

NOVEMBER 2012

ISSUE 15

THE NAVIGATOR R

THE MONTHLY REPORT FROM WESTSHORE SHIPBROKERS AS



INSIDE THIS ISSUE:

- ▶ **MARKET RECAP** 3
- ▶ **NEWBUILDING NEWS** 4
- ▶ **DRILLING & PRODUCTION** 5
- ▶ **IN & OUT** 6
- ▶ **MARKET FORECAST** 7
- ▶ **THE INSIDE STORY** 8
- ▶ **THE LAST WORD** 9



WESTSHORE

SHIPBROKERS AS

02 HEADLINE NEWS

THE MAKE THINGS HAPPEN

Interest in the NCS is on the rise – what might that mean for offshore owners?

The increased interest in the licensing rounds lately on both sides of the continental shelf has been clear, lately foreign companies have been looking to get more involved on the NCS through acquisitions which can only prove positive for offshore vessel owners. The interest in the shelf can be attributed to companies wishing to lower their risk by purchasing into producing assets in a mature area. Cairn's need to access other regions than Greenland saw them purchase Agora Oil earlier this year for USD 450 million. We also saw Shell increase their interest in the Draugen field for USD 240 million. However the interest of this article falls more on two recent acquisitions on the Norwegian Continental shelf and the effect such purchases may have on offshore owners.

Earlier in October OMV purchased 20% of the Edvard Grieg field in the Utsira heights paying EUR 250 million resulting in an estimated 8.7 dollars per barrel of oil paid to RWE Dea which certainly provides an indication that operators are interested in gaining access to the area. OMV has become actively involved in the NCS since 2006 and has a portfolio of 17 licenses with a particular interest in the Barents Sea where they are looking to drill the Wisting prospect with the Leiv Erikson rig in Q2 2013. Now this acquisition is more about increasing ones portfolio of soon to be producing fields and therefore the effects of this deal to vessel owners is minimal, however the effects of Statoil selling further Norwegian acreage to Wintershall might not be. Statoil have over the years looked to diversify their portfolio of assets with fields outside the NCS and their international activities in North and South America and Africa in particular have proven to be very successful. In the sale to Wintershall Statoil has agreed to swap production licenses on the NCS while reducing its interest in a number of smaller producing fields. The main part of the deal sees Wintershall receive shares in Brage (32.7%), Gjøa (15%) and Vega (30%) while taking over operatorship of Brage to occur in 2013, in return Statoil will increase their presence in the Utsira heights through a 15% share in the earlier mentioned Edvard Grieg field and financial compensation of USD 1.35 billion. The financial gains will undoubtedly be used for development needs in the NCS, but also likely for regions out of the NCS.

This reduction on certain fields, especially the relinquishing of the Brage field operatorship can have a positive effect on the utilization of offshore support vessels. The most efficient charterer on the NCS is Statoil, and they account for close to 60% of all production on the shelf. New operators such as the Wintershall who only arrived on the shelf in 2006 and do not have the experience or size could potentially lack the efficiency we are used to from Statoil. Therefore I believe that transactions like these that see Statoil relieve operatorship in the NCS are positive for vessel owners, if not only from a pure market form view whereby more players are involved on the shelf, although Wintershall does already has some 20 operatorships.

On a side note to this, the agreement also included a deal to cooperate on the shale opportunities in the Rhineland and Ruhr area with Statoil taking a 49% share which is something that could be a major catalyst for developing shale hydrocarbons in the European sector given Statoil's experience from the US regions. The implications of this deal are far reaching including the ongoing discussion on the development of the Utsira heights.

03 AUGUST MARKET RECAP

OCTOBER MARKET RECAP:

The month of October hasn't been very different from September when it comes to rates, the average increased from GBP 24,968 per day to GBP 25,664 which can likely be attributed to the 15 rig moves where spot vessels were chartered in during the month versus the 14 last month. The rates at the end of September reached levels we hadn't seen throughout the year and the supply dynamic followed through to the beginning of October. The month started out decent with rates close to the NOK 400K mark on the Norwegian side and the around GBP 25K on the UK side, however a lull in activity for a good week brought supply up and rates down. With memories of last year's monthly average of GBP 74,325 per day owners may have been hoping for more than decent rates. However as mentioned rates were to fall further, by the middle of the month Statoil and MLS were able to come in and pick up eight vessels between them at rock bottom rates. At the end of month utilization was low, however not as bad as it looked given a number of fixtures were made well in advance leaving the vessels unable to work despite being available. The average for the month came in at 68.3% which is substantially lower than last year's 87.3%. Rates have been lower on the UK side given the excessive availability in the region, falling below the GBP 10,000 while recent rates for Norwegian tonnage held approximately GBP 5,000 higher at the close of October.

As per normal rates have fallen this month, something they have done the last 4 years running. We saw a slight increase in rates in September with a good deal of activity, while this month the activity has also been solid with a total of 84 fixtures in the market which compared with two years ago is close to double, however the rate difference is only GBP 1,800 per day with the October average this year at GBP 10,319. Clearly as we have mentioned several times earlier the supply of vessels is the main cause for the low rates despite activity being so high. Since 2010 there have only been four times activity has been so high, two of those were the preceding months. In January 2010 there were a total of 158 PSVs in the market, while this month we had 206 PSVs in the market. Over the next 6 months we can expect another 18 vessels delivered from Norwegian yards. Rates started out decent in the beginning however there has been a steady decline towards the end of the month. This goes hand in hand with the mid 90's utilization we saw to begin the month, which at the culmination was at 80%. Overall the utilization has been 85.7%, which is very comparable to the percentages we have seen the last few years. A helicopter accident in October saw a handful of additional fixtures for passenger transport however the effect on the market was negligible.

TERM FIXTURES

Date	Vessel	Operator	Scope	Rate (p/d)	Region
03.10.2012	ELDBORG	Eni Norway	Supply duties, 30 days firm + options, supporting TO Spitsbergen	RNR	NCS
04.10.2012	BOURBON FRONT	Technip	60 days firm + ops. Trading Med.	RNR	Med Ocean
18.10.2012	HAVILA FORTUNE	Nexen	1 well abt 75-90 days, supporting Ensco 100	RNR	NCS
22.10.2012	OLYMPIC ELECTRA	Centrica	Supply duties, estimated abt 90 days	GBP 10,500	UKCS
23.10.2012	NORTH PROMISE	Senergy	1 well firm (abt 100ds) + 1 well opt (abt 30ds)	GBP 13,250	UKCS

OUTSTANDING TERM REQUIREMENTS

Date	Operator	Requirement	Scope / Period	Start up	Region
05.11.2012	Talisman	PSV	9 months + 2 X 6 months	15.12.2012	NCS
02.11.2012	Gaz de France	PSV	1 Year + 1 year options	30.11.2012	UKCS
23.10.2012	Acso Norway	PSV / Standby	PSV and Standby vessel for 60 to 80 days	15.11.2012	NCS
28.09.2012	Eni Norway	PSV	30 days firm + options supporting TO Spitsbergen	01.11.2012	NCS
19.09.2012	Taqa	PSV	2 yrs firm + 3 wells option supporting TO John Shaw	31.01.2013	UKCS
19.09.2012	Enquest	PSV	1 yr firm + 2 yrs options	30.10.2012	UKCS

AVERAGE MONTHLY STATISTICS

Average Monthly Rates (GBP)				
Vessel Type		okt.12	sep.12	okt.11
AHTS	> 18,000	29 416	27 909	90 474
	15,000 to 18,000	18 500	22 029	57 106
PSV	> 800 m ²	10 623	15 533	15 507
	< 799 m ²	9 667	12 253	12 515

	okt.12	sep.12	okt.11	sep.11
# of spot supply fixtures	84	88	77	58
# of rig moves	15	14	12	19
Average Utilization (%)				
AHTS	68.3%	76.4%	87.4%	79.0%
PSV	85.7%	92.7%	86.8%	93.8%

04 NEWBUILDING NEWS



NEWBUILD DELIVERIES NEXT SIX MONTHS

November 2012

Olympic Taurus (MT 6015)

December 2012

STX Leader (STX PSV 09 CD)

Rem Leader (VS 499 LNG)

Vestland Cetus (VS 485 MKIII)

January 2013

Vestland Insula (VS 485 MKIII)

Havila Charisma (Havyard 833 L)

February 2013

Far Sitella (STX PSV 08 CD)

Blue TBN (PX 121)

March 2013

Global Offshore TBN (Havyard 832)

Dina Star (MT 6015)

Troms Lyra (STX PSV 08 CD)

STX Megatrend (STX PSV 09 CD)

Far Spica (STX PSV 08 CD)

Island Crown (UT 776 CD)

April 2013

Unknown (VS 485 MKIII)

Far Senator (UT 731 CD)

Blue TBN (PX 121)

Recently delivered

Vestland Mira (Havyard 832 L)

Far Solitaire (UT 754 WP)

VESSEL NEWS

-Siem Offshore has announced that they will build their dual fueled PSV for the four year Total contract to commence Q3 2014 at Hellesøy shipyard in Norway. The vessel will have the VS 4411 DF design with a length of 89 meters and a beam of 19 meters with maximum 5,500 dwt.

-Siem Offshore have confirmed the options for two offshore construction vessels on the initial order for two STX OSCV 11 L vessels. The two existing orders are to be delivered in 2013, with these option vessels expected to be delivered Q2 2014

-The Far Sabre 14,688 BHP AHTS has recently secured a term contract in Australia and is currently en route to location with a stop on the way for maintenance. The terms of the contract have not been announced.

-The 2004 built Viking Nereus has been reactivated after 45 days of layup due to high vessel availability. Eidesvik purchased the vessel in May 2012 for USD 24 million from Great Offshore.

-The Skandi Nova a purpose built multi role vessel (STX MRV 05 SP) has been delivered from the STX Aukra shipyard in the middle of October. The vessel has accommodation for 46 persons and has been specifically built to fulfill roles in supply, stand-by, ROV operations and seismic activities. The vessel will go on a contract with ConocoPhillips for operation in the NCS for seven years with options.

-The FD Incredible with UT 755L design has now been taken over by Tidewater and renamed the Melton Tide. The vessel was originally purchased together with the FD Reliable renamed Skipsey Tide.

-Bourbon Offshore has sold three 3,200 dwt UT 755 PSVs the Antenor, Asterie and Bourbon Atlantide to 3B offshore for USD 24 million each with a bareboat rate back at USD 8,200 per vessel. All the vessels were built in 2004 at the former Aker Brattvaag shipyard now STX.

-JES International has confirmed a second order for an unnamed Norwegian owner for a UT 755LN PSV. The vessels are to be delivered year end 2014.

05 DRILLING & PRODUCTION



-Statoil have together with their partners confirmed contracts for the charter of three rigs which they currently already have on contract from Fred Olsen Energy's Dolphin Drilling, Stena Drilling and Saipem. The Bideford Dolphin, Stena Don and Scarabeo 5 have all been fixed in for three new years at rates approximately 23% higher than their current deals. The Bideford Dolphin sees its rate increase from USD 385,000 per day to USD 474,000 and is to be utilized at the Tordis, Vigdis and Statfjord fields. The new terms start from Q1 2014 for three years with a two year option period. The Stena Don will see its rate advance to 495,000 per day and is to be active on the Troll field for production drilling and at the Fram H-Nord field. The new terms will begin Q4 2013 for three years with a one year option. Finally the Scarabeo 5 is to be utilized on a variety of fields for production wells with a new rate of 494,000 per day starting from Q3 2014 until Q3 2017 with a one year option. Statoil has stated that these rigs will be pivotal in attaining their production targets by 2020 with a focus on improving recovery on mature fields. The total value of the three contracts is approximately USD 1.62 billion and demonstrates the continued upward pressure on rates for drillings rigs.

-A contract for the Bredford Dolphin has now been confirmed signed with RWE Dea Norway for an eight well program over a period of 570 days with the possibility of an extension for a minimum of five further wells. The rig is intended for drilling an appraisal well at the Titan field in the North Sea which currently has preliminary estimates of 12.5 to 62.8 million barrels of recoverable oil. The deal will also encompass Lundin, Noreco and Repsol.

-Dolphin Drilling has secured a contract for their newbuild Bolsta Dolphin, a semi-submersible with the Moss Maritime CS 60 E design currently being built at Hyundai Heavy Industries in South Korea. The contract is for five years and will commence upon delivery of the rig which is scheduled for March 2015. The client has not been disclosed however the rig is being built to be fully compliant with NCS requirements and year round operations in the Norwegian Barents Sea. The company has stated that the total contract value is USD 1.064 billion. The project is rumored to be with Chevron on the Rosebank on the UK Atlantic margin.

-Seadrill has entered into an initial agreement for the potential purchase of the rig Songa Eclipse, the purchase must be completed by November the 15th after due diligence.

-Seadrill have increased their holdings in Asia Offshore Drilling from approximately 33.75% to 64.23% bringing the company above ownership threshold triggering a mandatory takeover offer for the remaining shares. The acquisition would see Seadrill increase their profile in the Asian Jack up market.

-Shell has entered into a deal with Hess to purchase their ownership in 12 fields in the Beryl area on the UKCS in the North Sea and their interest in the SAGE pipeline. The total contract value is approximately USD 525 million and will increase Shell's production in the area from 9,000 to 24,000 boe/d. Shell intend on investing in the assets to extend their production life for another 20 years.

-Faroe Petroleum has let go of their UK offshore license P1161 which contains the Fulla and Freya prospect after announcing them as not commercially viable.

-Maersk Oil has farmed out 40% of its block 9 Tooq field to Tullow Oil. The license spans approximately 11,000 km² in Baffin Bay right below the Statoil Cairn Pitu block.

-Maersk Drilling has confirmed a deal with ConocoPhillips for its newbuild drillship Deepwater Advanced 2. The total value of the contract is USD 694 million and will likely start up in the middle of 2014 for three years with options for up to two years. The vessel will operate in the GoM.

06 IN AND OUT

PLATFORM SUPPLY VESSELS - IN

Vessel	Design	Manager	ENTRY	From
North Vanguard	UT 705	Gulf Offshore	Start – Nov	Inhouse
Power Express	Vujik Kenton	Vroon	Start – Nov	Petersons
Brage Trader	STX 09 CD	Møkster	Start – Nov	MOUK
KL Brofjord	STX 06 CD	K Line	Mid – Nov	Statoil
Durga Devi	UT 755 LN	Chellsea	Mid – Nov	RWE Dea
Evita	VS 485 MKII	Ugland	Mid – Nov	MLS
Dina Supplier	UT 755 LC	Myklebusthaug	Mid – Nov	MOUK
Far Server	Havyard 832 CD	Farstad	Mid – Nov	Inhouse
Ocean Pride	Havyard 832 L	Atlantic	End – Nov	ASCO
FD Honorable	UT 755 L	Gulf Offshore	Start – Dec	BG
Bourbon Clear	PX 105	Bourbon	Start – Dec	ORG

PLATFORM SUPPLY VESSELS - OUT

Vessel	Design	Manager	EXIT	To
Vestland Mistral	VS 485 CD	Vestland	Mid – Nov	Statoil
Havila Fortune	MT 6009 MKII	Havila	Mid – Nov	E. On
Island Crusader	UT 776 CD	Island Offshore	Mid – Dec	MLS

ANCHOR HANDLERS - IN

Vessel	Design	Manager	ENTRY	From
Island Vanguard	UT 787 CD	Island Offshore	Mid – Nov	Statoil
Normand Progress	UT 742	Island Offshore	Mid – Nov	Inhouse
Maersk Lifter	L-Type	Maersk	Mid – Dec	Canyon Offshore
Tor Viking II	KMAR 808	Viking Supply Ships	Mid – Dec	Shell Alaska
Normand Mjolne	UT 718	Solstad	End – Dec	ConocoPhillips

07 MARKET FORECAST

RATIOS: RIG TO AHTS, RIG TO PSV

There are currently 78 working rigs operating in northwest Europe market with 29 of those rigs in Norway, 36 of them in the UK and one in the Faroe Islands operating for Statoil. The remainder of the rigs in the region can be found in either Denmark or Netherlands, for the purpose of the analysis here we will ignore these. In the near term we can expect the COSL Promoter, COSL Innovator and the West Hercules to have left the Westcon shipyard and begin work for Statoil increasing the rig count in the NCS to 32. Over the next three years ODS show an average of 3 to 4 rigs entering per year, which will leave us at 44 rigs by year end 2015. There are a number of rigs on order or being built that have yet to sign contracts that will be delivered during the next three years, which could very likely end up in the North Sea. At a recent conference Rystad Energy stated that they believe that by year end 2015 there will be approximately 50 rigs. In the UK there are currently five rigs contracted to enter over the next three years with four of them newbuilds.

Last month we gave a fairly detailed overview of what vessels were entering the market in the years to come and from the Norwegian yards alone we see 21 vessels next year and another 12 vessels in 2014, these figures will undoubtedly increase going forward as more orders are made. In addition there are another 15 vessels they could enter from foreign yards over the next couple of years. We have recently seen another two vessels join the market last month and should see another four vessels enter throughout the remainder of this year. The two new vessels see the total tally of vessels delivered in the PSV sector from Norwegian yards to 33 vessels this year. The total PSV fleet size above 3,000 dwt is 206 vessels with 163 of these vessels operating in the term market. Over the last two years the total fleet size in Northern Europe has increased from 158 vessels.

On the Anchor Handling side of the market the delivery list looks much better, the years running up to 2012 having seen a major delivery spree. There are currently 53 vessels in the AHTS market and in total 27 of them were delivered from 2009 and onwards. So despite there being a very limited number entering the market going forward we must not forget that close to a third of the current fleet has been delivered since 2010. There are three anchor handlers being built in Norway to be delivered in 2013, with another two

coming in 2014. Toisa have three VS 4616 vessels under construction in China to be delivered during 2013 that could operate in the NCS. Otherwise Swire Pacific has a number of vessels under construction which could make a comeback to the North Sea. However if we look at the delivery schedule critically we are likely to see five to six vessels enter over the next two years, the catch being that if the market is good more vessels will come however that amount is fairly limited given the global orderbook and suitability of specifications.

If we look at the rig figures we can average at minimum five new rigs entering the UKCS and NCS on a yearly basis the next three years. There is a limited number of AHTS entering the market over the next years with the rig to ahts ratio likely to improve given the incoming rigs to the shelf. This ratio at year end 2012 will likely be approximately 1.30, increasing to 1.32 by year end 2013 and 1.36 by 2014. Keep in mind this figure only includes deliveries with no estimated movement between regions like West Africa, Brazil, Med or Greenland/Canada. What is more important is to look at this figure based on the vessels available on the spot market, currently this figure is 1.61 while at year end it will be 1.68 and remain in this region following deliveries throughout next year. Now despite very few AHTS coming into the market we still clearly need fewer AHTS in the market, as the rig to spot ahts ratio last year in August was 2.00 and when the market reached an average GBP 74,325 per day in October last year it was 1.94. So in addition to the limited number of vessels being delivered versus the number of rigs entering, the other regions mentioned need to absorb tonnage in order for the ratio to reach more favorable terms for vessel owners. Another issue to be remembered is the increasing DP abilities of rigs entering which reduce the need for AHTS vessels. On the PSV side the rig to vessel ratio will severely decline over the next year as it has done during 2012, however on the bright side if ordering slows down similar to how it did on AHTS side in 2010/2011 we will see an improvement from 2014. As of today the rig to spot psv figure is 1.53, in August last year when the average monthly rate was GBP 19,245 per day the ratio was 2.07 and at the end of 2013 with a very conservative estimate the figure will be 1.17. It is prudent to note that the rig to total psv fleet was the same last year August as it is today at 3.1 and will by year end next year reach 3.3.

08 THE INSIDE STORY

E & A ON THE UKCS AND THE 27TH LICENSING ROUND

Finds like Johan Sverdrup, which at this point is estimated to hold between 1.7 and 3.3 billion barrels of oil have shown that there still exist many opportunities with extensive potential in the Norwegian Continental Shelf and undoubtedly part of the reason for the increased interest we have seen in license auctioning rounds on both the NCS and the UKCS. As I have written in previous editions of Navigator the new fiscal regime announced in March has also been key in spurring interest.

The 27th licensing round was recently announced following a previous statement in May earlier this year that a record number of 224 applications had been made on 418 UKCS blocks. The government had seen this as a clear demonstration that the UKCS was still an attractive oil and gas region. And obviously in the eyes of all companies involved in the offshore business including vessels owners this has been seen as a very positive indication, however all this interest must be followed by tangible investment. The results are that the UK government has made initial offers for 167 production licenses covering 330 blocks with another 61 blocks under environmental assessment meaning they are close to and actually within conservation or protection areas.

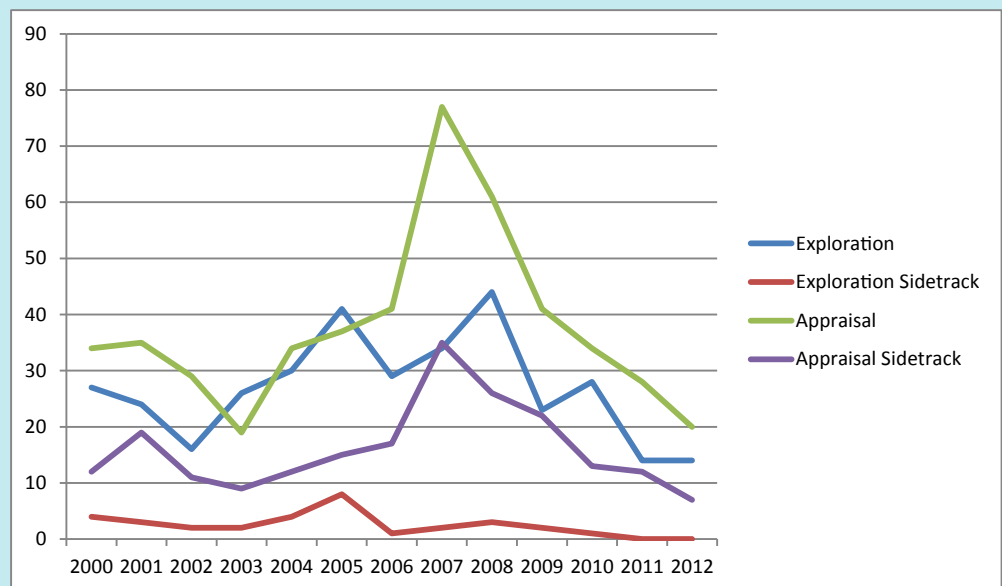
There has been an extensive list of applicants with a number of smaller independents and O&G majors involved in this round. Those applications of most interest are those with so called firm obligations to drill wells, in total 18 of these have been made. In addition to these firm wells there are another 17 contingent wells are on the list. The table provides an overview of the commitments made by operators.

Operators	Wells	
	Firm	Contingent
Apache	1	3
BG		1
Dana	1	
Dong		1
Endeavour		1
JX Nippon	1	
Maersk	1	1
Nexen	4	2
Parkmead	1	
Premier	2	1
RWE Dea		1
Shell	2	
Summit	1	
Taqa	1	2
Total	2	2
Valiant	1	2
Total:	18	17

seen a downward trend in drilling with 2011 only seeing 14 exploration wells relative to 28 in 2010 and 28 appraisal wells relative to 34 in 2011. The below graph provide an overview of wells drilled the last few years and an up to date figure as of end of Q3 this year and clearly indicates a downward trend in the region over the last few years. The 26th licensing round also saw significant interest and we can see a slight level-

ing out of the downward trend in E& A activity, hopefully this round will provide an increased burst. It is important to understand that rig availability must have it's say in the trend we can see, while priority on development drilling has been given which has held a fairly steady level over the last four years. All in all the interest shown for this round is positive for vessels owners going forward and will provide an increased need for vessels in the years to come.

Interestingly enough Statoil have a made their largest move into the UKCS sector during this auction having been awarded seven exploration licenses whereby operatorship in two of them. Statoil are involved Catcher area where Nexen are committed to 3 firm wells in the coming years. In addition to these 35 firm and contingent wells, an extensive amount of seismic surveying and processing is required under the new licensing obligations. It still remains to be seen whether this increased interest in the round will lead to increased opportunities for vessel owners and will only be seen in the exploration drilling figures show over the next years. The last couple of years have



09 THE LAST WORD

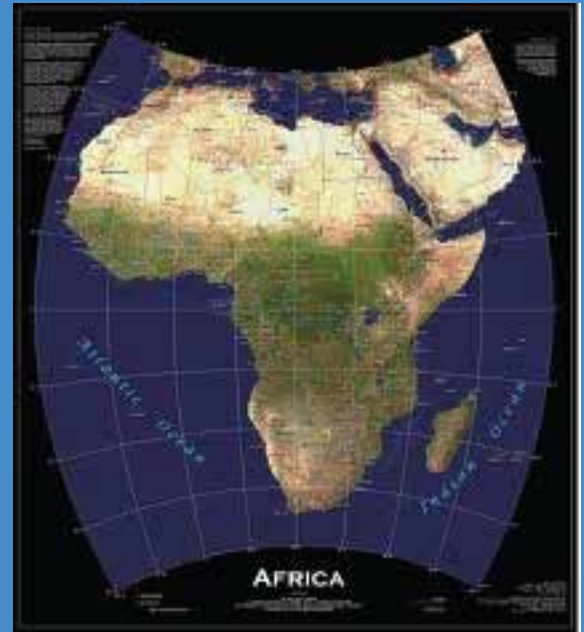
WRITTEN BY

Jon Inge Buli
Offshore Analyst



AFRICAN ADVENTURE - OFFSHORE REGIONS

I have had many requests for an article on West Africa, but as many of you know each country in Africa is very different from the next and therefore I have decided to tackle each country separately. So stay tuned for the upcoming monthly series on the West and East Africa nations which have become a part of the offshore industry, absorbing tonnage from many of the larger markets. There is a lot of activity happening on the continent and we intend to provide an overview of one new country each month, beginning with Ghana in December's edition.



Westshore Shipbroker's 25th Anniversary to be celebrated!!

Where does time fly? In 1987 on bright sunny day in Stavanger Erik Stallemo whipped up a piece of magic by founding Westshore Shipbrokers AS. Since then the company has grown into a strong shipbrokerage servicing the offshore industry for more than two decades. From 2008 Sølve Høyrem has been managing the ship with co-partner Gøran Røstad, this period has seen solid growth leading to the company to receive the well-known Gaselle award here in Norway and two new offices established in Brazil and Canada. In November Westshore Shipbrokers will turn 25 years old and we intend to celebrate that in a grand way with Ice hockey, local brew, great company, a fine dinner and our respects to the founder. We look forward to seeing you there! Below is a picture of the three visiting a vessel.



Westshore Shippbrokers could really use you help in finding good topics to cover in the monthly editions of the Navigator. Please send us your suggestions to jon@westshore.no and we will include your ideas in our upcoming magazines.

Sharpening our aim!

Westshore Shipbrokers had a social gathering up in the boonies this month shooting clay targets followed by excessively large steaks and a test run at the local microbrewery here in town. The winner of the shooting competition ended up being our IT genius Jonathan Cummins, who was a rookie to the game and has now developed into a gun toting loon. Good on you buddy. Please note that the picture is of yours truly, despite not coming out even remotely close to victorious, clearly I had the best form when shooting . We look forward to the next event, with potential rumours of a curling bout at the local skating rink here in Kristiansand.



Thanks to Geir Frits Myklebust and Anders Martinsen for photos in this months Navigator.