



Hornbeck Offshore Services

Service with Energy®



Brazil Challenges

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Executive Vice President and General Counsel

Three Points Today

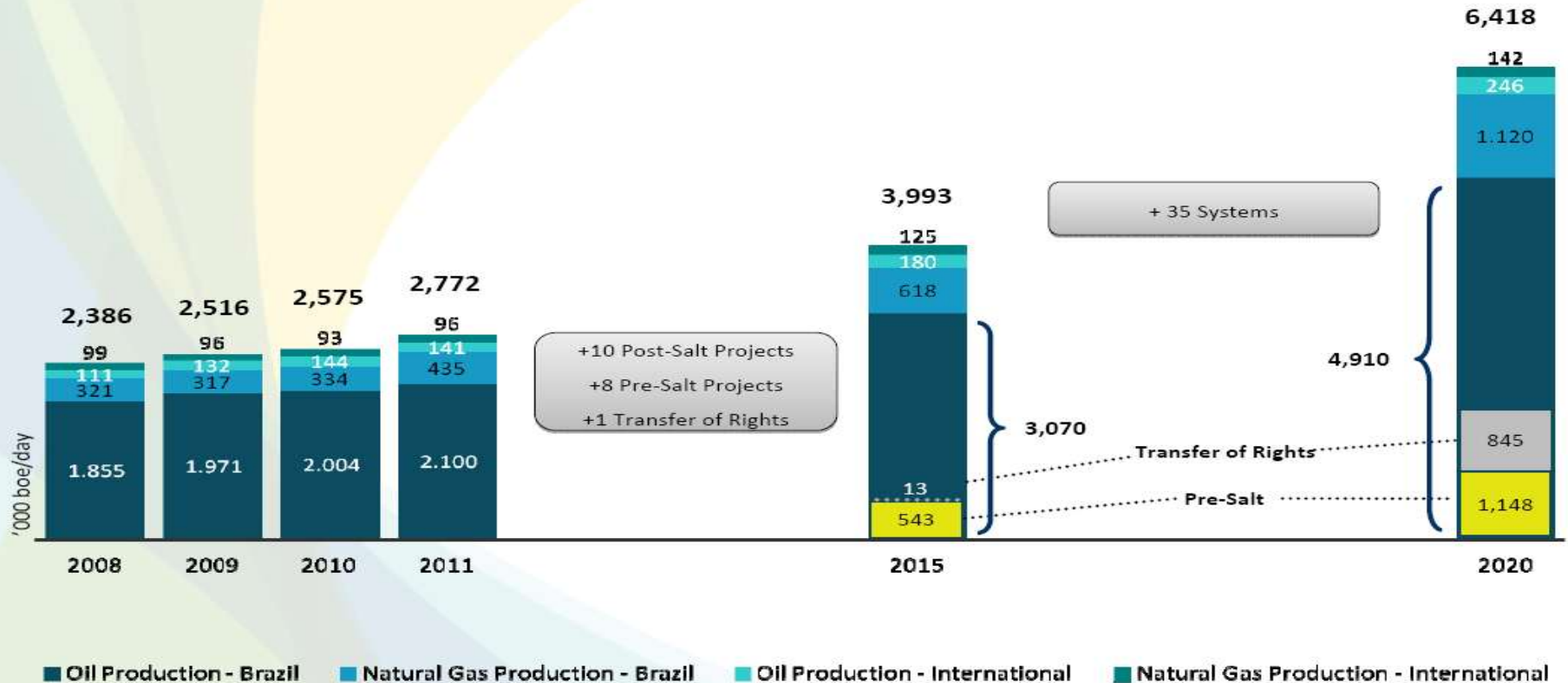
- ⦿ Brazil “pre-sal” ten year plan among the most ambitious undertakings on the planet today
- ⦿ Tension between PBAS ten year growth plan and government goal of national development makes the undertaking even more complicated for all participants
- ⦿ Significant sectorial concentration in Brazil creates risk for industry overall



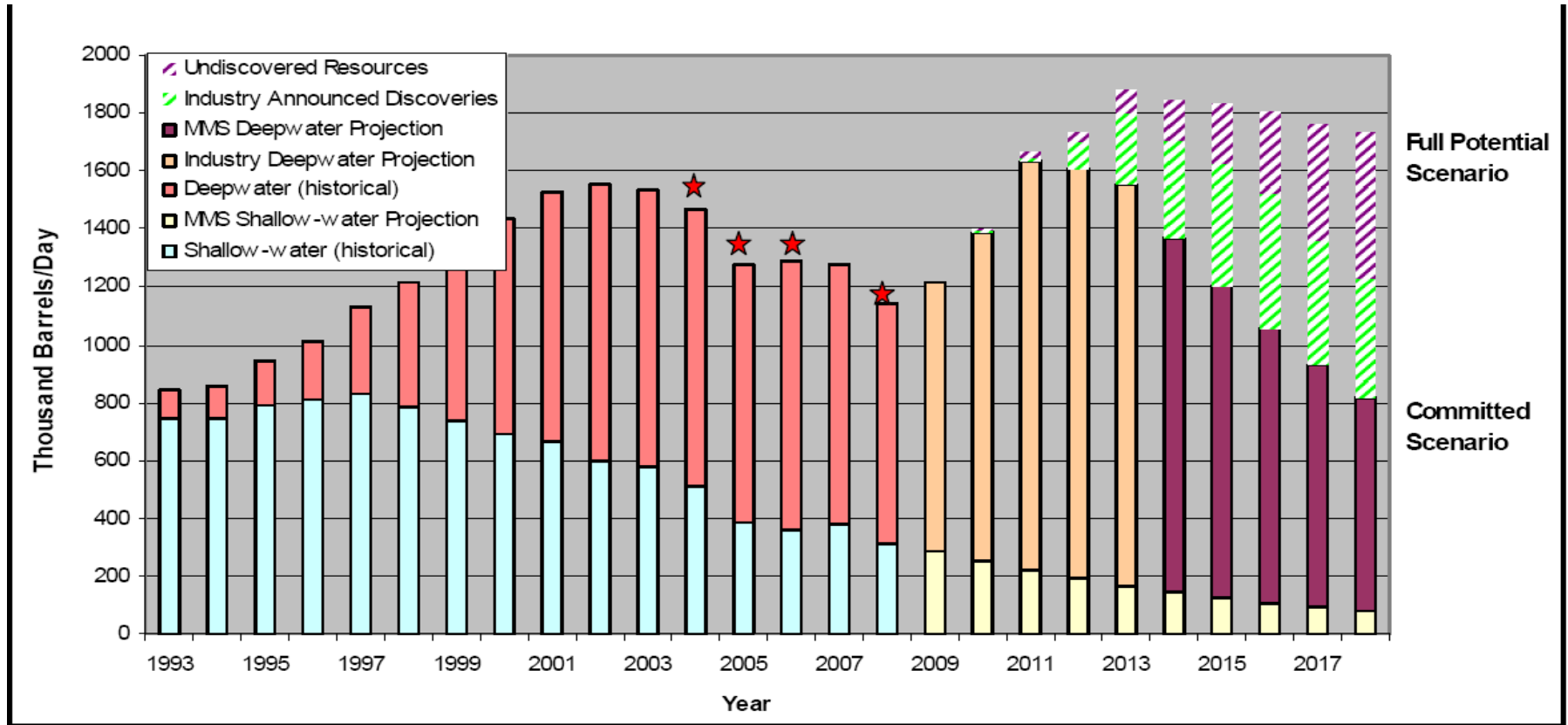
PBAS Will Grow Production By 230% in Ten Years!

PRODUCTION TARGETS

With broad access to new reserves, Petrobras can more than double its production in the next decade



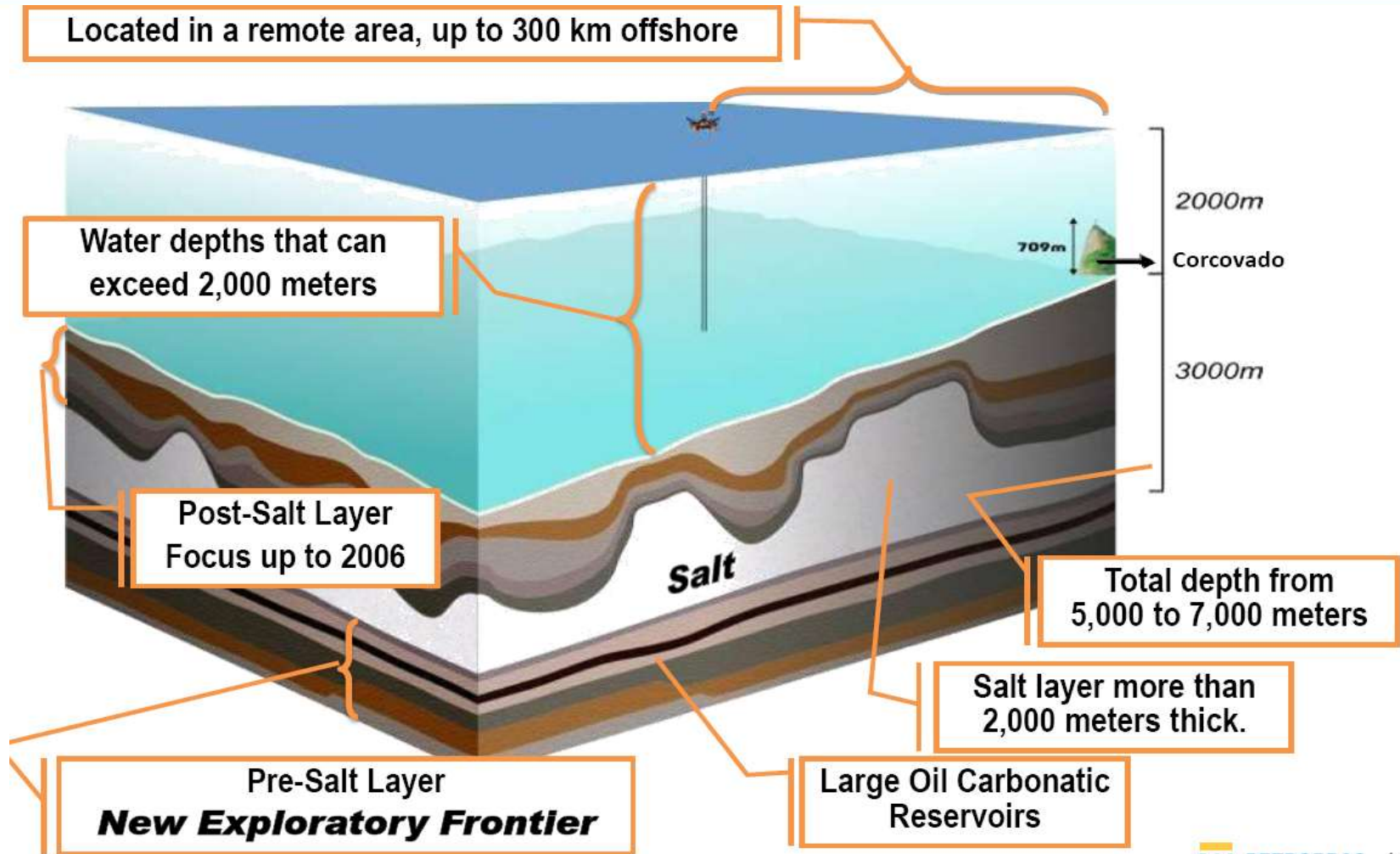
GOM Production Forecast 2009-2018 (MMS 2009)



★ Indicates years with known anomalous data due to hurricane affected shut-in

Figure 2. - Gulf of Mexico Average Annual Oil Production.

31% of That Growth Will Come From “Pre-sal”



PBAS must spend massive amounts of capital



75 Percent Mandated Local Content

"Everything which can be done in Brazil should be done in Brazil"

President Luiz Inacio Lula da Silva

"We believe the most important constraint that we have is in the supply chain."

Jose Gabrielli, Petrobras CEO

May, 2010



A Big Shopping List

Preliminary Shopping List – 55,000 Items

- 58 Drilling Rigs – 28 Built in Brazil
- 7 FPSO' Built in Brazil
- 287 Supply Vessels growing to 568 by 2020
- 45 Production Platforms
- 140 Manifolds
- 550 Generators
- 550 Derricks
- 350 Turbines
- 700,000 Tons of Steel
- 417 Wet Trees
- 229 Subsea Well Heads
- 23 New Tankers



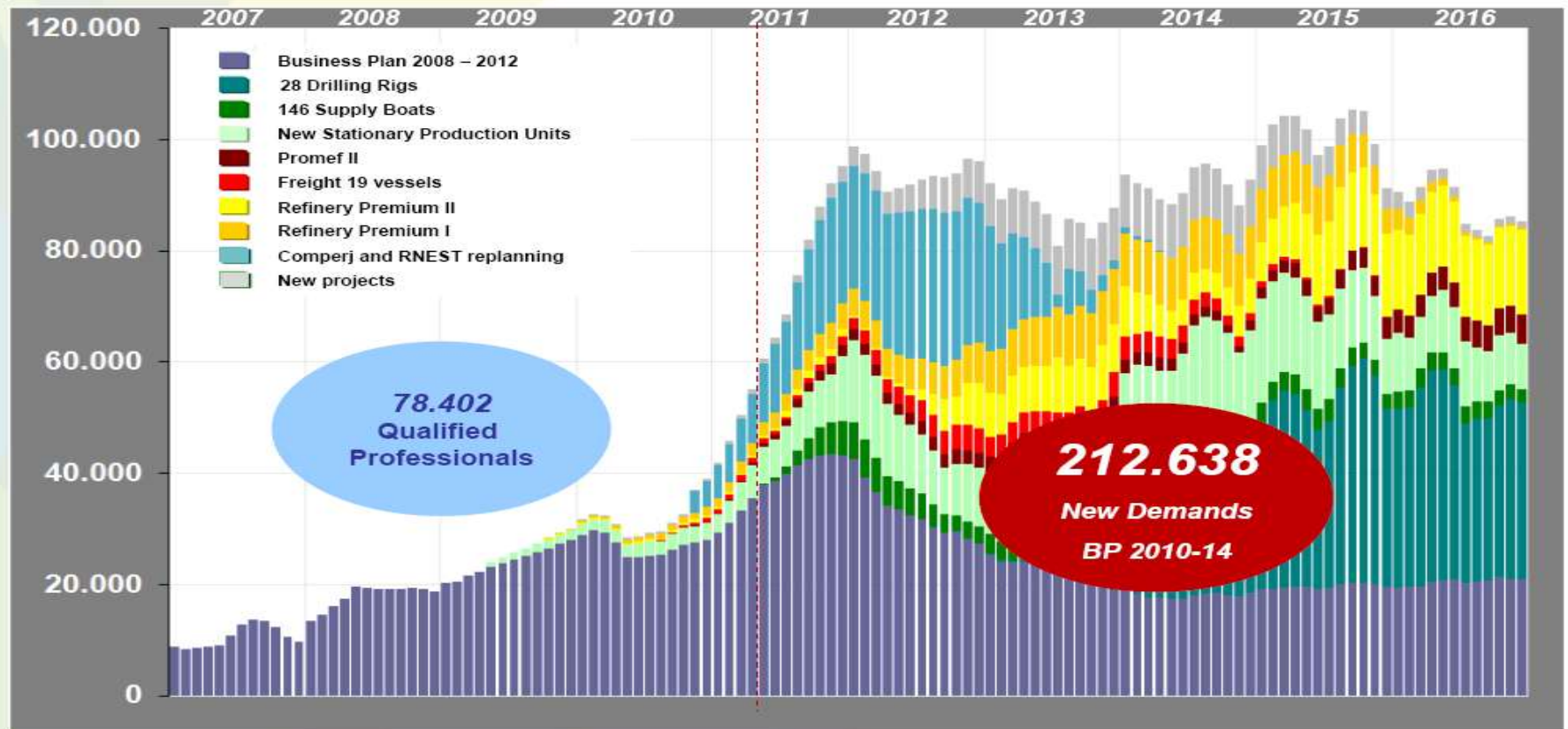
Human Capital: Law No. 5.452/43

Art. 354 – The proportion shall be of 2/3 (two thirds) of Brazilian employees, however such proportion may be lower to meet the special circumstances of each activity, by means of an act by the Executive Branch, after duly ascertained by the National Labor Department and by the Social Security and Labor Statistics Service that there is an insufficient number of Brazilians in the respective activity ...



Major Human Capital Challenges

LONG TERM HR CHALLENGES



Rules of the Game: Can someone just tell me what the rules are?



Federal Tax (Various Company 10-K Disclosures)

- ◉ During 2010, we accrued approximately \$35.7 million of expense for uncertain tax positions, primarily in ... Brazil, of which \$4.8 million was interest and \$12.0 million was penalty related.
- ◉ The Brazilian tax authorities have audited our income tax returns ... In December 2009, we received an assessment of approximately \$26.0 million for the years 2004 and 2005, including interest and penalty.



Federal Tax Disputes – Importation

- In the fourth quarter of 2010, one of our Brazilian subsidiaries received an assessment from the Brazilian federal tax authorities ... of approximately \$235 million ... for allegedly providing improper information on import license applications.
- During the year ended December 31, 2011, the Company received a Notice of Infringement (the “Notice”) from the Brazilian Federal Revenue Office. The Notice alleged the Company had imported ... vessels ... without properly completing the required importation documents ...



State of Rio Tax Assessments

- In the third quarter of 2006, we received tax assessments of approximately \$187 million from the state tax authorities ... for taxes on equipment imported ... The assessments resulted from a preliminary finding ... that ... record keeping practices were deficient.
- In addition, as of December 31, 2011, we were involved in a number of other lawsuits, including a dispute for municipal tax payments in Brazil.



State of Rio Tax Disputes – Importation Issues

- In December 2010 and January 2011, the Company's Brazilian subsidiary was served with assessments collectively valued at approximately BRL24.4 ... to cancel credits resulting from the importation of goods ... in Brazil
- In August 2007, the Company's Brazilian subsidiary was served with assessments collectively valued at approximately BRL23.3 million ... to collect a state tax on the importation of goods.



Customs Disputes

- ◉ In April 2011, two [of our] Brazilian subsidiaries ... were notified by the Customs Office ... that they were ... being assessed fines amounting to approximately \$98.7 million. ... The Macae Customs Office has now, without a change in the underlying law, taken the position that the temporary importation exemption is only available to new, and not used, goods imported into Brazil ...



Petrobras Contract Issues

- ⦿ Contracts of Adhesion
- ⦿ Push local regulatory/tax risk to the contractor
- ⦿ Local Content Requirements
- ⦿ Power to penalize and deduct
- ⦿ Brazilian Forum – “Can I win here”?
- ⦿ Intense competition in an inflationary environment
 - Contracts are long term
 - Limited ability to recapture cost escalations
 - Protection for local players
- ⦿ Contractors have to find a way to push back

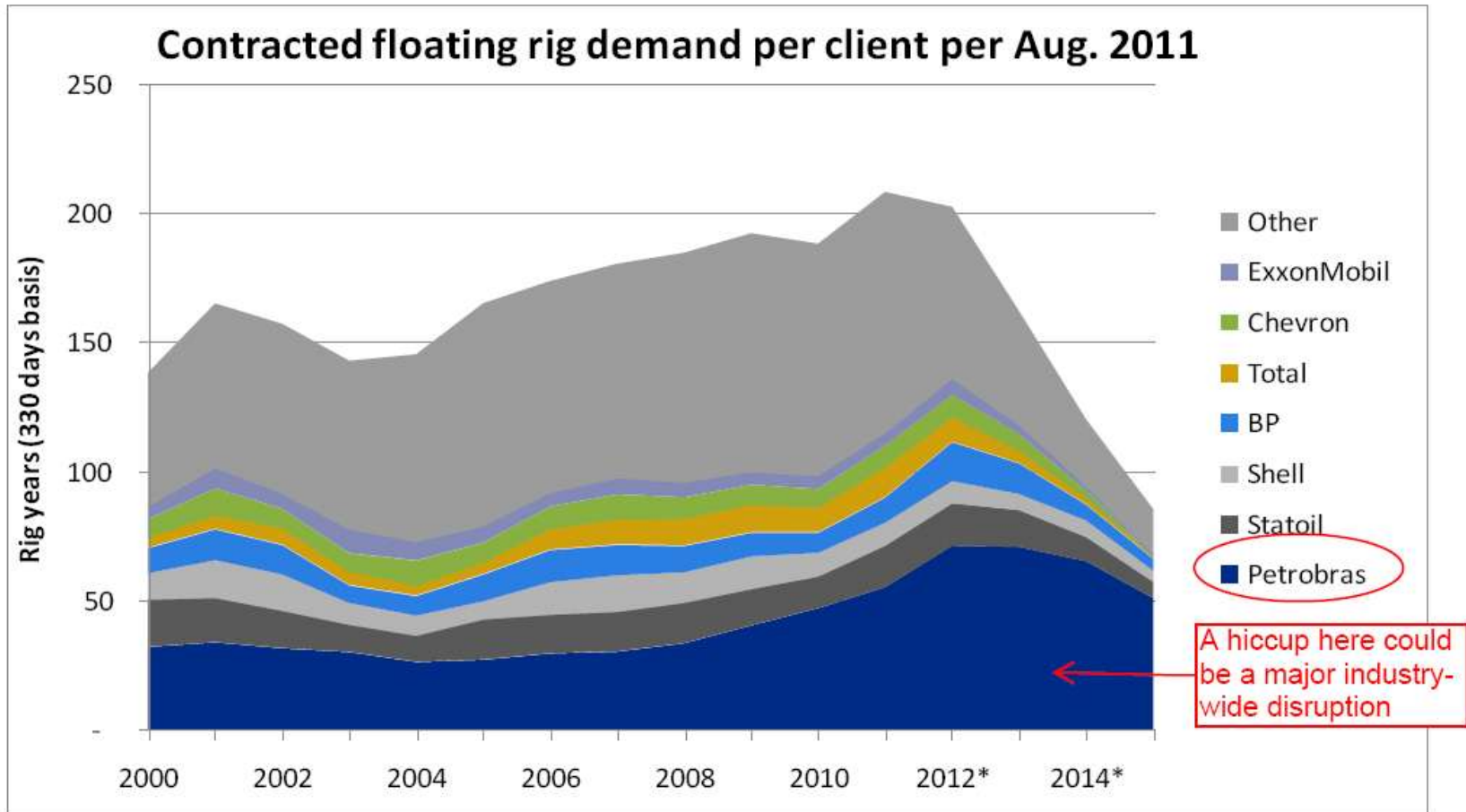


Petrobras Concentration Risk

- ◉ During 2011, 2010 and 2009, one of our customers in Brazil, Petróleo Brasileiro S.A ... accounted for 35%, 24% and 15% of our annual total consolidated revenues ...
- ◉ As of the date of this report, the greatest concentration of our operating assets outside the United States was offshore Brazil,...
- ◉ For the year ended March 31, 2011, ... Petróleo Brasileiro SA accounted for approximately 15.4% of total revenues.
- ◉ In 2011 ... one customer, Petrobras, account[ed] for approximately 15% of the Company's total revenues. No other customer accounted for more than 10% of the Company's total revenues in 2011..



Sector Wide Concentration in Brazil



Petrobras has 27% market share in 2011 and 35% market share in 2012



CERA



Hornbeck Offshore Services, Inc.
Service with Energy

Conclusions

- ◎ Huge opportunity– Impossible to ignore
 - Even if you are not in Brazil you are in Brazil
- ◎ Conflicting goals of rapid pre-sal development and national development at risk if “bloom falls off the rose”
- ◎ We all will rise or fall together with PBAS success or failure



Thanks

Questions?

