

# Petrobras reveals revised five-year business plan

**Oil giant to earmark extra \$8.7bn on exploration and production in pre-salt fields**



BARRY PARKER — NEW YORK

PETROBRAS' long-awaited announcement regarding a revised five-year business plan came late last week.

As expected, but now confirmed, exploration and production activities will garner an increased allocation of \$8.7bn — 57%, or \$127.5bn of the oil giant's \$224.7 bn five-year budget for capital expenditures, encompassing 2011 to 2015, as opposed to a previous 53%, or \$118.8bn.

According to Petrobras, 87% of new projects not in the previous plan are in the E&P category, with a concentration on development of the pre-salt fields.

Early production at the Lula Nordeste field, in Brazil's pre-salt region, has proved to be "already the company's most productive".

In early testing, the BW-owned FPSO *BW Cidade de São Vicente*, moored in 2,100 m water depth, was producing 14,000 barrels per day of sweet light (API 28° to 30°) crude oil.

Petrobras broke down the E&P further into 65% for production development, 18% for exploration and 17% for infrastructure.

As production from the pre-salt fields expands to 40.5% of 2020's overall anticipated production of 6.4m bpd of oil equivalent, versus 2.8m bpd in 2011 and 2.6m bpd last year, it will garner nearly half of the E&P budget.

One significant change from the previous budget is that Petrobras will now be drilling in the "Transfer of Rights" area.

In late 2010, Brazil shifted its offshore energy regime from one where Petrobras would compete with outside companies for concessions in lease blocks, to a



Petrobras workers on a production platform in Brazil, where early production in the pre-salt region has proved to be productive. Bloomberg

scheme where Petrobras shares in all new offshore production.

In conjunction with this shift, Petrobras agreed to acquire the rights to pre-salt exploration blocks according to a complicated methodology that, effectively, put the price at \$8.51 per barrel.

The payment was funded from Petrobras' late 2010 follow-on stock offering, the world's largest to date at approximately \$67 bn. Petrobras says it will be drilling 10 exploratory wells in the "Transfer" area in the Santos Basin.

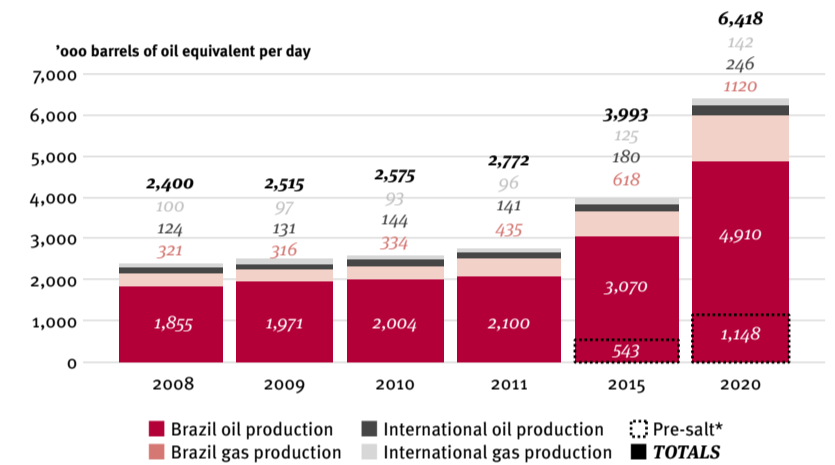
Under the Transfer deal, which could reach \$43.9bn, exploration must commence within four years or by late 2014.

The oil giant stated its capital expenditure would be "financed mainly by operating cashflow, with third-party resources provided by taking on new debt rather than new equity issuance".

Investors in the 2010 offering had been concerned about possible dilution from follow-on equity raises that would fund the massive budget.

Still, at a time of continuing overall jitters concerning sovereign credits, Petrobras said it would be likely to raise between \$7.2bn and \$12bn per year in the debt markets, adding it hopes to maintain its investment-grade rating.

## PETROBRAS OIL AND GAS PRODUCTION TARGETS



Technically a "quasi-sovereign", with slightly more than half of its capital stock in non-state hands, Petrobras is rated "BBB" by Standard & Poor's, one of the lower tiers of investment-quality bonds.

Morgan Stanley analyst Ole Slorer explained to clients that Petrobras' budgeting uses a conservative base case, with Brent oil priced at \$80 per barrel, compared to the forward curve around

\$105 per barrel and his firm's forecast at \$130 per barrel for 2012.

The new business plan provides for exploration in the Franco field, one of the Transfer area blocks, in the Santos Basin.

The cylindrical drillship *Sevan Driller*, on a six-year contract to Petrobras at \$402,000 per day through mid 2016, has begun to drill in the block, thought to hold reserves of 4.5bn barrels of oil. ■

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## Ultra deepwater drillers to benefit

GREATER focus by Petrobras on pre-salt production and productivity will most benefit technology-intensive service and equipment companies and offshore drillers with high-end ultra deepwater availability, according to Morgan Stanley's latest offshore oil services report, writes Barry Parker.

On the latest round of earnings calls, Brazil has been a topic of conversations among analysts and executives.

Diamond Offshore president Lawrence Dickerson told investors on his company's latest call: "In Brazil, our good customer OGX put one-year extensions on their larger rigs, the Ocean Star and the Ocean Quest. We continue to have 16 rigs operating in that market and with all kinds of backlog."

The semi-submersible Ocean Star, which can drill in waters depths of 5,500 ft, had been drilling in the Campos Basin at a day rate of \$340,000.

The 4,000 ft capable Ocean Quest, drilling nearby, which had been earning \$340,000 per day, was renewed to OGX at \$420,000 per day.

OGX's activity has also filtered down to the offshore support vessel marketplace; intermediary Seabrokers mentioned that OGX had taken Aker Solutions' *Aker Wayfarer*, a 2010-built multi-purpose construction vessel, for a three-month charter.

The vessel was assisting with installation of moorings, pipelines and the undersea "Christmas tree" for wells

feeding *OSX-1*, pictured right, a floating production, storage and offloading vessel set to begin production in the southern Campos Basin in the fourth quarter of this year.

Brazilian drillers are now taking delivery of ultra deepwater equipment ordered in 2008 in conjunction with a Petrobras award.

Queiroz Galvão, the large Brazilian oil service contractor and a minority partner in the FPSO *Cidade de Paraty* project, recently took delivery of a new semi-submersible from Keppel FELS, the 9,000 ft rated Alpha Star.

The rig, filling a slot that had previously been awarded to a Scorpion Offshore unit, will be entering into a six-year charter to Petrobras, at a reported \$419,000 per day, with an optional six-year period.

One of QGOG's other semis working for Petrobras, *Gold Star*, has been deployed in the Lula field since 2010, at \$268,000/day, through to early 2015.

Two Schahin drillships, *Cerrado* and *Sertao*, are both expected to be delivered this year from Samsung. *Cerrado* is in the final stages of integration after a successful sea trial in March.

Odebrecht's drillship *Norbe IX* is in transit from Daewoo to Brazil; the sister *Norbe VIII* arrived earlier this summer.

Both units, capable of drilling in 9,000 ft of water, are set to enter 10-year contracts with Petrobras. ■

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The FPSO *OSX-1*, set to begin production in the southern Campos Basin in the fourth quarter of 2011.

## Midwater supply balance tightening

RENEWED pockets of demand for midwater rigs have emerged, while potential supply disruptions noted in the deepwater sector could cascade downward into the midwater range, writes Barry Parker.

Noble Drilling president and chief executive David Williams talked up a Petrobras tender, with bids due at the beginning of August, for moored and dynamically-positioned semi-submersibles capable of handling depths of 1,200 m and 1,500 m.

He told analysts and investors on Noble's late-July earnings call that Petrobras "still has a lot of activity and demand to prosecute in the non-subsalt

work. I think the current tender for the moored units addresses that — and our expectation would be that you might see more of that from Petrobras."

Barclays Capital's James West, who heads the firm's US drilling and services section, picked up on this theme in a late-July report, stressing the impact of new safety dictates concerning blowout preventers in the marketplace.

"We believe the midwater fleet faces more headwinds from potential safety regulations in the Gulf of Mexico pertaining to blowout preventers. BP recently announced additional safety requirements that essentially call for 5-ram BOPs for its moored floaters."

## SBM and OSX line up FPSOs for offshore Brazil

AT THE Lula Nordeste field, a second floating production, storage and offloading vessel, the SBM-owned *Cidade de Paraty*, is slated to come on stream in the third quarter of 2013, writes Barry Parker.

Delivery will follow topsides work, including the flare tower and helicopter deck, to be done at the Keppel FELS yard at Angra dos Reis, starting in mid-2012.

Major conversion work on the very large crude carrier *Theseus* is under way now at Keppel's Singapore yard. When completed, the production unit will be able to process 150,000 barrels per day of oil.

Lula Nordeste field is operated by 65% owner Petrobras with 25% participation from BG and 10% from Galp. SBM, and its partners Queiroz Galvão, NYK and Itchoy, will enter a 20-year contract with the Petrobras-led production consortium.

Financing of \$1bn will come in the form of a project finance loan provided by a "club" of 12 banks, with limited recourse to the borrowers. In such deals, funds are advanced for construction, and repayment starts at the time of "first oil". The loan, led by ING, BTMU and Rabobank, with CIC, DBJ and Nordea acting as mandated lead arrangers, will be repaid over 10 years.

Another loose end in offshore Brazil has been tied up with Modec's announcement it has signed an \$800m contract encompassing all aspects of the construction and commissioning of the FPSO *OSX-3*, to be delivered from a yard in Singapore to owner OSX, with first oil expected in late 2013.

An external mooring turret will come from Sofec, part of the Modec group since 2006. The FPSO, to be capable of processing 100,000 bpd of heavy oil, with a storage capacity of 1.3m barrels, will be chartered to sister company OGX for 20 years, serving a group of fields in the Campos Basin concessioned to OGX.

The FPSO *OSX-1* is delivering later this year from Keppel, where refurbishment of a unit originally constructed for Nexus at Samsung is being modified to handle 80,000 bpd of heavy crude. Another, *OSX-2*, contracted with SBM, will be delivering the second quarter of 2013.

Additionally, a pair of VLCC conversions to FPSOs, *OSX-4* and *OSX-5*, will be undertaken at OSX's newly-licensed Acu shipyard, near Rio de Janeiro, expected to begin operations in 2013.

OSX estimates that FPSOs built at Acu, 150 km from the Campos Basin, would achieve mobilisation savings of \$4m each compared to units built in Singapore.

Because of the yard's proximity to a sister company's steel mills, OSX is touting \$3.5m anticipated cost savings per FPSO, due to the economies of welding large sections of plate. ■

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Mr West explained: "We expect other operators and regulatory bodies are likely to follow BP's lead in imposing heightened safety standards, which will likely speed the pace of older midwater rig retirements. Many of the world's midwater rigs are moored rather than DP rigs."

Analysts had noted a similar progression within the deepwater segment (where DP is more prevalent), with new regulatory mandates likely to call for 6-ram BOPs on DP rigs.

Effectively, the same potential supply disruptions noted in the deepwater sector could impact on midwater rigs in a similar manner. ■

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