, at the time of proposing to Petrobras, informing vessel's fuel consumption on six to seven operational modes (DP mode, sailing 13 knots, stand by, etc.) which will result in an average daily fuel consumption based on a ratio stated by Petrobras for each operational mode. Such consumption shall be multiplied by the average fuel price published by National Petroleum Agency (ANP) in a city (to be specified by Petrobras) in the month prior to the proposal's presentation. In order to rank all the proposals, the daily fuel cost of each vessel will be added to the day rate offered, resulting in vessels' total monthly disbursement in the final virtual daily rate which will be used for the final ranking.

This criteria has been applied to the Petrobras fifth newbuilding tender round and on the AHTS 18000 ROV tenders which had its preliminary results recently published, and which raised the excitement level to those following the tender development closely. Basically, an OSV could have USD 1,000 added to the day rate when comparing to a competitor who declares consuming one metric ton of fuel more. This criteria is expected to be present in all tenders from now on, which in addition to the ranking purpose, enables Petrobras to fully charge owners for any fuel consumed in excess.

Fuel consumption is not something new iin the Petrobras system as it has been in use for pipe layers, RSV, and DSV tenders, and also to penalize OSVs in case same consumes fuel in excess. The difference now, is that the fuel consumption informed in the tender will be the parameter valid until the end of the contract period (instead of the one assessed during the initial contract period for OSVs) and does not take in consideration any meteocean reference (as happens with PLSVs), potentially exposing owners to a high risk for penalties. Although owners can be very conservative in the fuel consumption data to be informed during the tender, they risk not being competitive when comparing to more optimistic or unsuspecting bidders, so there will be an interesting dilemma.

Petrobras' chartering department initiative is splendid and makes a lot of sense in today's market as it is not only about "going greener", but fuel consumption is a big portion of the operational costs and can't be disregarded. That again brings up room for advanced designs striving for efficiency, which has so far been ignored by Petrobras due to its hands tied policy of going for the lowest price and their need to have very clear parameters for comparing all the proposals. Such need for clear parameters is still a challenge when it comes to the fuel efficiency criteria, which implies risk for the owners and may turn into unnecessary contingency in the price, back firing on any cost saving initiative.

Depending on availability, we can see room for more advanced tonnage and designs that have not been competitive in Petrobras lately when compared to cheaper options from the Far East, making a comparison between CAPEX and premium for fuel efficiency inevitable for any project viability in Brazil.

FARSTAD - AHTS Far Senator is mobilizing from North Sea to Brazil to start its 6 months plus options contract with Shell Brasil in support of the S/S Noble Max Smith. PSV Far Swift has been extended with Shell Brasil until later this month.

BOURBON - Brazilian flagged AHTS Haroldo Ramos has been fixed on the spot by Queiroz Galvão to assist towing the Petrobras VI rig for 8 days firm plus options.

CHOUEST - PSVs Campos Captain, Campos Carrier and Santos Supplier have been confirmed with Repsol Sinopec after finishing their OGX charters. The contract with Repsol Sinopec is 3 years firm to support the campaign with the DP Drillship Ocean Rig Mylos arriving later this month. Campos Captain and Santos Supplier are set to be replaced by Campos Commander and Campos Challenger currently working for Shell Brasil. PSVs Sable and Oryx are arriving in Brazil to replace similar U.S. flagged vessels currently on charter to Petrobras, which shall leave for the U.S. GoM. PSVs Thor Supplier and Bongo have started their charters with Brazilian Queiroz Galvão for 6 months firm plus options. The vessels are on standby until the campaign starts later this month. PSV Cabo Frio having left Queiroz Galvão will begin its Total charter in November when planned maintenance at the yard is concluded.

DOF - The Brazilian built and flagged AHTS Skandi Ipanema has been fixed to Dolphin Drilling for 5 days firm, then Brasdril for 10 days and in then finally to Transocean for 5 days firm plus options.

LABORDE - Brazilian built and flagged LAB 151 has been chartered by Brasdril twice in the last 20 days for cargo runs.

FINARGE - A.H. Liguria has been fixed to OGX for 30 days firm + two 30 day options starting 16th of October.

BIGMAR - PSV Astro Dourado with Brazilian flag has been chartered to the monitoring contractor E3 for 60 days firm.

SEACOR - Brazilian built and flagged Seabulk Brasil has been fixed to Dolphin Drilling for 4 days firm and then will undergo a maintenance period, she is expected available sometime in October on the spot. Her sister Seabulk Angra is set to conclude her charter with Anadarko this week and will also be available on the spot.

MAERSK - AHTS Maersk Provider has been fixed to Brasdril to assist on a rig move for 5 days firm and has also this month been fixed to ENSCO for 3 days firm plus options. AHTS Maersk Terrier has ended her charter with OGX and is available on the spot market in Brazil. AHTS Maersk Helper has left the country towing Dolphin Drilling´s Blackford Dolphin to the North Sea.

OCEANPACT - Laborde´s Brazilian built and flagged LAB 152 has been fixed via OCEANPACT to Repsol Sinopec as OSRV for 6 months starting in the middle of October.

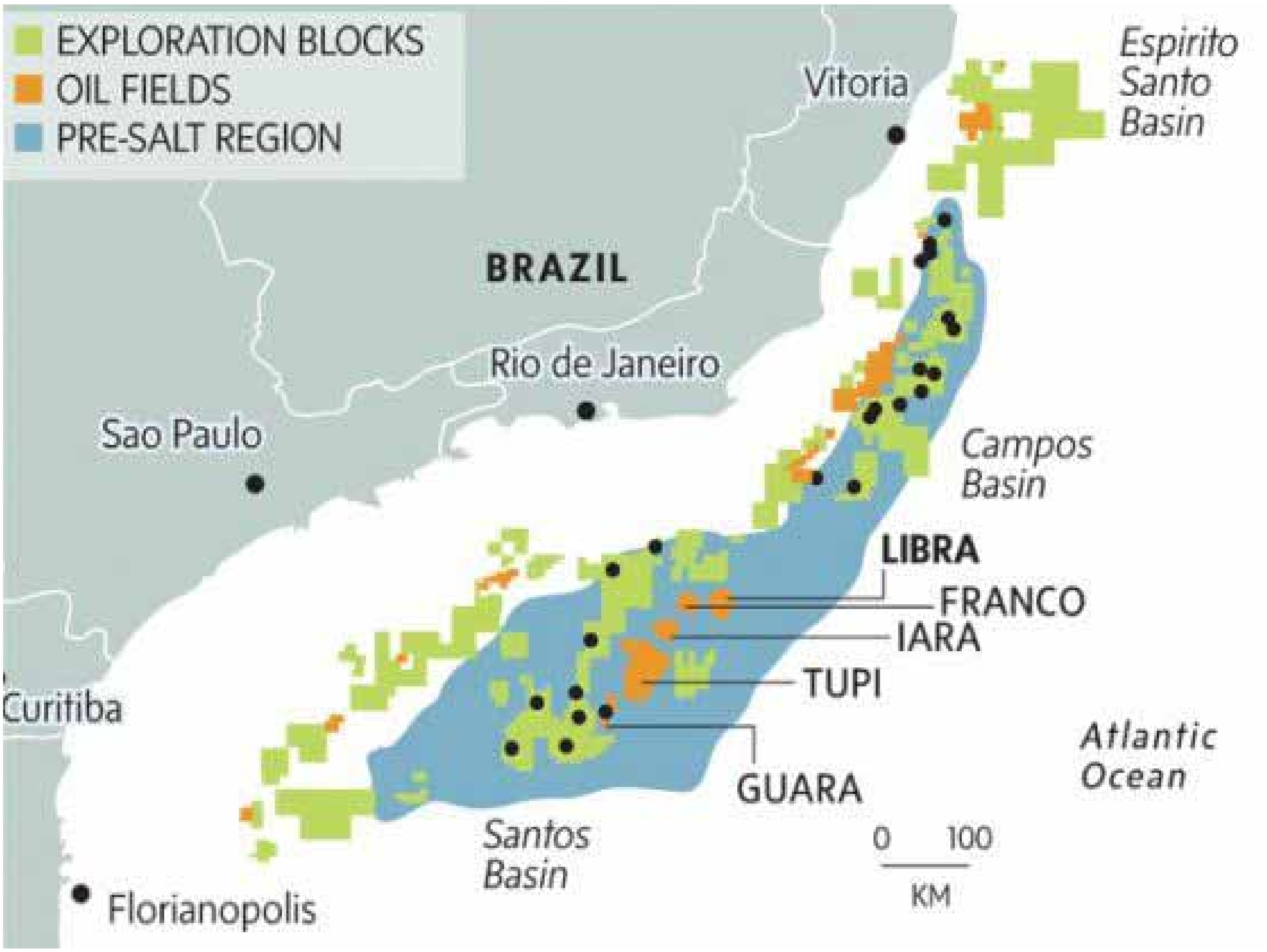
DEEP SEA SUPPLY - AHTS Sea Tiger has been chartered by Seadrill for 3 days firm in late September and by ENSCO in mid-October for 3 days firm plus options to assist on their rig move as reported for Maersk Provider.

FARSTAD - AHTS Far Senator is mobilizing from North Sea to Brazil to start its 6 months plus options contract with Shell Brasil in support of the S/S Noble Max Smith. PSV Far Swift has been extended with Shell Brasil until later this month.

***SIEM* -** Brazilian built and flagged Siem Atlas has been extended in its contract with BP Brasil for a further 60 days firm plus options, covering BP´s last demand for OSRV for their Camamu-Almada prospect.

The Controversial Libra

The weight of the largest oil field in South America comes on the agenda this month, facing criticism and uncertainties.



On October 21st the first pre-salt auction is to be held in Rio de Janeiro in order to bid for the giant field Libra, which promises to yield approximately USD 15 billion to the state coffers and many surprises ahead. On one side there is a group that criticizes the government for adopting an "anticompetitive" policy that would cause the renunciation of Oil Majors such as Exxon, Chevron, BP and BG. The obligation that Petrobras be the operator with at least 30 % of all blocks, and the creation of Pre-Sal Petróleo SA (PPSA) as the "manager" of the blocks by the State has been frowned upon.

On the other side there are Congressional representatives, leaders of social movements and trade unions seeking the suspension of the auction since Libra should be considered national wealth and that the auction favors the IOCs given the investments already made by the State in order to map the economic viability of the field. According to them, the investment costs of USD 50 billion would be recovered in just two years of full activity of the field and according to Magda Chambriard, director of ANP over the next three decades of operation the field would generate revenues of USD 900 billion. Another issue has been the widely published episode of USA spying on Brazil and that Petrobras was one of the main targets of the American monitoring.

Given this controversial scenario, Chinese companies have been playing a key role as the candidates with the best chances in the auction given that they are one of the largest oil consumers in the world, second only to the USA, although figures for September show that China has now overtaken the USA with a total import of 6.25 million barrels per day. Due to the fast growth, the Chinese government has approved a plan that guides their local oil companies to seek acquisitions abroad. This has generated investments of USD 20 billion, with Sinopec having increased its proven reserves of 309 million barrels to over 410 million barrels between 2009 and August 2013, and three years ago expanded its presence in Brazil. In 2010, it acquired 40% of Repsol and the following year bought 30 % of the assets of Portugal's Galp Energia representing the company's entry into the pre-salt exploration and numbers have only grown: in 2009 China lent about USD 10 billion to Petrobras in addition to sealing a deal with the Brazilian state to build refineries in 2010. A two-day trip to Beijing for Graca Foster has been generating rumors of an agreement to offer jointly at the auction. The significant difference from the Oil Majors which must show profit results to the shareholders is that the Chinese companies are more concerned in owning the oil in order to develop its economy than the costs involved in the process.

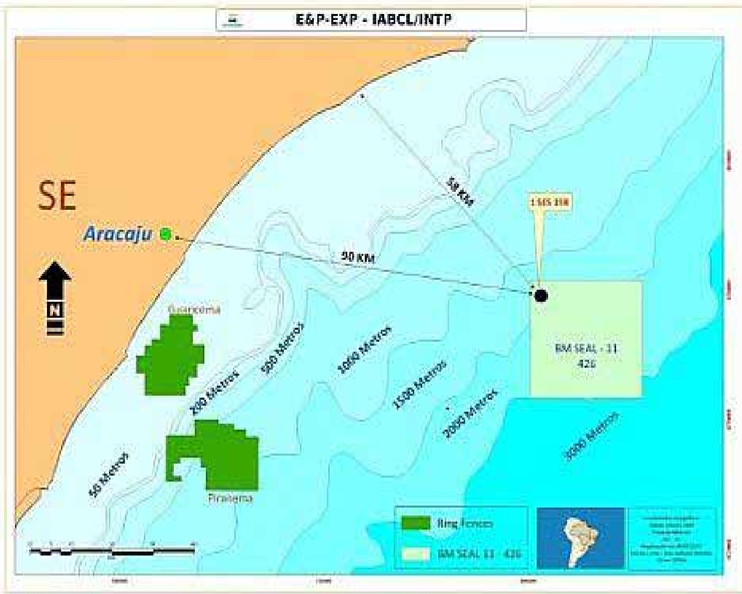
There are some economists and analysts that agree it might be appropriate to change the form of Petrobras' participation to avoid the overheating of the company undercapitalized by the policy of containment of fuel prices, because what matters is the right of participation for Petrobras and not necessarily the need to operate all of it. Another point of contention is the relevance of holding the auction in October, since Petrobras has blocks in transfer of rights (close to 5 billion barrels) to develop. It is also questionable whether the Brazilian industry has the ability to develop satisfactory operating practices according to the local content pre-salt rules.

"...the Chinese government has approved a plan that guides their local oil companies to seek acquisitions abroad... "

A measure of the effort required is the expected increase in the number of FPSOs in the country. Today there are over 160 units in operation worldwide, of which 34 are on the Brazilian coast. By 2020 the country will need 38 more FPSOs in operation and therefore we shouldn't be surprised if the government lowers the level of needs to facilitate importation of equipment. The government, in turn, has reaffirmed its willingness to carry out the bidding and consider the possibility of financing Petrobras should the company's cashflow not be sufficient. According to them, the Libra auction will be a major step in Brazil's entry into the export of oil production that will open in the coming years.

The new oil frontier?

According to market sources the SEAL-11 block may contain over three billion boed which would make the discovery one of the largest in the world. The block is located at Sergipe coast, in Brazilian Northeast, and is owned by Petrobras (60%) in a partnership with IBV Brazil (40%), a joint venture equally divided between Indian firms Bharat Petroleum (BPCL) and Videocon Industries. If confirmed the region may possibly become Brazil's largest new oil frontier.



Change of plans

After obtaining sufficient flow capacity information about the reservoir in the first LTD in Carioca discovery, in Santos Basin, Petrobras has substituted a second LTD in the BM-S-9 pre salt block for the drilling of a new well in the area. The operation is part of the discovery's evaluation plan (PAD) and already has ANP's board support.

P-55 leaves shipyard

Scheduled to be operating by the end of the year, the unit is in route to Campos Basin after the conclusion of services at the Rio Grande 1 shipyard. The platform towing should last twelve days and will be one of nine units which will be installed in oil fields in 2013. P-55 will be anchored at over 1800 meters depth and connected to 17 wells (11 producers and 6 water injectors).

Platform anticipated

The company anticipate the conclusion of the P-62 for the end of this year when it plans to allocate the unit to the Roncador IV field, which was previously scheduled for February 2014. This makes it the eighth supply production unit this year working for the company. The project consists of installing 17 wells to the platform, which has a capacity to produce 180,000 of boed and compress six million of cbm of gas.

Petrobras celebrates being 60 years old

Founded on October 3rd 1953, the Brazilian oil company celebrates its 60 years with the sequence of five movies called "The Source of Inspiration" with 2 minutes clips each narrating the company's history. Another celebration is the exposure "Petrobras in 60 Moments" available on company's website rescuing, in images and texts, moments in the history of the 50s until today.

AHTS 18000 ROV

The tender issued on May 2013 for AHTS 18000R type for 4 years + 4 years contract, with commencement in November 2013, had its offers received. Five vessels are competing in the category as per below table. In the light of the fuel efficiency criteria describes in this month's Headline News article, it is interesting to note that AHTSs with hybrid propulsion, although more expensive, had a better ranking than conventional ones.

AHTS 18000 R - OFFERS RECEIVED						
OWNER	VESSEL	FLAG	YEAR BUILT	DAY RATE (USD)	MOB FEE (USD)	Ranking
FARSTAD	FAR SAGARIS	Isle of Man	2009	97 985,00	-	1
FARSTAD	FAR SCORPION	NIS	2009	98 945,00	4 200 870,00	2
SWIRE	PACIFIC DISCOVERY	Singapore	2013	92 406,77	6 851 540,07	3
SIEM OFFSHORE	SIEM GARNET	Norwegian	2010	100 787,10	9 070 838,00	4
SIEM OFFSHORE	SIEM OPAL	Norwegian	2011	102 623,87	9 236 148,00	5

RSVs for Petrobras

Petrobras has made some progress on the RSV tender issued on February 2012. After indicating the Far Saga (Subsea 7) and Toisa Warrior (Fugro) for charter on the "B" batch, the "A" batch is still on hold for negotiations. On the "C" and "D" batches which were considering Brazilian built vessels for the Geodesy and IMR department, Fugro and Promon/Oceaneering placed proposals and are still awaiting tender progress.

5th Newbuilding Round

The tender issued on August 2013 regarding Petrobras' 5th Newbuilding round tender had its offers disclosed. Eighteen vessels were competing on PSV 4500 category for delivery latest 2016 but only Starnav proposal for three vessels was qualified. On the AHTS (delivery up to 2017), the sole offer for the AHTS 15000, 18000 categories were not qualified due to being considered excessive price. On the AHTS 21000 category, Petrobras is still analyzing offers and will still be ranked. Fuel consumption is also playing an important role here.

PSV 4500

Ranking	Bidder	No of vessels	Period (years)	TDG
1	Starnav	3	8	35 233,00
2	Oceana	3	4	39 200,00
3	BRAM	3	8	37 920,00
4	Geonavegação	3	4	38 900,00
5	WSUT	2	6	39 964,00
6	Astromarítima	2	4	37 031,00
7	Farol	2	8	48 500,00

AHTS 15000

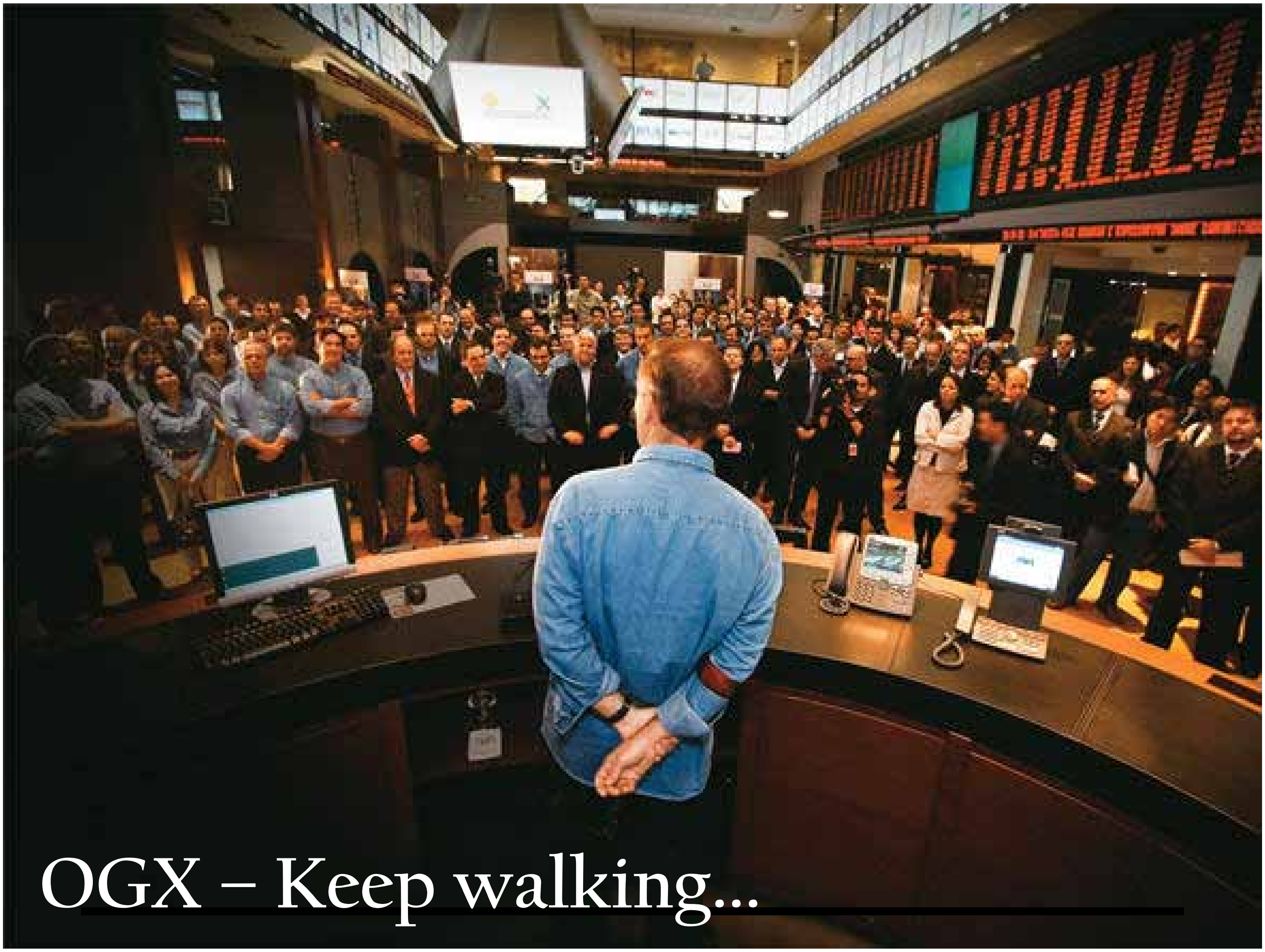
Ranking	Bidder	No of vessels	Period (years)	TDG
1	Oceana	4	6	87 500,00

AHTS 18000

Ranking	Bidder	No of vessels	Period (years)	TDG
1	Oceana	4	6	87 500,00

AHTS 21000

Bidder	No of vessels	Period (years)	TDG	TDG
Norskan	1	4	86 000,00	87 500,00
Chouest	3	8	89 492,00	89 528,04



OGX – Keep walking...

While an avalanche of negative news has hit the stands and a number of professionals keep working in an attempt to recover production and demonstrate viability for the private oil company of Eike Batista.

We take this opportunity to dig a little further into the activities under OGX management and their concrete actions to recover production and deliver results. OGX commencement of activities was marked by the award of 21 blocks in ANP´s 09th round, November 2007. The company had invested 1.39 billion Reais in the acquisition, not including their partner´s contribution. In June 2008, with operational plans on time and on budget, OGX emerged on the open stock exchange market in São Paulo with its Initial Public Offer (IPO) having captured over 6.7 billion Reais. The market value of the company then reached over 38 billion Reais.

Towards the end of the same year, in a movement not unknown to most companies after an IPO, the value of the shares dropped consistently from about 12 Reais per share down to 3 Reais. With a consistent delivery of projects and pushed by the positive scenario of the other companies owned by Batista´s holding, the share value of OGX appreciated throughout 2009 and 2010, reaching over 23 Reais per share in June 2010, that is two years after its IPO. Following a world crisis impacting all markets, and Brazil not seconded in that process, the end of 2010 and 2011 drove OGX shares down the value chain. With a rebound in early 2012, the operational issues faced by the oil company and the crisis on Batista´s group started to impact the perception of the value of OGX – although some analysts confirm, the operational issues facing the company are not nearly as bad as the loss of value.

OGX took delivery of their first FPSO (the platform processing and stocking oil offshore) and this month is installing their second unit on location. The production of their Tubarão Azul field is approximately 9.5 thousand barrels / day on one unit. During August and September the production came to a stop due to failure of the submerged pumping systems, which are undergoing repair.

As a comparison, the production figures of OGX are very similar to the mature Polvo field, formerly owned by Devon Energy and acquired by BP, now being transferred (subject approvals) to HRT, another Brazilian independent led by Osvaldo Pedrosa now chosen by the Government to lead PPSA – the State operator of the Pre-Salt. In contrast, the under development field of Peregrino with Statoil as operator reached 75 thousand barrels / day expecting to reach its peak of 100 thousand with the addition of two new wells. This number will drop as the field gets mature and will depend on future investment to maintain production – as with any other field.

To keep up with the scale of investment of an oil company, shortage of cash is not at all desired, especially in a capital intensive phase such as development, which is exactly where OGX is.

Facing a drastic drop on its market value and not being able to count on that prospection to finance its projects is a hit that can drive any company to bankruptcy. This is precisely what OGX teams are currently trying to mitigate. While operational personnel keep working to set offshore production back to its average level and to get new production units and wells in place, the finance teams postpone and renegotiate debt with financial institutions to ensure the existing capital is directed to concrete actions to enable delivering results.

"OGX took delivery of their first FPSO (the platform processing and stocking oil offshore) and this month is installing their second unit on location."

OGX currently owns 31 blocks in Brazil, and has an onshore production share in Gavião Real field of just over 13 thousand boe / day (net OGX). This month OGX is in the process of hiring 2 OSRVs and has a number of vessels working on the hook up operation of their OSX 3, the second FPSO to arrive on OGX´s production field.

IS PETROBRAS ENTERING THE SPOT MARKET?

Last month in our Inside Story article we explored the nuances of spot demand focusing on the many differences we could observe when we compare it with the mature North Sea market. We also pointed out the challenges and changes with IOCs and drilling companies' requests seen throughout the years. However recently the Brazilian market was taken by surprise when Petrobras consulted owners for three spot vessels within less than a month! First, at the end of August Petrobras released a consult for an AHTS 7000 (minimum 80 tons of bollard pull) with an expected startup mid-October for 120 days firm, then two weeks later the oil company consulted for an AHTS 18000 (minimum 180 tons of bollard pull) for 30 days firm to begin within the same month, and finally one week after that there was a consult for a AHTS 15000 (minimum 150 tons of bollard pull) for 45 days firm to also begin in September.

Everybody was asking each other about what motivated Petrobras to go ahead with such consults, why these consults came on such short notice and if owners should start expecting requirements like these going forward. Petrobras could not provide all the answers right away, which showed that their chartering department was also taken by surprise by this operational demand. One thing is for sure: the company is struggling to fill in the gaps left in its marine logistics. Vessels that were qualified in tenders concluded several months ago with rates already negotiated with Petrobras were kept on hold, waiting for their contracts to be signed, which should happen "soon", but how soon? Petrobras is also managing the situation of Brazilian flagged vessels which blocked some qualified foreign OSVs, and therefore have priority in negotiations, which does not necessarily mean their contractual process is taking less time to be concluded.

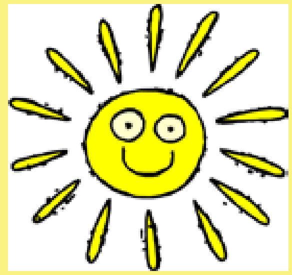
Unfortunately the time consuming nature of Petrobras' processes and approvals is one of its worse internal enemies. The oil major has a handful of subjects to resolve internally, trying to balance the new efficiency, divesting, infrastructure optimization and cost reduction programs (announced in October 2012 with targets disclosed in December 2012) with the investment and operational levels still climbing and promising 25 new floating production units by 2017. This means that a wider range and quantity of vessels will be needed for production activity over drilling throughout the next years. Also, the new logistics planning foresees a certain number of vessels for each offshore project, creating a "cost center" in order to be more efficient in costs and results control. This may also be a challenge when one thinks about the number of units working and those to come, and how to manage them and their "own fleet" proficiently, which may already be affecting the OSVs availability/demand ratio.

"Thus we could say that Petrobras will not choose to rely on spot requirements over long term contracts..."

As a result of these internal issues, Petrobras was not able to conclude the hiring process for any of these consults in a timely manner. In September, they led to direct negotiations with a few shipowners due to the short time until the commencement date, but time passed and the requirements were cancelled. Thus we could say that Petrobras will not choose to rely on spot requirements over long term contracts, since its contracting processes are mainly based on lowest-price public tenders and its bureaucratic internal procedures would not let urgent demands be easily encouraged and at last succeed without delays. Those would request a different structure and hiring politics from the oil company, which is not currently in its horizon. That's why the market hopes Petrobras swiftly goes back to its old hiring pace in tune with the drilling and production growth, not necessarily taking around six months to conclude each tender process for long term vessels as it used to be, but making the market less apprehensive and its chartering and operational department less stressed out with "uncalled for" demands and hurries.

Children’s Day

October the 12th is celebrated as Children’s Day in Brazil, created by the Congressman Galdino do Valle Filho in 1924. The global Children's Day is officially on November the 20th, as the UN recognizes the universal Children's Day to be when it adopted the declaration on the Rights of the Child in 1959 and the Convention on the Rights of Child in 1989. However, effective date of celebration varies from country to country.



Daylight Savings Time

Here in Brazil, daylight savings time is decreed by law, being a resource used annually by the South, Southeast, Midwest regions. Daylight savings time 2013-2014 begins at 12AM on 20 October and ends at 12AM on February 16th 2014.

OSV Chartering Contract Management 21-22 Oct Oslo

Between the 21st and 22nd of October 2013 in Oslo, Lloyd’s Maritime Academy will offer a practical guide for improved offshore support vessel, charterparty contracts, negotiations and dispute resolution management. Westshore do Brasil will be one of the speakers, providing its contribution about the Brazilian offshore market.

Organized by OTC and the Brazilian Petroleum, Gas and Biofuels Institute (IBP), the conference and exhibition focus on Brazil’s deepwater offshore sector. The event will feature executives from companies including Petrobras, Schlumberger, Total, Shell, Chevron, Baker Hughes, ExxonMobil, and BP. The 3-day conference and exhibition will occur between the 29th and 31st of October in Rio de Janeiro.

NBA in Brazil

The first ever NBA game on Brazilian territory happened in Rio de Janeiro on October the 12th between Chicago Bulls and Washington Wizards. More than 10,000 basketball fans witnessed Chicago run away with a tight victory of 83 to 81.