

BRAZILIAN WAVE

DECEMBER 2012

ISSUE 16

THE BRAZILIAN FOCUSED MARKET REPORT



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No winners or losers, is everybody pleased with Dilma's decision?

After a lengthy four years process of debate and at times heated discussions, a decision has finally been made regarding the distribution of oil royalties amongst the States and Municipalities of the Brazilian Federation.

The three main oil producing states in Brazil, namely Rio de Janeiro, Espírito Santo and São Paulo are the minority against the more than 20 others represented in Congress. The trio has been witnessing a losing battle that was gaining momentum and would lighten their multi-billion dollar pockets in oil royalties paid by oil companies to the government, after Congress approved a project that would redistribute the resources, including those of areas already under concession. There wasn't really anything the "three little birds" could do against the hunger of their siblings wanting a larger stake of the funds generated by the black gold. Their hopes rested with mother Dilma to shed some light on the subject matter and find ways to respect the revenues that were already budgeted for and contracts that had already been signed. The concept was simple: leave the past as it is, and if any changes are to be made, change what is to come.

In demonstration of a system that is well established and that can take care of injustice, President Dilma presented her veto to article 3 of the project approved by the Congress, which intended to re-distribute the royalties of concessions that were already in place. With the veto, the re-distribution of royalties will only be valid for those wells offered for concession as of May 2013, which is when the government expects to resume the ANP rounds. Of the future royalties, 100% will be invested in education.

Although it may seem like Dilma's decision was based solely on respect to the constitution and previously agreed contract terms, the central government also had their own interests in ensuring no changes were made to the revenue system in place. The national treasury has a series of commitments (securities) with states based on oil royalties. If the states lost such an income or a change was incurred to their budgets, the central government would face an issue in calculating and charging internal debt, certainly a situation to be avoided as it would undoubtedly only be resolved with long lasting court battles.

Further, as a keeper of the interests of the nation over the wellbeing of each individual member, the president holds the responsibility to secure a clear definition of rules to guarantee the needed oil field bid rounds and their attrac-



tiveness to investors. For investors the possibility of instability implies less interest in acquiring new acreage. Not to mention the limbo the industry has already been living in due to delays in new concessions.

The government has granted yet another strike to the law project as it stands, as future revenues are mandatorily destined to education, the determination to dedicate at least 10% of the GDP for education (currently the figure is at 5.7%) sees green light in getting approved. During previous discussions in Congress, the government was not able to explain how 10% could be achieved without decreasing the percentage from other areas, such as health care. It is an interesting discussion, if one considers that Japan for instance "only" invests 3.8% of its GDP in education, while Norway maintain invest around 7.3%. So perhaps it is not a matter of "how much" to invest, but just "how" to invest. This is an endless discussion.

The fight in regards to royalties can also get forever. Concessions made in 2013 will possibly only see revenues coming in by 2017/18. There will be discussion in Congress about how Dilma's veto will affect those states not yet receiving a share until that point in time.

However in reality the decision is already valid, ANP can go ahead with the preparations for the 11th round to be held in May next year. At the end of the day, a new milestone has been set with discipline in the oil sector and a clear definition of rules, this combined with the eagerness of oil companies looking for additional acreage the 11th round may turn out to be quite successful. We will wait and see.

03 VESSEL NEWS

THIS MONTHS FIXTURES, REQUIREMENTS AND MARKET SCREENINGS

THIS MONTH'S SPOT FIXTURES

DATE	VESSEL	TYPE	CLIENT	OWNER	PERIOD	DAY RATE
27 Nov 2012	LAB 151	PSV	VENTURA PETROLEO	LABORDE MARINE	5 DAYS	RNR
10 Dec 2012	SEA PANTHER	AHTS	SBM OFFSHORE	DEEP SEA	3 DAYS	RNR

NO NEW REPORTED TERM FIXTURES.....

VESSEL NEWS

VEGA OFFSHORE - Vega Crusader and Vega Corona have arrived in Rio de Janeiro. Both vessels are New building and being delivered to Petrobras under PSV 1500 category.

DEEP SEA SUPPLY - AHTS Sea Panther was secured in another spot fixture for 5 days firm this month to SBM Offshore for assistance in a wire change out for their FPSO Espírito Santo in service to Shell Brasil. The vessel remains trading on the spot market.

CBO - CBO Campos, CBO Guanabara and CBO Vitória were awarded contracts with Petrobras and shall remain working for the oil major in terms of between 2 and 4 years starting this month.

UOS - AHTS UOS Navigator sees its return to Brazil getting fixed by Perenco for their upcoming campaign starting February 2013, 150 days firm. The vessel has previously been working out of Falkland Islands and on a short term contract for Shell in Brazil.

CHOUEST - Completing the trio for Perenco, one of Chouest's newbuilding PSVs 5,000 dwt out of Poland will be servicing the French independent. The fixture level and fleet positioning of Chouest places the vessel in very competitive terms for other campaigns such as Repsol's.

LABORDE - Brazilian flagged LAB151 has been fixed on the spot to VENTURA Petróleo for a cargo run to one of their offshore units for 3 days firm.

CHOUEST - Brazilian flagged PSV Campos Commander has seen another spot fixture to Technip for 5 days firm after a one week fixture with Shell.

LABORDE - Laborde's multi-function Magnolia Mar is expected ready for spot / term work in Brazil in January 2013.

BRAVANTE - Bravante's OSRV Mar Limpo III has been baptized in Rio de Janeiro, in anticipation of her contract with Petrobras.

AUGUSTA OFFSHORE / TIDEWATER - Both the AHTS Asso Ventitre and AHTS William C O'Malley had its long awaited charters finally approved by Petrobras Board of Director under the category TS 18000. Despite all the reviews and delays on all Petrobras OSV charter approvals, both vessels are part of a tender process dated back in January 2012. More vessels are expected to have their charter approved soon.

MAERSK - AHTS trio Maersk Leader, Maersk Launcher and Maersk Lancer have arrived in Brazil for their 4 years term with Petrobras on the AHTS 21000 category. Maersk Lancer is on-hire for the oil giant and the other two vessels undergoing clearance.

04 PETROBRAS TENDERS

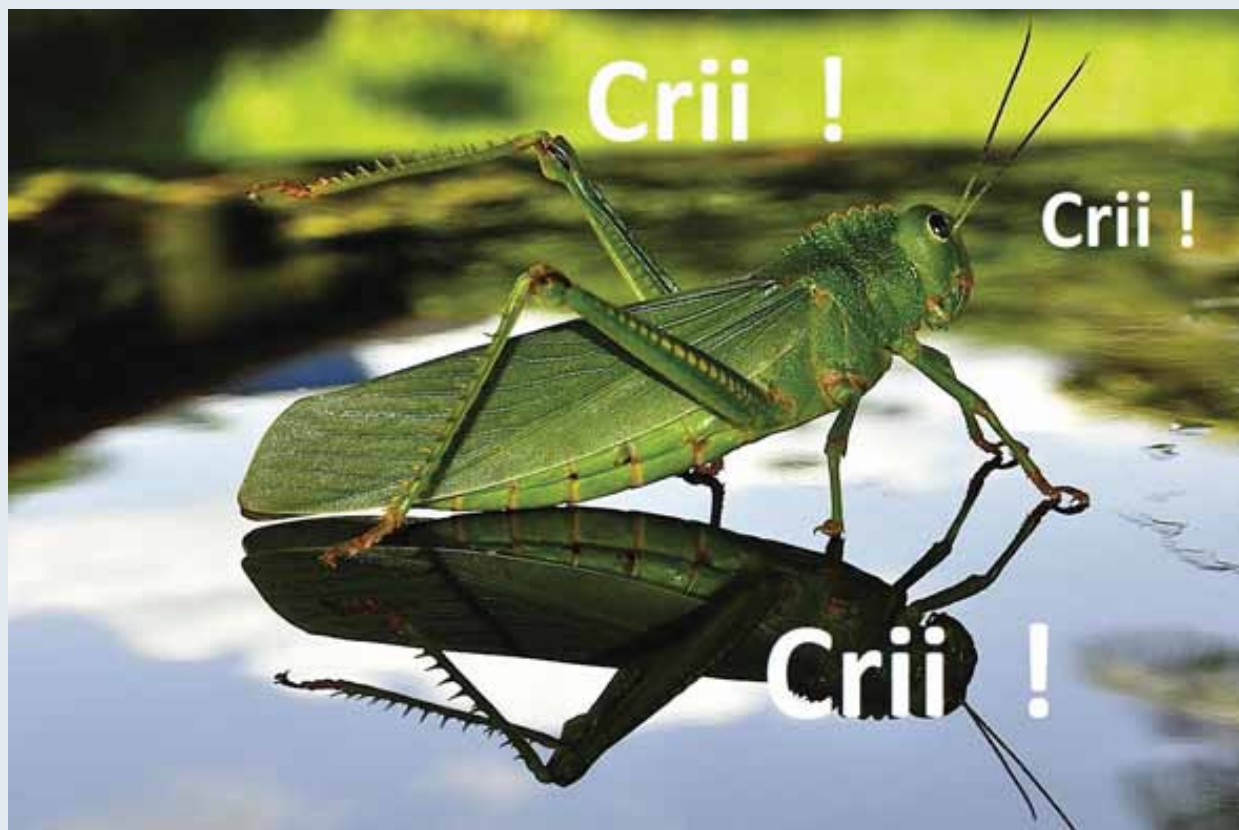
UPDATE ON THIS MONTH'S OUTSTANDING TENDERS

FLOTEL WAVE AT PETROBRAS

Due to Petrobras' rush to increase oil production on Campos Basin mature fields and given their old time-consuming offshore maintenance system which had to demobilize equipment to shore for repairs, Petrobras' need for Flotels is of high priority now. Known as UMS (Services Maintenance Unit), three units are expected to be required for delivery between 2013 and 2014, with a large free deck area, circa 300 pax capacity, telescopic gangway and an offshore crane.

Petrobras presently have four UMS under contract: Safe Concordia (Cidade de Quissamã), Dan Swift (Cidade de Casimiro de Abreu) and Floatel Reliance (Cidade de Arraial do Cabo).

THIS MONTH'S TENDERS CLASSIFICATIONS RESULTS ... THIS MONTH'S OFFERS RECEIVED



A WORD WITH WESTSHORE



Daniel Del Rio
Managing Director

"Petrobras OSV chartering department has been working in silence, no new tenders so far."

05 OPERATOR UPDATE

RECENT DEVELOPMENTS FROM BRAZIL'S OIL & GAS COMPANIES

SAPINHOÁ FIELD IS EXPECTED TO ACHIEVE FIRST OIL IN JANUARY 2013



Petrobras plans on achieving first oil from the FPSO Cidade de São Paulo, which will be exploring the field by next month. The company has obtained one of the main IBAMA's environmental licenses for operating in the pre salt layer. The Federal regulators have also permitted Petrobras to install exploration cables from its rigs to the wells, which are near 2,200 meters depth. FPSO Cidade de Ilhabela has already been hired to work with Cidade de São Paulo in the region and the beginning of the production is scheduled to commence in Q2 2014.

PETROBRAS HITS LIGHT OIL IN THE BRAZILIAN NORTHEAST

The well, informally known as Cumbe, is still being drilled and has reached a depth of 5,768m. It is located 105km from the municipality of Aracaju, off the coast of Sergipe State and at a water depth of 2,328m. The Sergipe-Alagoas prospects represent a new frontier for the region which was primarily a shallow water site only. As the discoveries are in deepwater this may represent a new profile for the region similar to that of Santos Basin. Petrobras is elaborating the assessment strategy and will proceed with drilling operations to a depth of 6,125m. The company owns 60% of the well in a partnership with IBV do Brasil (40%).

WAIT FOR 11TH ROUND? NOT OGX.



OGX is on the move to exploit new areas. What was formerly one of the largest reservoirs of Anglo-Dutch Shell, the major BS-4 field saw 40% of its shares changing ownership from Petrobras to OGX, for USD 270 million. Queiroz Galvão remains operator with 30%, the same percentage as Barra Energia, completing the holders' group. When assessing rig availability and readiness for BS-4, it won't come as a surprise if OGX buys in with S/S Ocean Star to assist partner-operator Queiroz Galvão, in the same fashion that OGX has done with 50/50 partner Perenco in their 2012 and upcoming 2013 campaign.

CHEVRON AND TRANSOCEAN'S NEW PLANS OFFSHORE BRAZIL

After a court overturned a ban on Chevron's operations in the country, the company now has plans to restart its oil output. Chevron have agreed to effectively execute changes to offshore safety and operating procedures with its drilling contractor Transocean after the oil spill in November 2011. This demonstrates that the companies have the desire and a plan to improve Brazil's oil industry. A final agreement has been reached and the plan will be presented to the federal judge overseeing the lawsuit.

The agreement was drafted at the companies' request with the same federal prosecutors who are handling two civil lawsuits against Chevron and Transocean. According to prosecutors press office it will be presented at a public hearing on December 14 in Rio de Janeiro. The goal is continue to pursue "a complete and favorable" resolution to all litigation in Brazil.

BG BETS HIGH



BG GROUP

BG Group plans to keep investing in Brazil although it has sold its 60.1% stake in Brazilian natural gas distributor Comgas to Cosan. The company plans to reinvest the BRL 3.4 billion received from the Brazilian sugar and ethanol producer for its holding in Comgas in Brazil. The investment focus will be the production and exploration of oil and gas with an aim of 600 thousand boed in 2020. This would make the company the second largest producer in Brazil. BG is one of the main partners of local oil and gas giant Petrobras in the pre-salt of Brazil's offshore Santos Basin.

06 DRILLING & PRODUCTION ROUNDUP

WHAT'S GOING ON OUT THERE?



MODEC / FPSO Cidade de Itaguaí MV26

The company signed a letter of intent with Petrobras for the supply, charter and operation of a FPSO, for the Lula block in the Santos Basin, with a water depth capacity of 2,240 meters. Modec will convert the VLCC Alga into the FPSO Cidade de Itaguaí MV26. The unit will produce 150,000 boed, 8 million cubic meters of gas and is scheduled for delivery during the fourth quarter of 2015.

Petrobras / 5 drill ships

Petrobras has cancelled an order for five drill ships from Ocean Rig Group. The company said it that it won't be necessary to secure as many rigs as it had initially expected, because Petrobras won't have to drill as many wells due to "higher productivity gained through the project wells". The five rigs had been slated to operate in the Brazilian presalt areas of up to 3,000 meters of water.

Petrobras / FPSO Cidade de Itajaí

The unit has already restarted the tests in Singapore's sea after caught fire a few weeks ago. It was estimated that the FPSO started operating until the last day of this year, but the accident will delay the production in two or three more months, disrupting the schedule of the platform for 2013. The unit has capacity to produce 80 thousand boed, 2 million cubic meters of gas and was appointed as the second biggest system to produce this year, after FPSO Cidade de Anchieta.

Petrobras / FPSO Cidade De São Paulo

Petrobras along with its partners BG Group and Repsol Sinopec Brasil announced that the construction work for FPSO Cidade de São Paulo was completed on November 11th. The vessel will head to Sapinhoa field, where it will begin mooring and hookup operations at a water depth of approximately 2,200 meters. The first production is expected in January 2013.

Ocean Lexington / Diamond Offshore

The semisubmersible rig Ocean Lexington owned by Diamond Offshore (Brasdril), which has been operating for OGX since March 2012, is expected to be moved to Trinidad in late February 2013, to start a contract with BG and its partners in that region. This is the second rig leaving Brasil in less than six months, as the semisub Ocean Ambassador left in September this year to Gulf of Mexico. It is expected that more Diamond Offshore rigs will leave Brasil within 2013.

07 LOOK AHEAD

WHAT'S UPCOMING OVER THE NEXT FEW MONTHS

BUILDING THE FUTURE: ARE WE READY FOR MORE?

During the last few months, we have been watching Petrobras getting slower in terms of vessels requirements and even with contract awards to vessels that have already been classified in previous tenders. As we enlightened in our last issue's Headline News, the president Graça Foster is assessing costs and expenses throughout the company to find out what really is relevant or not, as well as running a new production efficiency program at Campos Basin, which is the main E&P site for Petrobras. While all this could be read as bad news by OSV owners, we should not forget that Petrobras and some IOCs will continue to expand E&P for the next years. The national operator plans on investing a total of USD 236.6 billion until 2020 in order to produce three times more oil than it currently does. In order to reach that goal, it will receive 38 new offshore production units and 50 new mobile offshore drilling units by 2020, while the expectation is that the OSV fleet will increase by about 23% during the same period. Meanwhile, ANP has been increasing the required local content percentage for all equipment and services involved, aiming to develop the Brazilian economy in all segments related to the offshore E&P, especially the local shipbuilding industry. However is Brazil prepared to deliver so much in a relatively short period taking into consideration the installed and upcoming capacity?

According to Sinaval, there are presently around 47 active shipyards and 11 new ones under construction, while 59,000 workers are employed and the number is growing... The order book totals 6.2 million DWT. Eighteen oil platforms are already under construction, not to mention over 100 oil tankers required by 2020. The shipyards are full to capacity, even though there are new yards being built. One of the main problems faced by these new yards is maintaining high quality, good pricing and keeping to deadlines in order to compete with experienced foreign yards. This is no easy accomplishment, especially when this is directly related to

the Brazilian O&G industry. The positive side is that many of these new yards have some form of partnership with international shipyards, looking to enter the Brazilian market and contribute with their wide experience, like for example Jurong in Aracruz (ES), Ishikawajima Harima Heavy Industries (IHI) as consultant at Atlântico Sul, Hyundai (with OSX) and Kawasaki Heavy Industries, only to name a few.

It is important to highlight that only a few years ago the Brazilian shipbuilding industry was at an all-time low, with less than 2,000 workers and no large ships being built.



Despite the Brazilian government's ambitious push to increase the local content, many oil fields are like a throw-back to the past. For example the Peregrino field has a local content of only about 35% and consists mainly of wells and other underwater infrastructure. Maersk FPSO engineers say they tried to build locally but were unable to find capacity, so they decided to build abroad. This is a reality for many. Now local content for new production fields adds up to 77%, representing a huge challenge.

08 LOOK AHEAD

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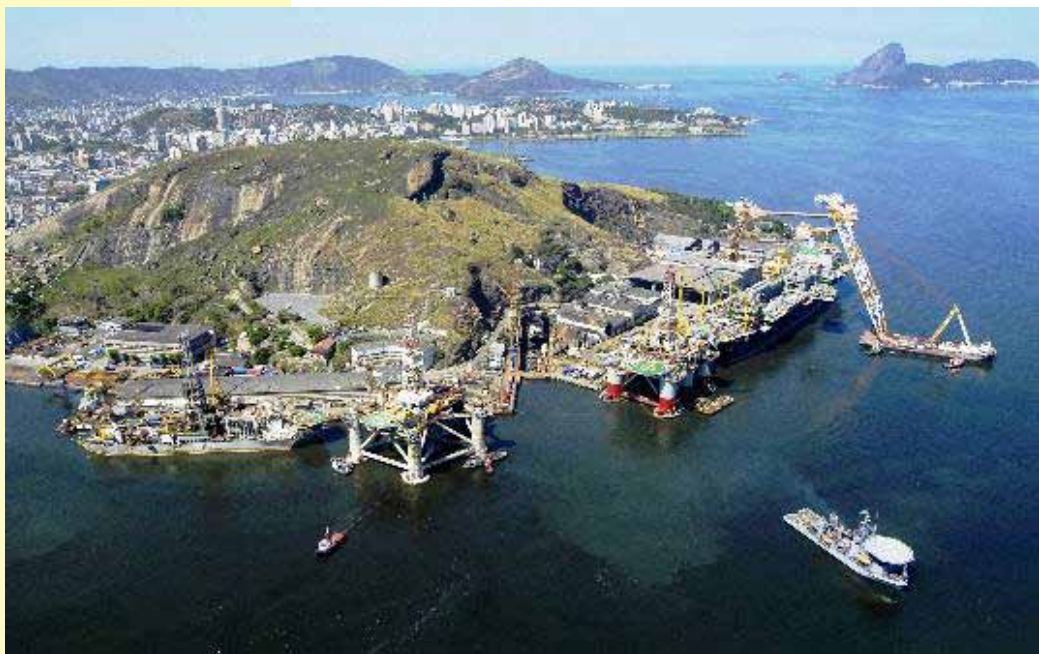


Another obstacle is that of the 47 shipyards in Brazil, only 4 are believed to be capable of building FPSOs. These flat targets for local content will reduce unemployment but not necessarily ensure the long-term success for the industry. If companies are obliged to use less experienced local contractors they will likely risk delaying dates at which a field produces oil or gas, potentially jeopardizing hundreds of millions of dollars in revenues for both investors and for use by the national government.

Despite all the experience of international groups, the new shipyards will still need to mobilize and train a sizable workforce. Some market assessments suggest that the new Brazilian shipbuilding industry will require hiring approximately 18,000 people (considering only six medium sized shipyards), many of whom will have to have specialized qualifications. Hiring and training these personnel will require strict monitoring and supervision. One of the key areas of concern regards the hiring of specialized welders. Meanwhile, the lack of qualified people will keep driving the salaries of specialized personnel up through the roof and affect the final prices of all that is built locally. For example, the price of a large AHTS becomes around 25 to 30% more expensive than if it was built abroad.

Thus, even though Brazil has a lot of

growth potential in the O&G segment throughout this decade, the government should take a closer look at the balance between high local content requirements and the competitiveness of this market globally in the long term. A faster paced growth in the overall fleet could be more beneficial to Brazil than the longer wait for equipment deliveries. Generating local jobs at yards in the short term is surely positive, but on the other hand a divesting movement of some foreign companies could disturb the economy equation in the long run. So, we shall wait and see if other positive outcomes keep global players interested in the O&G segment in Brazil.



A WORD WITH WESTSHORE

“Shipyards shall work hard to meet so many demands throughout the years, with technological partnerships and high quality training.”

Paula Quirino
Shipbroker



WESTSHORE ARCTIC

The Arctic is emerging as an important region in global affairs and a promising frontier for energy development. With an estimated 30 percent of the world's undiscovered oil and gas reserves. The region holds the world's largest remaining untapped gas reserves and some of its largest undeveloped oil reserves. A significant proportion of these reserves lie offshore, in the Arctic's shallow and biologically productive shelf seas. According to the oil industry, the Arctic is the final frontier for petroleum development.

The potential offered in the region is huge and has attracted many investors. The US Geological Survey estimates that the Arctic may hold 90 billion barrels of oil and 1,669 trillion cubic feet of natural gas, representing 13% and 30% of the world's estimated undiscovered resources of oil and gas respectively.

Most of the potentially resources are expected to be offshore, with the continental shelves of the United States, Canada and Greenland likely to yield oil and Russia's and Norway's gas. Alaska itself may hold 20% of the resources.



Players in the region include many of the world's largest oil companies, like Shell, who has operated in area and paid the amount of USD 2.2 billion for offshore exploration licenses in 2005 and 2007. So far the company has spent over USD 4 billion without drilling one single well.

Meanwhile, ExxonMobil completed a deal with



DARRELL COLE
MANAGING DIRECTOR OF WESTSHORE ARCTIC

Russia's Rosneft in April to explore the region. Earlier 2012 both announced an agreement to explore the Kara Sea. Statoil and Total have contracts with Gazprom to invest up to USD 40 billion in developing the massive Shtokman gas field in the eastern Barents Sea.

ConocoPhillips and Statoil are also looking to drill offshore Alaska. Recently, companies like Chevron, Cairn Energy and also ExxonMobil have won licenses in Greenland after finding traces of oil in Disko Bay. Darrell explains the opportunities ahead like this: "The next frontier for exploration and production is undoubtedly the Arctic. One of Westshore Arctic's primary areas of interest is West Greenland. On Nov. 22, 2012, in the House of Assembly, the provincial government passed the plan to develop actions that will position Newfoundland and Labrador as a leader in Arctic-related activities. That bodes well for our company as we are now strategically aligned with the province and the Arctic opportunities."

As part of the Canadian delegation for the "International Organization of Standards (ISO) for Arctic Operations" (ISO/TC67/SC8) that recently met in Moscow, Russia, Darrell Cole was quick to point out that four of the six delegates representing Canada were Newfoundlanders! "We have the expertise and are now more than ever recognized as global leaders when it comes to the Arctic."

10 É ISSO AÍ!

FINAL THOUGHTS FOR THIS MONTH



Merry Christmas!!!

At this time we gather with family and friends to celebrate the spirit of Christmas, full of hope to build a beautiful world to all. Soon after we find ourselves surrounded by the magic of the New Year, when everything is renewed and when we have to gather breath to go on to another year. Westshore do Brasil wishes all customers and employees a wonderful Christmas and a New Year full of achievements!



May the year 2013 bring success to everybody!!

Westshore do Brasil

Cocktail Party
2012

WESTSHORE
DO BRASIL

On December 5th, Westshore do Brasil hosted their friends and partners to celebrate a great year with good fixtures and achievements.

The cocktail party 2012 traditionally happens at Giuseppe Grill restaurant.

The Westshore team would like to thank our friends for the wonderful evening together and we wish all a wonderful Christmas and a new year full of joy and success.

