NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

March 2015 Issue: 43

The subsea special

Insights from the subsea industry's elite

DEVELOPMENTS ON THE NCS

We review the latest from the Norwegian fields

Contents

"New normal"

Welcome to another edition of Westshore's monthly report on the North Sea oil and gas market. For those of us still in employment it's been a month of ups and downs. At time of writing brent crude has rallied to just over $60 per barrel, however the damage of course has already been done. Capex cuts have been announced from most if not all major oil companies and suppliers prepare to brace themselves for serious change. Change that some have said is long over-due. The 'new normal' is being shaped and brutal as that may be, in order for this industry to thrive in the future it is entirely necessary. As ever we enjoy hearing your feedback and questions regarding Navigator and welcome any suggestions. Feel free to get in touch!

www.westshore.no

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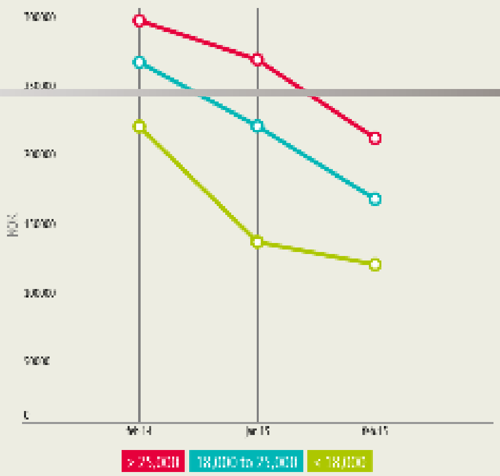
THE MARKET IN FEBRUARY

AVERAGE SPOT MARKET RATE AHTS



68.9%
Average AHTS utilisation in February

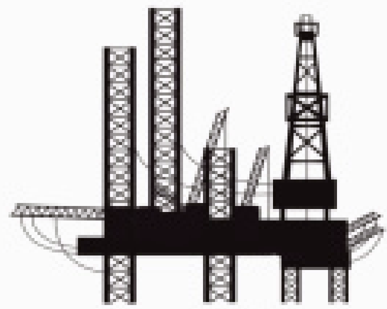
85.4%
Average PSV utilisation in February

	jan.14	feb.14	jan.15	feb.15
Number of supply spot fixtures	70	68	81	102
Number of AHTS fixtures	77	66	79	76

25
Number of rig moves in February

36
Number of rig moves in January

AVERAGE SPOT MARKET RATE PSV



For the AHTS vessels worsening weather has gone hand in hand with rising market tension this past month as several times bottlenecks in supply were created. For charterers this meant second guessing what others would be doing in weather windows in order to have the tonnage they needed when they needed it. However the pockets of tight market did little to push rates up, despite an average increase in utilization from the previous month. Indeed there were relatively few examples of vessels actually being fixed above a break even rate. This was due to fixtures concluding while availability was still plentiful and the contract carrying through the tight periods in the market. On the Norwegian side a handful of vessels were expected to leave the market, either into layup, maintenance work in dry dock or term commitments. This will undoubtedly go some way to ease over supply through the remainder of the winter season.

For the PSVs the steady stream of requirements from a wide variety of charterers kept utilization high. Little variation in rates was observed throughout February. UK based tonnage fetched in the region of GBP 4500 – 5000 while Norwegian counterparts around NOK 70000. The average exchange rate for GBP – NOK for February was 11.63 and this is playing an increasingly lucrative role for the Norwegian companies earning in pounds, even more so for those with costs in kroner.

KICKBACKS AND BRIBES

How the rest of the world is being affected by Brazilian scandals

The clouds have been gathering around Petrobras and the Brazilian President Dilma Rousseff since early last year. In short, following the arrest of some of the top management at Petrobras in March last year, details of funds being diverted from Petrobras contracts and held in slush funds for usage by political parties began to emerge. The fallout from that has seen Petrobras CEO Maria das Gracas Silva Foster relieved of her position along with several others in senior positions at Petrobras. Foster and Dilma have denied all knowledge of wrong-doing but the allegations are said to have taken place during Dilma's tenure as Energy Minister. Police have thus far identified 10bn reais (USD 3.7bn) of 'suspicious payments' – meaning the spotlight will be on Brazil and how it emerges from this scandal, for some time to come.

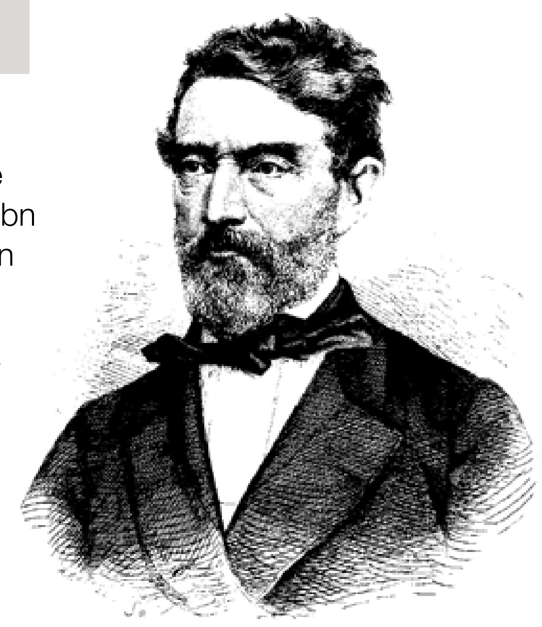
The net of companies involved in the scandal has begun to widen – now reeling in companies located outside Brazil. Asian yard Keppel and Sembcorp Marine have categorically denied any wrong doing following Brazilian reports linking them to the scandal. British Engineering firm Rolls Royce has found itself in a similar situation and just recently Dutch supplier of offshore vessels – SBM Offshore. The allegations were said to be buried under literally hundreds of pages of documents relating to testimony on the scandal.

Brazil has been for some the trump card for those involved in the offshore market. A huge oil basin screaming out for expertise, tonnage and investment. For those able to navigate the murky waters of Brazilian bureaucracy hefty prizes are to be found. But some it would seem were happier than others to bend the rules, without doubt there will be a long list of individuals around the globe hoping to evade the attention of investigators.

For Petrobras the key thing now is to project an image of unbiased, ethical and honest business ethics. And this will result in opportunities for many as Petrobras endeavors to distance itself from shady relationships and make new partnerships in as independent a manner as possible. Inevitably however there will be a settling in period as the new management team take time to find their feet, so it is prudent to assume there will be in a lull in activity from Petrobras for the months to come. There have been rumours that Petrobras will shed up to 50 OSVs from its fleet, this on top of the rest of the upheaval has created significant uncertainty in the market – the last thing investors want to see. In addition Petrobras' budget plan will come out in June and a 30% reduction in E&P Capex is expected. Perhaps this is nothing new in light of spending cuts with most if not all other oil majors, but added to the other Brazilian woes, it certainly paints a picture of testing times to come for those with business interests in Brazilian waters.

JOHAN SVERDRUP PDO SUBMITTED

The field is the largest ever discovery on the NCS and has attracted significant attention since it was first announced. The capital expenditure for the first phase is estimated at NOK 117bn and estimated recoverable resources is between 1.4 and 2.4bn boe. An ambitious oil recovery rate is set at 70% which takes into account increased oil recovery technology to be used in future phases of the development. Meanwhile the vast array of contracts up for grabs has started to be awarded. Last month Aker Solutions took the EPMA award for the first phase of the development while Aibel has recently been awarded EPC for the deck of the drilling platform to be used. It is understood that a tender for a semisubmersible has secured interest from several rig owners for start-up in the next 18 months. The 18 well programme will be most likely carried out by an existing rig.



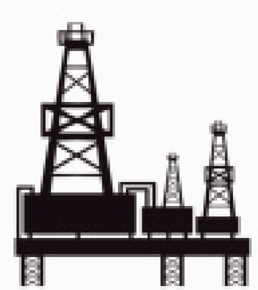
Bankdirecteur Johan Sverdrup

OSEBERG DELTA STARTS UP

On stream ahead of time and under budget, the Statoil operated fast-track project has an estimated lifetime of 20 years with 77mboe in reserves. The field has been tied back to the Oseberg Field Center via two subsea templates with a capacity for eight wells although the initial phase covers three oil production and two gas injection wells. Future opportunities are already in the planning stage with an exploration well in the southern part of the Delta Terrace.

TRANSOCEAN JACKUPS DELAYED

The delivery of five high spec jackups currently under construction at Keppel FELS for Transocean are to be delayed by six months each. The first of which will now deliver third quarter 2016 as opposed to the first as originally planned. Rig owners have been severely hit by falling oil prices with rig day rates for UDW units falling by a half since 2014.



MCDERMOTT & PETROFAC JOIN FORCES

McDermott International and Petrofac have agreed to form a 'strategic alliance' in a five year cooperation agreement which will provide SURF and EPCI services in the US Gulf, Mexico, Brazil, the North Sea and West Africa. Petrofac has a large derrick lay vessel under construction which combined with McDermott 's fleet will create a new top-tier market participant according to VP of commercial at McDermott, Scott Cummins. The tough market is forcing many companies to re-think strategies, we see this alliance as being a proactive step in reassessing company capabilities.

DRILLING AT GINA KROG

Statoil is to drill an exploration well at the Gina Krog field in April this year using semisubmersible Songa Trym, the well is estimated to take 76 days. Meanwhile Total has got the go-ahead to drill a wild cat well at the Skirne East prospect using semi submersible Leiv Eiriksson. The well will be drilled next month and take around 50 days to complete.

TECHNIP SECURES GLENLIVET WORK

Despite the bleak prognosis in the subsea sector, Technip continues to buck the trend with an ever-strengthening backlog, this time with an award from Total UK for its Glenlivet project, west of Shetland. The contract requires Technip to fabricate and install pipeline fabricated at its spool base at Evanton, UK, and install them by using its Deep Energy vessel. The deal also requires Technip to deliver and install steel tube umbilical, which will be manufactured at its facility in Newcastle. Technip will fabricate and install pipeline end manifold, flowline end terminations, flexible tails and rigid well tie-in spools, as well as the install company provided item templates and manifolds. The company will also deliver rock dumping and pre-commissioning services. The work will be carried out summer 2016.

MARKET NEWS

The latest PX121H design PSV has delivered to Golden Energy Offshore, Blue Queen arrived ready for duty on the spot market late-February. Within a very short time the vessel had secured her maiden voyage on a charter with Lundin Petroleum.

AGR on behalf of Edison has secured Bourbon Front and Rem Fortune for its one-well programme expected to commence in the second quarter. Bourbon Front is currently trading the spot market while Rem Fortune is nearing completion of a term commitment with ConocoPhillips. Siem Garnet has secured work with Siem Offshore Contractors which will take the vessel out of the spot market for three months firm with options thereafter.

Two familiar faces in the Aberdeen supply vessel scene will shortly be closing their doors. Both Viking Supply and Farstad made the decision to close their Aberdeen branches as a result of cost cutting measures. The Viking Supply office will close effective from July 2015 and all functions carried out previously in Aberdeen will relocate to the company's headquarters in Copenhagen. Viking says it aims to keep existing crew composition on the vessels. Farstad says it is in the process of closing its Aberdeen office in a move that is as much strategic as it is financial. All chartering activities will be absorbed by head office in Ålesund. A small number of staff will be kept on including UK Managing Director John Maxwell.

SUBSEA SPECIAL REPORT

Industry leaders from around the globe gathered at the OSJ Conference in London this month to discuss amongst other topics, the state of the subsea market. It's going to be tough times ahead for the majority of those involved in this industry and the subsea segment will be no different… or will it? Every problem creates opportunity they say and with many industry figures calling the advent of a 'New Normal' it's becoming increasingly apparent that this downturn will not affect everyone to the same extent.

"WHEN YOU SEE A STORM COMING, YOU PREPARE FOR IT. WHAT'S IMPORTANT IS TO STAY AFLOAT"

Cost cutting and increasing efficiency

The past decade has afforded a comfortable climate in the offshore industry. Ten years ago the administration work of one person is now carried out by 17 it was recently said by UK Energy ministers. While workers hopped from one company to the other gleefully accepting pay increments each time they jumped, suppliers have seized the chance to capitalize on a burgeoning offshore industry, "It's going offshore? Double the price and add some." Unsurprisingly this has proved unsustainable. The entire landscape of the North Sea offshore industry needs to be reshaped into a more cost effective and sustainable arena if there is to be any hope of avoiding total collapse. Early signs of specifically how this will be carried out are starting to emerge.

Patrick Belenfant, Senior Vice President of Subsea Services at Bourbon was clear on one point, standardization as opposed to specialization was key to maximizing cost cutting initiatives. Having a standardized vessel design, and several of them within one owners fleet, enables an owner to minimize spare parts costs. In addition personnel can be pooled and used on a range of vessels whereby reducing unit costs. Indeed many of those in attendance at the conference agreed, specialization resulted in one sure thing, the need for expensive specialized personnel. Mr Belenfant also talked about the potential for categorizing crane sizes, effectively segmenting the market in order to better target customers with a range of vessels - priced according to their bracket. He believed targeting the contractors with 250-400 ton crane vessels was reasonable, while oil companies with lowest capex were more interested in a more standardized vessel – a so-called 'fit for purpose' vessel. The need for challenging accepted norms within the subsea industry was long overdue using the example of weight multiples for lifting subsea Christmas trees. It's often the case that regulation struggles to keep pace with a developing industry and perhaps the 'fit for purpose' ideology should be extended to classification rules.

MD for Atlantic Region at DOF Subsea, Giovanni Corbetta made some interesting points regarding personnel during the conference. While the redundancy numbers swell so does the number of available high-quality people. For companies in the position to hire, it is an opportunity to secure the cream of the crop – a stark contrast to the talent wars of 2013. But the job uncertainties is creating a panicked environment and this results in a lack of due care being taken in their jobs, a very real safety issue.

EPC Majors moving down the chain

Representatives from Technip were keen to point out the strong order back log for this year and next – further strengthened by the latest award for work with Total on the Glenlivet project. But it's reasonable to assume that EPC majors will start seeking work further down the chain, encroaching on the traditional territory of smaller subsea players. While the major players will continue to make money they will rely heavily on contract backlog. On that point it's important to note that while backlog may be strong for the industry as a whole now, it is beginning to stall and we expect it to start declining. Petrobras has contracted heavily in the pipelay segment but with the current crisis in full flow how sure can we be that this is a solid area for work in the time to come? the bills are still being paid now, but for how long will that last?

IMR work will continue and see us through the worst of the downturn right? That's what we hear time and time again. But at a grass roots level, how easy is it to re-evaluate maintenance and repair workscopes and postpone them a six months or so? The cumulative effect of this happening is a very real threat.

Sublets, contract renegotiation and even cancelation will feature heavily in the year ahead (depending of course on termination clauses). But if the oil companies cite drop in oil price as a reason for a drop in day rate, will they guarantee it will go up again if/when the oil price goes up? Charterers would be wise to broach this subject. price as a reason for a drop in day rate, will they guarantee it will go up again if/when the oil price goes up? Charterers would be wise to broach this subject.

MARTIN LINGE

This giant discovery consisting of both oil and gas was first discovered back in the 70s but was put on hold for decades while technology and know-how advanced to a state where production was commercially viable. The Martin Linge field will return Total to the position of operator of a major North Sea field, a place it has not been in since the Frigg field was shut down back in 2006. Production of Martin Linge started in 2014 with the installation of the jacket for what will be a huge platform with a topside comprising four modules - accommodation, flare, process utilities and drilling area. The new heavy duty Maersk jackup Maersk Intrepid is currently drilling the production wells on the field. Drilling commenced late summer 2014 and the rig will drill 11 wells, and remain on the field for four years. This year the installation of the infield lines will be carried out most of which will be trenched while drilling with the Maersk jackup continues and work commences in connecting u the field to the FUKA UK pipeline which will transport the gas to St Fergus. In January Technip was awarded the contract for engineering, procurement, fabrication, transportation, hook-up and commissioning of the topsides of the fixed production platform which will be carried out in 2016. The oil will be processed on site using state of the art technology onboard an FSO which is set for hook up late 2016 shortly before production will start. A floatel will be in place during the latter part of the development which will house some 400 offshore personnel. Once the field goes on stream it will be remotely controlled from a new facility just outside Stavanger keeping offshore personnel to a minimum. A direction it would seem is being favoured more and more by the operators.

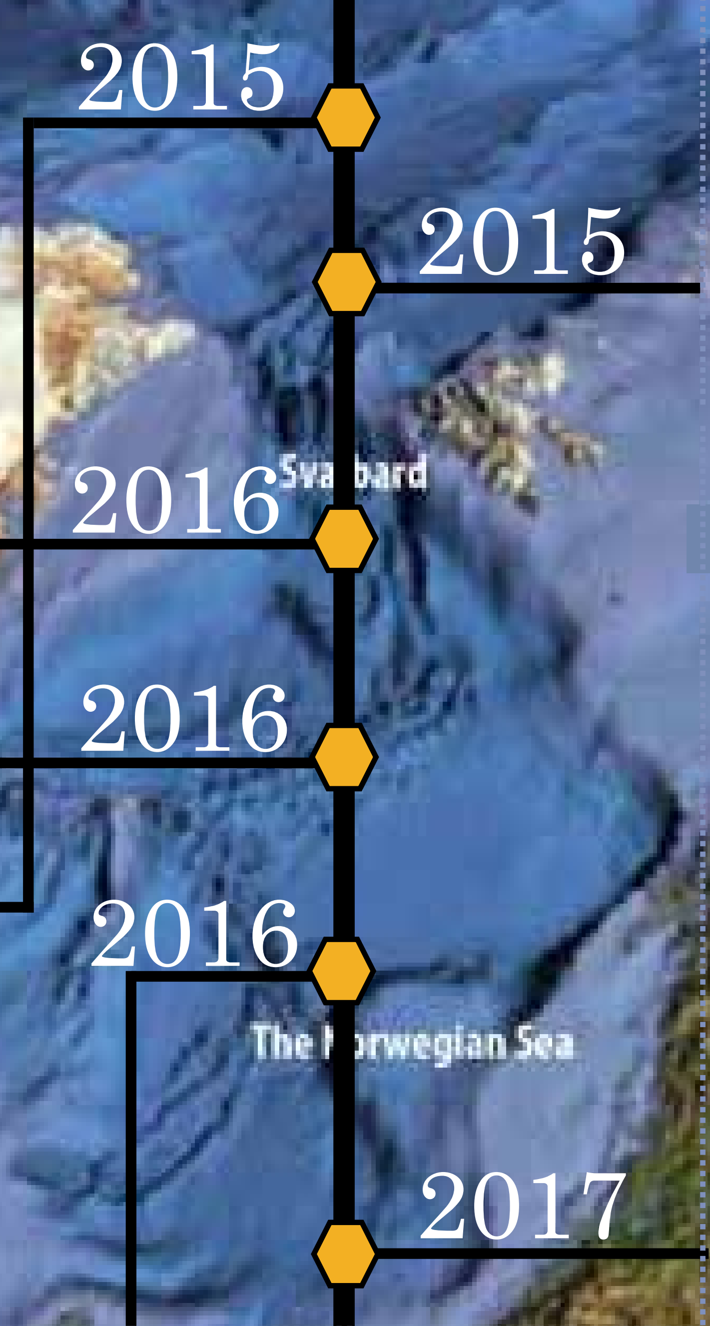
GULLFAKS RIMFAKSDALEN (STATOIL)

As operator of the field Statoil is hailing this as a fast track project with great potential for quicker returns on investment. The development plan was submitted to the Norwegian authorities in December 2014 and aims to tie the field back to existing infrastructure at Gullfaks A. Other satellite fields have already been tied back to the Gullfaks A and C platforms namely Gullfaks South, Rimfaks, Skinfaks and Gullveig. Technip was awarded the contract for fabrication and installation of pipelines, umbilicals and subsea manifold. Installation of the template will be done by Technip vessels during 2015 with production set for second half of 2016. The well documented cost reductions at Statoil have specifically targeted this project with investment being slashed from 11,4bn NOK to 6bn NOK taking the breakeven price to under USD 40 per barrel.

KNARR (BG)

The Knarr FPSO arrived on the field in early December last year and during a suitable weather window over the Christmas period was successfully hooked up. BG expects to achieve first oil within a matter of weeks. The field will be further developed through nine development wells, four production and five water injection. The subsequent subsea infrastructure will be tied back to the Knarr FPSO. BG recently completed drilling of wildcat wells five kilometers east of the Knarr field but came up dry.

EXPECTED ON STREAM



BØYLA (DET NORSKE)

First oil from the Bøyla field was achieved in January 2015 following a successful subsea tieback to the Alvheim FPSO. The field will have two subsea production wells and one water injection. Bøyla had been part of Marathon Oil's portfolio but Det Norske assumed operatorship following acquisition of Marathon by Det Norske in June 2014. Semisubmersible Transocean Winner will return to the field to complete the second well during the second quarter of 2015.

GINA KROG (STATOIL)

The field has been considered for development since the 70s but following appraisal well drilling in 2007 the field was promoted to the status of a major project with considerable reserves. The development of the field involves a fixed platform for which the jacket is currently under construction and due for installation April 2015. Shortly after jacket installation development drilling will commence with another of Maersk's heavy duty jack up rigs, this time Maersk Integrator which has just delivered from the yard in Singapore and is undergoing acceptance testing before mobilizing to the North Sea. Meanwhile Teekay will commence conversion of a shuttle tanker into an FSO for the field during the second quarter of 2015. Ocean Installer was awarded an EPCI contract for subsea installations and tie-ins utilizing Normand Mermaid, Normand Clipper and Normand Vision for the work during 2015 and 2016. Production from the field is set to start in 2017.

FLYNDRE (MAERSK OIL)

The Flyndre field lies in the southern part of the North Sea and straddles the border between the UK and Norwegian sectors. The field will be developed in tandem with the Cawdor field, adjacent to Flyndre but situated entirely in the UK sector. Initially the development will consist of a single development well but depending on production performance could be expanded to a further two. Both Cawdor and Flyndre will be subsea tiebacks to the Talisman operated Clyde platform in the UK sector. First oil is scheduled for 2016. Technip was awarded the contract for pipeline installation for the project.

WAITING ON WEATHER

The fall in oil price has put the brakes on several large project on the NCS, here are some of the main ones.

MARIA (WINTERSHALL)

Maria (Wintershall) - located in the Norwegian Sea on the Halten Terrace the discovery gained in estimation following appraisal drilling to the North and South of the field in 2010 and 2012. Initially Wintershall aimed to submit the PDO for the field at the end of December 2014 but due to the fall in oil price the partners of the field failed to reach an agreement on how best to proceed. The latest news would appear that Wintershall will submit the plan during the first half of 2015. The expected plan for development includes utilizing existing infrastructure in the area using subsea tiebacks. The nearby facilities at Kristin, Heidrun and Åsgard will be used for processing, supply of lift gas, injection water and export of oil and gas. FMC Technologies was awarded the contract for EPC for the integrated template manifolds and their respective subsea trees and auxiliary equipment. It is also expected that Wintershall will come out with a tender for a floater for a six well programme in the second half of 2016, a tender which had previously been withdrawn.

VETTE (PREVIOUSLY BREAM) (PREMIER OIL)

The Bream field is one of the many casualties of the drop in oil price. The plan for development was expected to be submitted to the NPD in May this year but a recent interview with Tony Durrant, CEO at Premier confirmed that "Below $50 we won't approve Sea Lion or Bream". Sealion is Premier's Falkland Islands prospect.

ZIDANE (RWE DEA)

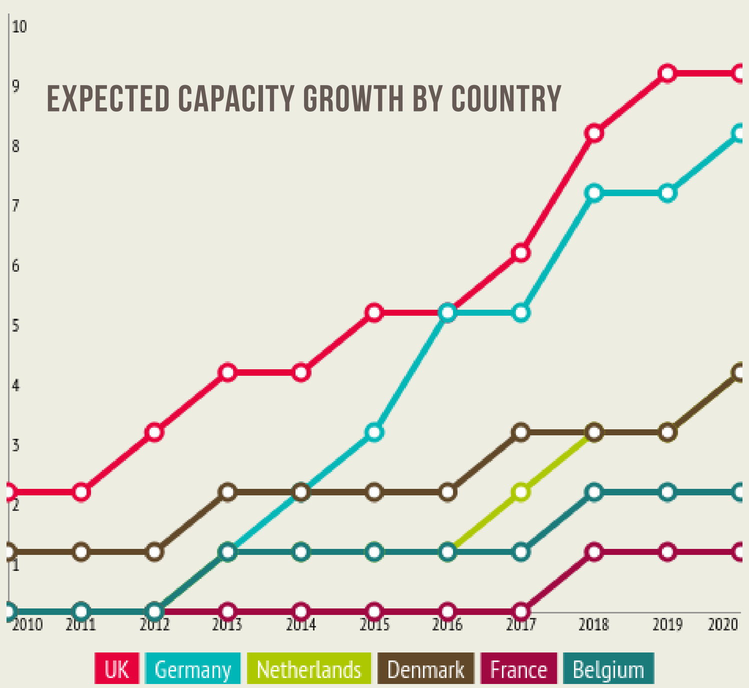
Another victim of falling energy price. The development of the Zidane gas field is on hold after failure to meet an agreement between partners. The original plan was to tie back gas to the Statoil operated Heidrun platform then processed and exported via the Polarled pipeline.

JOHAN CASTBERG (STATOIL)

This giant field is located in the Barents Sea – home to some of the most expensive and challenging offshore projects. The latest from operator Statoil was that a development decision was being delayed until the third quarter of 2016 due to current low oil price. The development concept is far from confirmed. The postponement in deciding how best to proceed with this project casts a shadow over Barents Sea exploration in general. ENI's Goliat project, expected to come on stream this year and will be the first to do so in the region has suffered massive cost and time overruns. The Norwegian Petroleum Directorate plans to release more acreage in the region for oil and gas exploration but with break even rates for projects there at the highest levels in Northern Europe it remains to be seen how many operators will have the appetite for getting involved.

EUROPEAN WIND INDUSTRY – A LOOK AT THE STATS

The renewable sector has been embraced by different nations to varying extents. The current leader for offshore wind is the United Kingdom which currently accounts for almost half of all offshore installed capacity of the top wind energy producing nations in Europe. A strong commitment to this industry on a governmental level has been key to the success in the UK. However particularly in the last couple of years this has been overshadowed by the focus that Germany has displayed. We see this clearly when we take a look at the story for capacity under construction, Germany accounts for 75% of this. Of most importance however is the overall growth in the sector which some analysts have pegged at 12.5% annually for the next decade. UK, Germany, Holland and Denmark are set to remain the top wind energy producing nations but many others are gaining ground. Countries such as Poland, Belgium, Ireland and Portugal all have plans in place for the coming years.

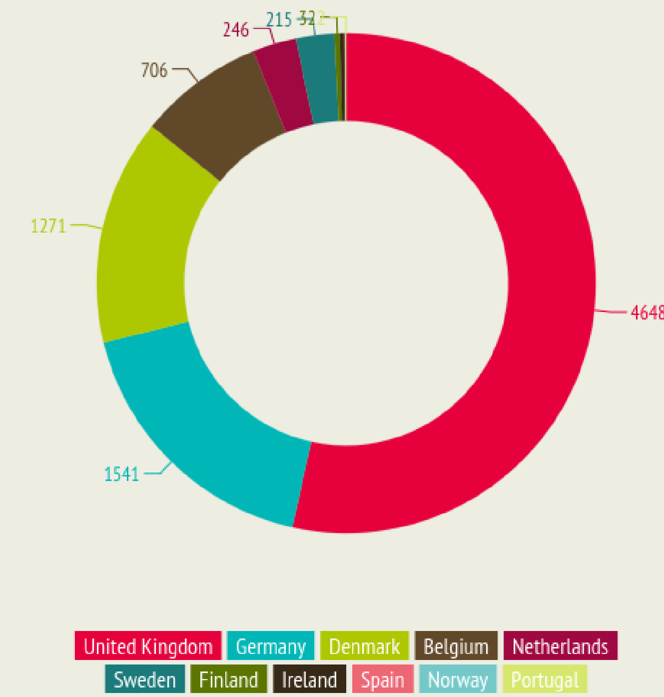


1734 MW
German capacity under construction

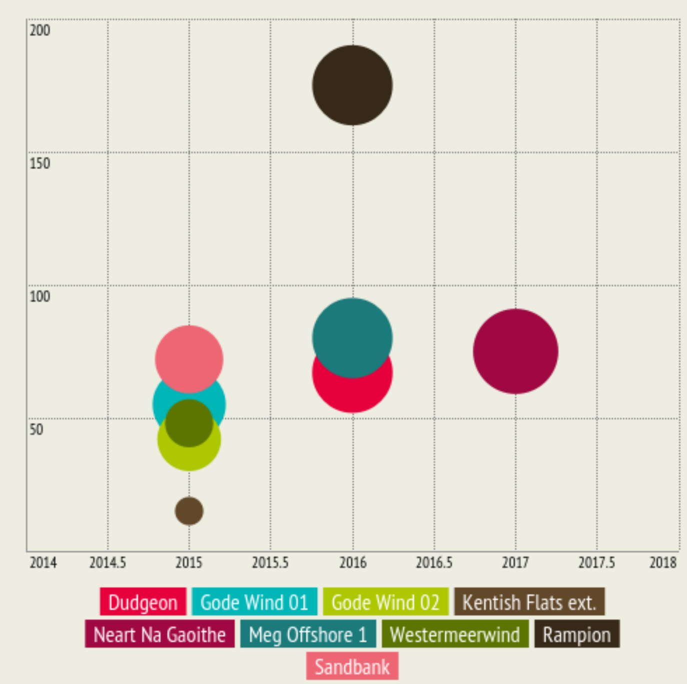
429 MW
UK capacity under construction

129 MW
Dutch capacity under construction

INSTALLED CAPACITY BY COUNTRY



MAJOR UPCOMING EUROPEAN PROJECTS



STATKRAFT TAKES 50% TRITON KNOLL STAKE

When it was first proposed, Triton Knoll was going to be the world's largest offshore windfarm with up to 288 turbines generating 1200MW. Located off the east coast of England, plans for the field were scaled back in 2013 when operator RWE Innology decided to change the capacity range of the project from 600 – 900MW. Although RWE state it is too early to say exactly how many turbines will eventually be installed, what they do know is the maximum height of the turbines will be 220 metres, the project will generate 1900 jobs during construction and 325 during operation and the project will cost between GBP3-4bn.

This month came news that Norwegian-Statkraft had taken a 50% stake in the development. The partnership is seen as a huge boost for the project particularly as RWE had been selling off parts of its renewable portfolio following mounting debts. Although financial details of the transaction were not made public it is clear that the partnership will be of great benefit to the project as a whole. Statkraft will assume responsibility for the development and construction phases which will draw on competencies from both companies.

To date Stakraft has worked with partners such as Statoil on Sherringham Shoal and Dudgeon UK while RWE boasts involvement in projects such as Greater Gabbard, Rhyl Flats and Thornton Bank.

NORMAND VISION OPEN DAY

Westshore had the pleasure of attending an open day aboard CSV Normand Vision this month in St John's, Canada. The Solstad vessel, currently on hire to Ocean Installer, paid a port call at St John's enabling industry personnel to see first-hand the vessel's capabilities. Built in 2014, the vessel is specifically designed for SURF operations particularly in the North Sea. The vessel boasts a 400t offshore crane and two ROV launch and recovery systems allowing the vessel to operate down to depths of 3000 metres. Attendees at the event were given lunch and a tour of the vessel where a great deal of interest was expressed. This was the first time such a vessel had paid a port call to St John's for a 'show and tell' and it provided a great opportunity for locals to get a better understanding of the vessel and Ocean Installer. Normand Vision is now en route to Norway where it has worked lined up in the second quarter.