

Petrobras' business plan shrouded in speculation

Brazilian giant may trim downstream investments in favour of the more profitable upstream exploration and production



Barry Parker — New York

SPECULATION has been swirling about ongoing revisions to Petrobras' business plan for 2011-2015, with insiders suggesting that its \$224bn investment budget might be trimmed back slightly.

The company's board has asked top management to revisit its plans, in a year that its stock has not been a great performer.

Reports have suggested that the Brazilian giant might trim back its downstream, refining, investments in favour of the more profitable upstream exploration and production activities, which comprise 53% of expenditures in the current plan. Details are imprecise, with Petrobras saying "...sensitivity studies and analyses were submitted for the approval... and the board asked the management for further studies".

The exploration and production share could grow. In recent months, Petrobras has moved closer to realising its goals of ramping production to 3.9m barrels per day oil equivalent by 2014 and 5.4m bpd in 2020, a target rumoured to be set for an increase.

Of this 2020 target, 1.1m bpd is projected to come from oil in "pre-salt" discoveries, mainly in the Santos Basin. A Petrobras tender for construction of 21 drillships is eagerly awaited, following a tender earlier in the year for seven drillships to be built at the EAS yard and leased to Petrobras by the Sete Brasil consortium.

Floating production, storage and offloading vessels, already a mainstay in Brazil, will continue to grow in importance as the pre-salt oil comes online. Within the company's 2.6m bpd overall output in May is production from new wells connected to existing FPSOs in the Campos Basin, including SBM Offshore's *P-57*, converted from the very large crude carrier *Island Accord* at Keppel, and deployed in the Jubarte field since December, 2010. Petrobras has described *P-57* as "a model for future construction of pre-salt platforms".

Petrobras' business plan projects the deployment of 63 production platforms by 2015 and 84 by 2020, compared with 41 as of late 2009. The 40-plus FPSOs included in the "platform" category include a mixture of tanker conversions and, going forward, local construction.

Last year, the Rio Grande shipyard, which was recently purchased by Brazilian construction giant Engevix, partnered with equipment designer GVA, designer of the P-18 semi-submersible production platform used at Marlim, in the Campos Basin.

The yard won a tender to build eight FPSOs destined for the Santos Basin. Earlier in the year, Teekay Corporation, already a principal in two Brazilian FPSO deals, inked a co-operation deal with a local Brazilian partner, the Odebrecht Group, to work together on FPSO projects.

Earlier this year, internal approvals were granted on two FPSOs that will be positioned on pilot projects, the Guar  Norte and Cernambi fields, both in the Santos Basin. According to Petrobras: "Each FPSO has an oil production capacity of up to 150,000 barrels per day, and they are expected to come online in 2014."

The Guar  deal has been a long time coming, with a letter of intent issued nearly a year ago to owner Modec and operator Schahin Group. A recent announcement from Modec described plans for the conversion of the 1992-built VLCC *Radiant Jewel* (ex-*Golar Glasgow*) at Cosco Dalian. Topsides will be fitted out in Brazil. Post-conversion, the emergent FPSO *Cidade de*



Petrobras has moved closer to realising its goals of ramping production to 3.9m barrels per day oil equivalent by 2014 and 5.4m bpd in 2020. *Bloomberg*

Sao Paulo MV23 will be leased by a Modec-led owning group, to a consortium of Petrobras (the operator, with 45%), BG (30%) and Repsol/Sinopec (25%).

Another pilot pre-salt project, in the Lula, formerly Tupi, field, is being serviced by Modec's *Cidade de Angra dos Reis MV22*, also converted — from the VLCC *Sunrise IV* — at Cosco. The same yard is also doing a conversion for BW Offshore, with the ultra large crude carrier *BW Nisa* being the

chrysalis for the FPSO *P-63*, set to be deployed in the Campos Basin later this year. SBM Offshore is involved in a similar project, in which its *Cidade de Paratay*, also a conversion (from the VLCC *Mi Theseus*) will be mobilised from Keppel FELS to the Lula Nordeste field, also in the Santos Basin.

Petrobras expects that the international realm will account for 5% of its E&P spending, a budget that includes ongoing phased development, prior to production

into a BW Offshore FPSO at Chinook and Cascade in the US Gulf. Petrobras's Orlando Azevedo, president of Petrobras America, interviewed last month, said: "We will use the *Deep Ocean Medoncino* drillship, recently built in South Korea and slated to arrive in the Gulf of Mexico by the end of the first half-year. The idea is for this vessel to complete Phase I and be ready for use in subsequent phases.

"Phase II involves drilling the remaining wells in Cascade and Chinook until we reach the FPSO's rated capacity of 80,000 barrels per day. In this phase, we will bring in another drillship which is nearing completion in South Korea."

The 12,000 ft capable DP-3 drillship *DragonQuest*, managed by Vantage, is slated to begin an eight-year charter with Petrobras at \$551,000 per day, for work in the US Gulf starting in late 2011, following delivery from Daewoo next month.

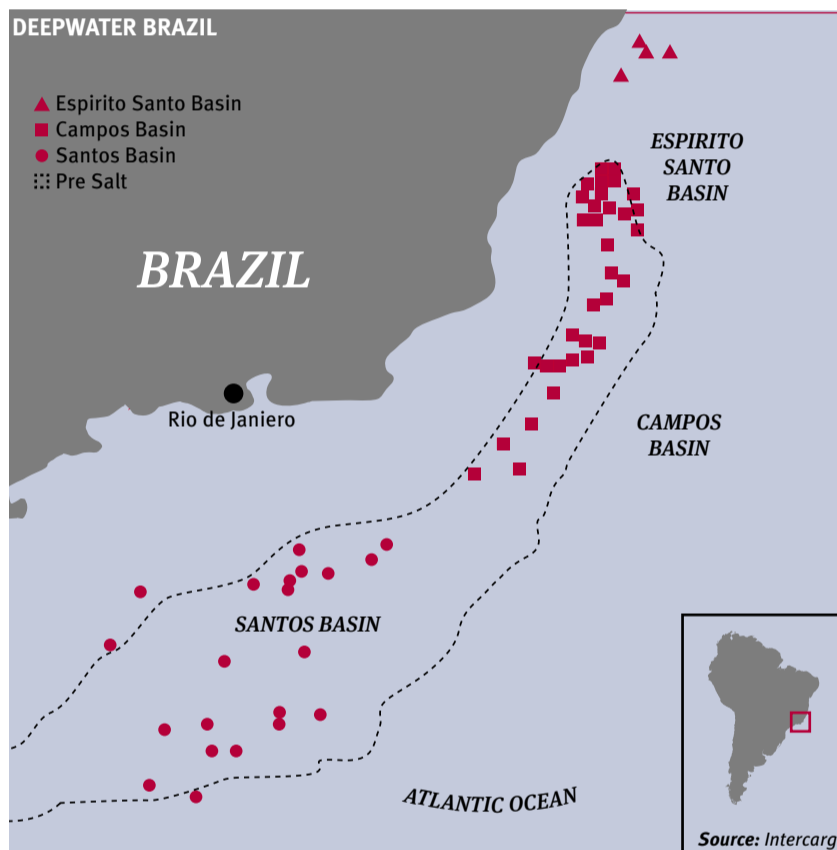
Following Enasco's end-May acquisition of Pride, *Deep Ocean Mendocino* is now *Enso DS-5*.

In the past week, Petrobras announced that it was acquiring a 50% interest in two concessions in another pre-salt formation off the coast of Gabon in West Africa.

Ophir Energy, selling a portion of its production-sharing contract in the farmout, said detailed 3D seismic studies will be conducted and exploratory wells drilled with Petrobras participation, and that Petrobras has options to become the operator of the blocks.

Petrobras, in its announcement of the deal, discussed the use of its expertise gathered in the Santos Basin to extend its reach to the waters in the West African coastal plain, where the geological formations are "considered comparable to those discovered in Brazil". ■

www.loydslist.com/offshore



Newcomer OSX lines up charter deals with first deliveries due this summer

THOUGH Petrobras dominates offshore Brazil, OGX — a company within the conglomerate EBX Group linked to businessman Eike Batista — has concessions in the Espirito Santos, Campos and Santos Basins that are set to begin production in October, writes Barry Parker.

Floating production, storage and offloading vessels and production platforms, owned by sister company OSX, will be leased to OGX, according to a recent intercompany agreement.

The first of two FPSOs under construction for OSX is set to deliver this summer, from Samsung, into the Waimea field in the Campos basin.

It will initially produce 40,000 barrels per day. At the time of "first oil" (expected to be in October), *OSX-1* will enter into a 20-year charter to OGX, at a rate described as averaging \$263,000 per day.

Two other units, both of which will produce 100,000 bpd (with 1.3m barrels of capacity to load suezmax shuttle tankers), have been contracted with SBM Offshore (*OSX-2*, at price estimated to be \$775m) and Modec (*OSX-3*, likely to cost \$800m-\$850m) for deployment at the OGX-operated Waikiki field in the Campos Basin, starting in 2013.

OSX-2's dayrate works back to around \$290,000 per day.

OSX, the equipment leasing arm, has bought two sister very large crude carriers from Vela, for \$54m en bloc, destined for

conversion into the FPSOs *OSX-4* and *OSX-5*, both set for completion in 2014 with estimated capital expenditure of \$850m-\$900m each.

OSX's chief financial officer Roberto Monteiro told investors: "Both *OSX-4* and *5* will have their conversion done in Singapore, conversion meaning replacement of heavy steel plates and also reinforcement of structure,

"Both *OSX-4* and *5* will have their conversion done in Singapore, and then we will bring them to Brazil in order to do the integration of these two FPSOs here in our shipyard already"

Roberto Monteiro, OSX chief financial officer

accommodation and so on, and then we will bring them to Brazil in order to do the integration of these two FPSOs here in our shipyard already."

The EBX Group, also an active player in the iron ore business, is developing a large yard, Unidade de Construc o Naval, or UCN Acu, at Sao Joao da Barra, near Rio De Janeiro. The yard, near a steel mill complex, is expected to be operational in late 2013.

OGX, the oil producer, has set

ambitious goals. It expects to achieve 150,000 bpd of production from the Campos Basin in 2013 in Waimea and Waikiki. The company anticipates producing gas in the Parna ba Basin (onshore, in northeastern Brazil), beginning in 2012.

Longer term, its forecast calls for 2019 production of 1.4m barrels of oil equivalent. It rates its overall risk adjusted reserves at 6.6bn barrels — more than half in the Campos Basin.

To develop these accumulations, OGX expects to be utilising 19 FPSOs (in addition to 24 conventional well-head platforms and five tension-legged platforms for deeper waters).

Fleet reports indicate that OGX relies heavily on rigs contracted from Diamond Offshore for its exploration in the Campos Basin. The semi-submersibles *Ocean Ambassador*, *Ocean Lexington*, *Ocean Quest* and *Ocean Star* are drilling in waters ranging from 1,000 to 5,500 ft depths, at day-rates varying between \$260,000 and \$335,000.

Diamond's jack-up *Ocean Scepter*, drilling in 350 ft of water, is on at \$135,000/day. Two semi-submersibles from Enasco, *Enasco 5004* (ex *Pride Venezuela*) and *Enasco 5002* (ex *Pride Sea Explorer*), are working at depths of 1000 ft, at rates described as "in the mid \$250,000s each." ■

www.loydslist.com/shippos

Operation built on financial engineering

FINANCIAL engineering has been a hallmark of all aspects of OSX and OGX's operation, writes Barry Parker.

In addition to OSX's \$1.4bn IPO in March, 2010, OGX, also publicly listed, is no stranger to the capital markets for funding its growth.

In late May, OGX tapped the US bond markets in a successful \$2.56bn issue of notes at 8.5%, due 2018, appealing to emerging markets investors.

At a time of high oil prices, OGX, the group's exploration and production arm, has reportedly been in discussions to sell off a portion of its concessions, encouraged by recent deals where a different swath of investors — wealth funds and oil companies — have paid attractive prices for farmouts.

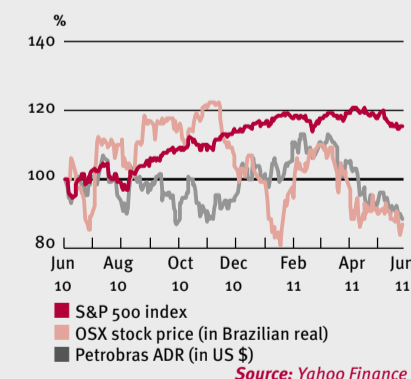
At the more granular level, OSX's financial structuring for modifications to *OSX-1* was the subject of an award at this week's Marine Money conference in New York.

In a very complicated financing, OSX was able to borrow \$420m, at Libor plus 425 basis points, on an eight-year loan through a syndicate put together by DVB Bank.

Because of the significant Norwegian content, export credit agencies Ekspportfinans and GIEK participated, along with a handful of European energy lenders.

RELATIVE PERFORMANCE OF PETROBRAS AND OSX

All figured indexed to 100



Source: Yahoo Finance

Roberto Monteiro, the chief financial officer, explained that the yard payment schedule calls for "...around 30% during 2011, 50% around 2012, 15% in 2013 and 5% 2014."

Financing for *OSX-2* is now in the works.

Two banks, ING and Santander, have been mandated to put together a group for financing of up to 80% of the approximately \$775 m expenditure for this second floating production, storage and offloading vessel. ■

www.loydslist.com/finance