

THE NAVIGATOR



SEPTEMBER 2011

ISSUE 1

THE NEW MONTHLY REPORT FOR WESTSHORE SHIPBROKERS AS



WESTSHORE

SHIPBROKERS AS

INSIDE THIS ISSUE:

- ▶ **NEWBUILDING NEWS** 3
- ▶ **RIG RUNDOWN** 4
- ▶ **IN & OUT** 5
- ▶ **MARKET FORECAST** 6
- ▶ **THE INSIDE STORY** 7
- ▶ **THE LAST WORD** 8

02 HEADLINE NEWS



Among the many regions of the world where oil demand is expected to be met is the vast and largely unexplored arctic region. Cairn Energy has been undertaking a much publicized drilling programme offshore Greenland. The latest report from operations offshore Nuuk was Semisubmersible Ocean Corcovado was in the process of plugging and abandoning another well following a lack of any hydrocarbon find. Edinburgh based Cairn are unlikely to be deterred by this as the drilling programme is set to continue until weather prohibits operations.

After nearly 40 years of discussion a treaty between the Norwegian and Russian governments has now been established to begin cooperation agreements for oil & gas exploration in the Barents Sea and Arctic Ocean. A spokesman for Russian Prime Minister Vladimir Putin was quoted as saying estimates for the region could account for 13% of global oil and 30% of unexplored gas. Recently Total announced a massive gas find in the Barents Sea of between 10-50 bn Sm³ of gas. It is prudent to assume that operations in the Barents Sea and other Arctic regions

will have an increasingly large focus for the offshore support vessel industry even in the near future.

Echoing this is Shell, the Anglo-Dutch major, that recently received conditional approval from BOEMRE (Bureau of Ocean Energy Management Regulation & Enforcement) for drilling in the Beaufort Sea offshore Alaska. Drilling start-up is pencilled for July 2012 where a selection of ice class vessels, some already contracted some not, will support operations for its drilling unit for the duration of the drilling ling season. Also in the US Arctic, acreage in the Chukchi Sea was auctioned in 2008, for which Shell paid USD 2.1bn for leases there. However environmentalists and native groups have mounted sufficient opposition to the drilling plans that BOEMRE has been forced to undertake additional analysis and review on the lease sale, effectively leaving Shell in limbo.

However, even in the face of strong environmental objections, the arctic regions will continue to be a big part of offshore drilling, with suppliers gearing their business around the potential to cater for these harsh environments for some time to come.

It's all about the ARCTIC

Its no secret that any government with the slightest of claims to arctic land is rubbing its proverbial hands with glee at the prospect of arctic drilling. Despite strong environmental objections not to mention technical challenges this is a key frontier for meeting the global demand for hydrocarbons

HAVE WE GOT NEWS FOR YOU!

Welcome to the new monthly report from Westshore Shipbrokers. Far from being another report from the dark side of the broker world, this report aims to give you an insight into whats coming up and how we see this fickle market progressing in the future. We aim to give our customers and colleagues a better insight into the fascinating arena of offshore shipping whilst letting you know a little bit more about us here at Westshore.

As always our website is updated continuously giving you the best market information on the North Sea spot market available and we are working on developing this further so that even more information is available. We sincerely hope you enjoy this first issue!

The screenshot shows the Westshore website interface. At the top, there's a Twitter feed for 'Westshore on Twitter!' with the text 'Follow us on Twitter for the latest news on the Norwegian and Russian Offshore market'. Below that, there's a 'Key Figures' section with a table of market statistics. The table includes columns for 'VESSEL', 'STATUS', 'CHARTERER', and 'DATE OF ORDER'. It lists various vessels like 'BRANDENBURG', 'KORSA BARBARA', and 'KORSA BARBARA' with their respective charterers and order dates. There are also some charts and graphs visible on the left side of the page.

A WORD WITH WESTSHORE...



Gøran Røstad
Specialist Subject:
North Sea spot market
Tel. + 47 90 01 22 41

"The market is so tight at the moment it's more about finding the right vessel and not just finding the requirement"

03 NEWBUILDING NEWS

August proves a quiet month

The summer months are often quiet so perhaps no great surprise that newbuilding announcements slowed down this month. The second wave of financial crisis is deeply effecting European economies, not to mention the US.

Because of this it's likely we'll see a slow down in new orders from anyone but the big owners with established fleets and operational set-ups. The PSV orders have come in thick and fast this year but very little in the way of AHTS orders, Farstad being the main headline grabber on this front. We think this will change with high-end AHTS orders being placed over the course

of the next 12 months.

There are two distinct schools of thought on this; the pessimists say the financial climate coupled with a burgeoning order book of DP-rigs means the demand for AHTS vessels is diminishing. On the other hand the last wave of new AHTS vessel deliveries is nearing completion, frontier areas of drilling and better/more complex drilling technologies have a corresponding demand for better vessels. It is reasonable to conclude there will be more than one owner whose thoughts on the subject falls into the latter camp.



THE MARKET IMPACT

There are just over 200 large PSVs under construction or on order around the globe. But where exactly will these vessels end up working? Of these many have already been earmarked for work in a specific region while others yet have secured work on delivery. We took a look at each individual vessel and determined how this supply of new vessels would be allocated around the globe.

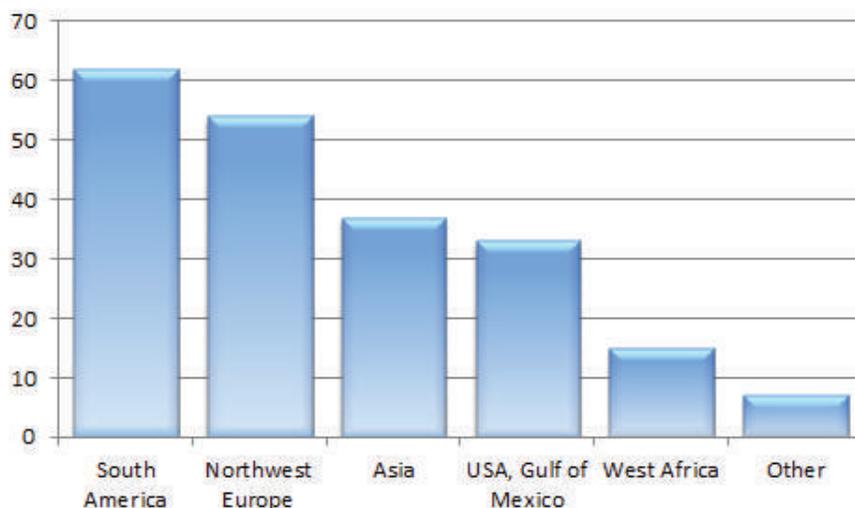
This was based on various factors including management strategies, vessel flagging, construction yard location etc.

The results show a preference towards South America with North Sea work a close second. We estimate over 60 vessels are being targeted for South America, many of which are actually under construction in Brazilian yards of course.

Notably Petrobras has said that the total number of offshore support vessels (of all types) needed by 2013 will be 465, up from 254 in 2009.

NEWBUILD ANNOUNCEMENTS THIS MONTH

- Sartor cancels two VS480 PSVs at Bergen Group, building had not commenced and no financial penalty incurred
- Simek is building a UT 755LC for an unnamed client according to reports
- Magne Viking (ex Trans Barents) delivers and trading spot market
- Troms Capella delivers, now trading spot market
- UP Jasper currently en route to N. Sea spot (pictured)
- Skandi Skansen 36,000 bhp AHTS delivers and commences work with HESS
- Skandi Saigon 16,092 bhp AHTS delivers and may head to N. Sea
- Otto Marine say it has found buyer for cancelled Mosvold AHTS but does not name buyer
- Bourbon Front PX105 design PSV delivers and is expected in N. Sea end-Sept



04 RIG RUNDOWN

A total of 21 jack-ups and semis will be on hire to Statoil by the start of 2012.

ON THE MOVE IN SEPTEMBER...

- Songa Dee (Marathon Norge)
- Borgland Dolphin (MLS)
- WillHunter (SPD)
- Songa Delta (Odfjell)
- Borgholm Dolphin (BP)
- West ALpha (BP)
- ENSCO 70 (PA Resources to ADTI)
- Sedco 711 (Shell)

UP until a month ago you might have been forgiven for thinking the days of very large oil finds in the North Sea were long gone. This month Statoil turned that thinking on its head with the announcement of the Aldous /Avaldsnes find which holds an estimated 500m to 1.2bn boe recoverable, bringing it into the top ten all time finds on the NCS. An additional discovery at Gulfaks was perhaps over shadowed by the Aldous discovery but still noteworthy at 3 to 9.5 m boe and will be tied back to existing Gulfaks infrastructure. Shell hit the headlines this month with the news of a leak found at Gannet Alpha. The resultant spill measured 31km by 4km at its widest but

Shell says the leak has now been plugged and is under control, furthermore the oil has been dispersed by natural wave action. The spill ranked as the largest in the UK sector since 2000.

The Schiehallion field is to receive GBP 3bn of redevelopment say BP and co-venturers after the announcement that previous estimates have been far exceeded and an est. 450m boe is still recoverable. The redevelopment is expected to create hundreds of new jobs but Head of N Sea Operations for BP Trevor Garlick told reporters that it is struggling to recruit the volumes of skilled workers needed for work in the North Sea. So you could say, they just can't get the staff these days.

"...the NCS is a world-class petroleum province. The Aldous / Avaldsnes discoveries are evidence that the NCS is still attractive. Making a discovery of this size in a mature area shows that exploration is all about perseverance, creativity and new knowledge."

EVP Exploration Statoil Tim Dodson

UPCOMING & ONGOING

Maersk Drilling says no further orders for new drilling units will be placed in the near future due to rising costs estimated to have grown by around 11% since the start of 2011. Maersk Drilling's order book currently stands at four drillships and two jackups.

Sedco 711 fixed to ADTI for a 1 well contract commencing mid-October.

COSL Pioneer has completed technical requirements and has commenced operations for Statoil in the North Sea .

Lundin Petroleum has reached target depth on the second appraisal well at Avaldsnes with Bredford Dolphin. News regarding the find should be out imminently.

Pacific Mistral has been awarded a three year contract with Petrobras. The ultradeepwater drillship is expected to commence operations in the fourth quarter 2011.

ExxonMobil has declared a one well option on the West Alpha meaning the rig will be on contract until May 2013.

This month's edition of The Navigator comes to you with images courtesy of Geir Frits Myklebust currently on board Havila Fortune who has kindly allowed us to include various pictures from his time offshore. The Westshore Insider is always happy to hear from those of you working offshore or onshore with news or pictures that give an extra dimension to life in the offshore industry. If you want to get in touch email us at inger@westshore.no

The Westshore Insider aims to report on the inside information garnered from across the spectrum of people working in the offshore support vessel industry. Stay tuned for more....

WESTSHORE INSIDER

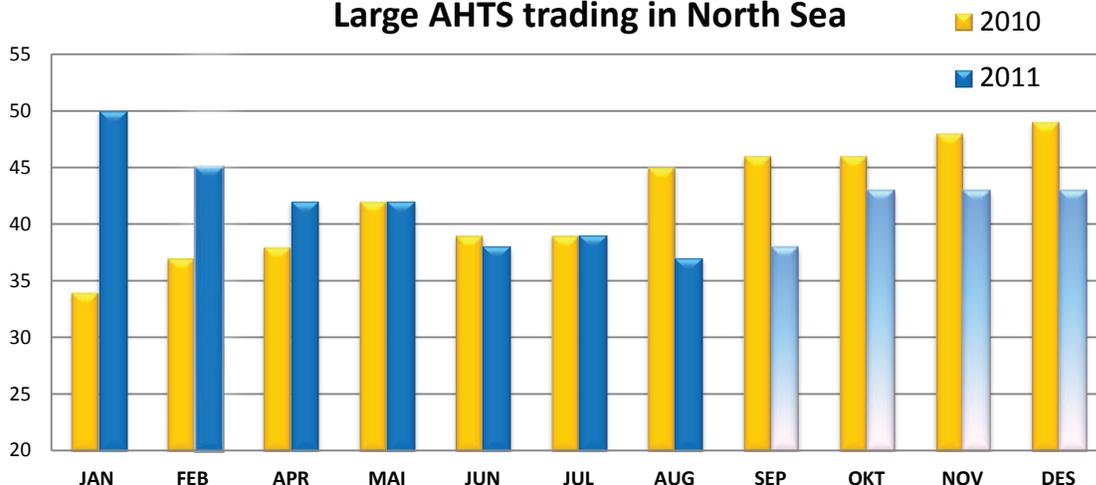


05 IN AND OUT

Vessel	Design	Manager	ENTRY	From
Bourbon Front	PX 105	Bourbon Offshore	End-Sept	Newbuild – Yard China
Toisa Wave	VS 483 MkII	Sealion Shipping	End-Sept	Newbuild – Yard China
Brage Supplier	PSV 09 CD	Troms Offshore	Oct/Nov	Newbuild – Yard India
UP Jasper	VS 483 MkII	Gulf Offshore	End-Aug	Newbuild – Yard China
Olympic TBN	MT 6009 L	Olympic Shipping	Oct	Newbuild – Yard Norway
Rem Fortress	VS 485 MkII	Rem Maritime	End-Sept	Newbuild – Yard Norway
Island Centurion	UT 776 CD	Island Offshore	Oct	Newbuild – Yard Norway
Vessel	Design	Manager	ENTRY	From
Normand Baltic	PSV	Solstad	Start – Sept	Repsol YPF Argentina
North Truck	PSV	Gulf Offshore	Mid-Sept	PA Resources
VOS Prevail	PSV	Vroon	Mid – Sept	PA Resources
Maersk Leader	AHTS	Maersk Supply	Start – Sept	BP
Maersk Lancer	AHTS	Maersk Supply	Start – Sept	BP
Maersk Laser	AHTS	Maersk Supply	Start – Sept	BP
Maersk Attender	AHTS	Maersk Supply	Start – Sept	BP
Maersk Dispatcher	AHTS	Maersk Supply	Mid – Sept	BP
Maersk Tender	AHTS	Maersk Supply	Mid – Sept	Saipem
Vessel	Design	Manager	EXIT	To
North Stream	PSV	Gulf Offshore	Mid – Sept	DNO
Rem Provider	PSV	Rem Maritime	Mid – Sept	ADTI
Highland Trader	PSV	Gulf Offshore	Oct	BHP
Normand Baltic	PSV	Solstad	Start – Sept	COP Norway

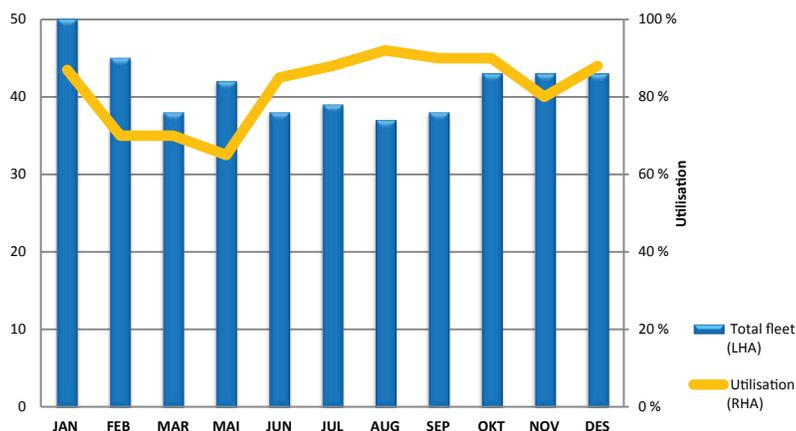
06 MARKET FORECAST

Large AHTS trading in North Sea



Theres nothing more turbulent than the North Sea spot market but whats ahead for the rest of 2011?

Predicting the future of the North Sea spot market is never an exact science particularly as the events that have resulted in a major impact in rates have been random and largely impossible to predict, volcanic eruptions and resultant ash cloud being one of them. However we have taken a look at some of the more transparent factors that will impact the market over the remainder of the year. What we see is the following, there will be less vessels trading in the North Sea than the same period last year even without any tonnage leaving for South America. This of course was the great hope for the North Sea market this year, a mass exodus of vessels departing, leaving those left with rich pickings on the spot market and lucrative contracts with the stalwart North Sea operators. As we know the large AHTS tender from Petrobras is out but we are highly unlikely to see any vessels from the North Sea leave before 2011 is out.



The next factor is the activity levels. The first half of 2011 saw less fixtures month-on-month than 2010, an average of around 10% reduction which was surprising given the widely reported (and anticipated) upturn expected for this year. However there are more drilling rigs coming, nearly everything that was drilling last year is doing so this year, exception is GSF Labrador which is undergoing conversion into an accommodation unit. A further five jackups and three semis will be delivered and on contract before the start of 2012, COSL Pioneer which will go on to Statoil being one of them. Moreover it's mostly in the second half of the year that these units will make an entrance, meaning there is hope for vessel owners to achieve comfortable rates on the spot market this winter.

Tore Kopland
S&P Shipbroker

"I think Africa is going to take off like a rocket in the very near future"

watch this space readers.....



07 THE INSIDE STORY

A closer look at vessel scrapping and attrition in the offshore support vessel market.

WRITTEN BY

Inger Louise Molver
Offshore Analyst



Tidewater Enabler, one of Tidewater's newest vessels built 2010 sale of which was facilitated by Westshore

offshore vessel market has been one area of the business that has had little to do with vessel scrapping. It was notable therefore that in the first quarter results for US-owner Tidewater that an announcement was made regarding the intention to scrap eleven vessels from its large fleet. Tidewater is arguably the largest offshore support vessel owner in the world, but the fleet is an ageing one so it is perhaps unsurprising that the news comes from this particular source. Moreover a significant part of its fleet is already laid up in areas of the world where the standard of vessel is generally lower and older than anyway what's seen in the North Sea.

When we take a look at the oldest vessels still in existence around the globe the majority of those over 30 years are AHTS vessels of an average of 6,300 bhp and are located largely in the Middle East, South East Asia and West Africa. About half as many are PSVs with an

average of 1,200 dwt and are largely sitting in the US Gulf of Mexico.

Despite the deluge of older tonnage sitting in ports around the world owners are reluctant to send these old girls to the scrappers. An industry wide increase in required operating standards of vessels – even in regions such as the Middle East where traditionally these vessels could find employment, has seen a diminishing need for this older tonnage. Moreover the order books for new vessels is swelling again and as these brand new and higher spec vessels deliver everything else gets pushed further and further to the back of the queue.

Vessels that were scrapped over the last couple of years were largely 60s and 70s built and very much at the end of their useful lives. In addition many had been working in the US Gulf where a post-Macondo industry is at long last showing an increased focus on safety and this extends to the support



Grampian Highlander 1976 build AHT scrapped this year

vessels. It's easy for an analyst to sit and look at the figures, around 15% of the global AHTS fleet is over 30 years old and 13% of PSVs – so let's get the burners out and keep the fleet in renewal. But it's rarely as simple as that, as this older tonnage is fully paid up,



Tanker vessel being broken up

cheap to run and in depressed markets often the only ones that can go low enough to get a charter, for an individual owner there's simply no need to remove them. Moreover remuneration for the scrap of a vessel is calculated on the weight of the steel (light deadweight tonnage) but unlike tankers for example, the value of an offshore vessel is in its equipment and capability rather than the volume of steel that could be melted down. For the time being, arguments for not scrapping your older vessels may outweigh those for doing so, but in an increasingly safety and environmentally conscious industry, that will soon change.

08 THE LAST WORD

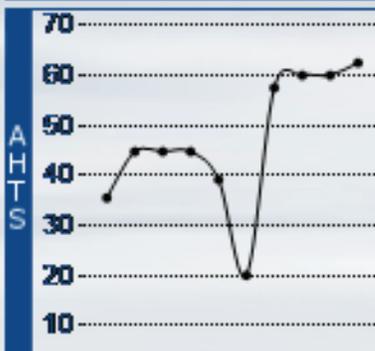
Westshore Asks:

“What do you think will be the highest and lowest rate for a rig move fixture in September?”

The first of a regular feature asking the Offshore Industries figureheads probing questions on the market.

Our hand picked panel will be asked a question every issue, the panel member coming up with the most accurate or entertaining answer stays on to battle for a further month.

LATEST 10 FIXTURES (rates in GBP)



This month we have asked (from left to right) Bernt Omdal CCO at Siem Offshore, Tor Sven Slaake from MLS, Christian W. Berg CEO at TransViking and David Veitch from Braemar Seascope.



We asked the panelists “What do you think will be the highest and lowest rates for a rig move fixture in September?”

Our respective panelists answered as follows;

Bernt Omdal:

Lowest fixture - not available for comment
Highest fixture - NOK 975,000

Tor Sven Slaake:

Lowest fixture - NOK 15,000
Highest fixture - NOK 1,150,000

Christian Berg:

Lowest fixture - GBP 20,000
Highest fixture - NOK 1,000,000

David Veitch:

Lowest fixture - GBP 20,000
Highest fixture - GBP 80,000

Panelists were not privy to each other's answers prior to publication.

Westshore thanks each panelist for their contribution and wishes each one good luck.

The winner will be announced next month and will feature in next month's panel with a new question.

