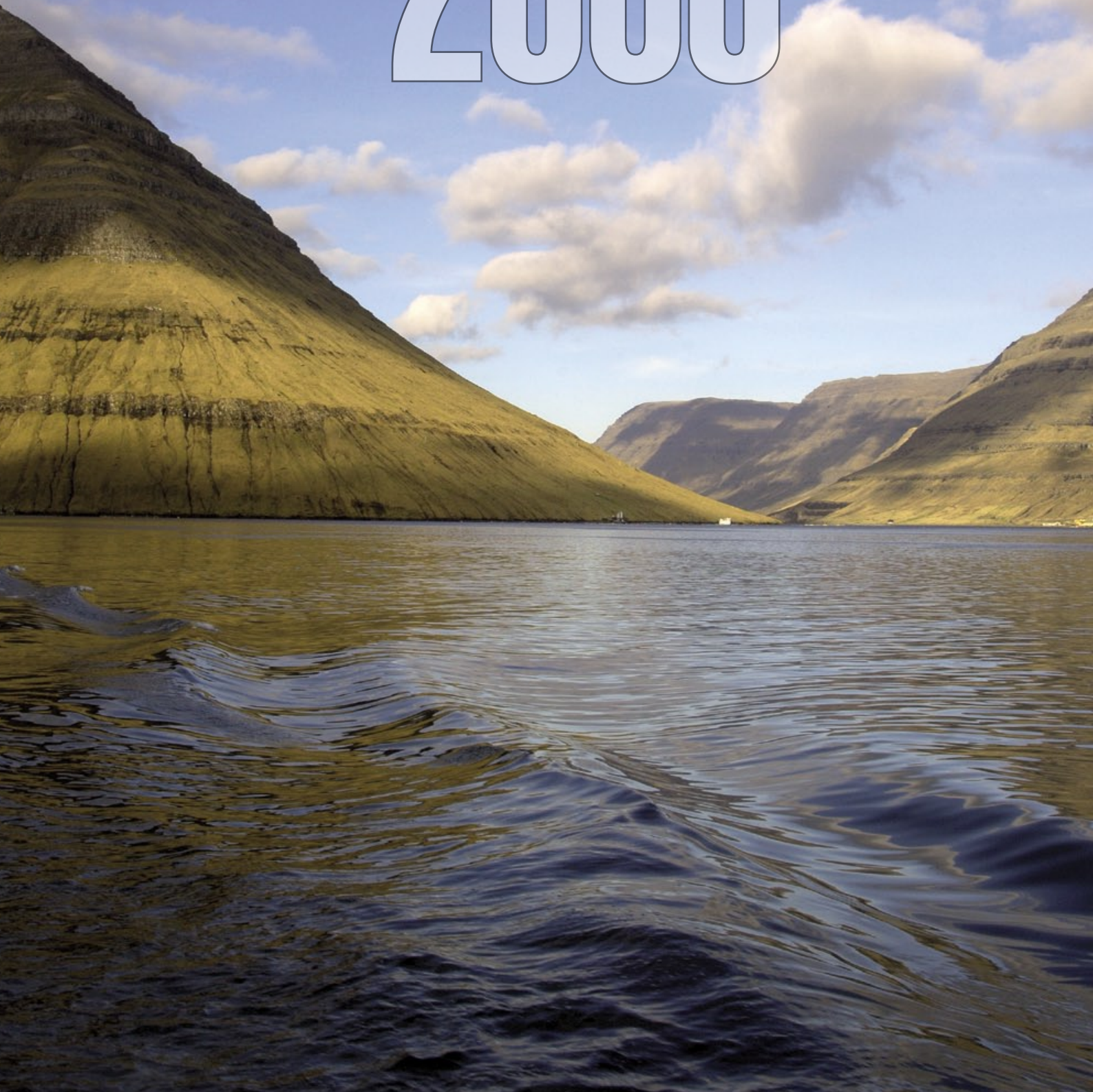


In co-operation with Faroe Islands Enterprise 

# FAROE **Business** Report

THE INTERNATIONAL REVIEW OF FAROE ISLANDS INDUSTRY AND TRADE

# 2008





# Shifting from 19 to 16.5m<sup>2</sup> doors, their catch stayed just as high.

## Saving 1500 to 2000 litres of fuel a day.



After switching from 19 m<sup>2</sup> to 16,5 m<sup>2</sup> Injector Scorpion, the Norwegian shrimp trawler Remøy reports very significant fuel savings—while maintaining the same spread of the trawl mouth as earlier when using the larger doors. In an email to Injector, Remøy's skipper Per Odd Myklebust said: "We have now finished fishing off Greenland. So far, only good things to say about the new doors. Better, more stable opening. Less warp. Unbelievable improvement in fuel economy, we're saving between 1500 and 2000 liters per day! Well, that's in a relatively short period of time but unquestionably there are enormous savings of diesel. We'll report back after we have fished for a while in other waters." Months later, Mr Myklebust confirms his assessment.

**T**RAWLER SKIPPERS by their hundreds, from the Arctic to Argentina, across the Atlantic to Australia, are discovering the Injector advantage. They're seriously impressed by results achieved since starting to use Helgi Larsen's groundbreaking innovations—aeronautically designed, hydrodynamically optimized trawl doors. In brief, the Injector doors outperform anything ever seen before.

As they note an unbeatable catch efficiency and a superior fuel economy, no wonder trawlermen point out Injector as their favorite trawl door. Add on that, the Injector doors are environmentally friendly like none other.

The Scorpion (pictured above, on the 'Nanoq Trawl') is made primarily for bottom trawling. It has an unmatched ability to fish successfully, offers a supreme squaring capability and the smoothest towing. Steady during turns and disinclined to stick on seabed fasteners, it's the essence of stability.

This versatile door works in virtually any conditions, whether in deep sea or shallow waters, on rough bottoms, muddy ocean floors or a sandy seabed. The Scorpion is made of high-strength steel; a special, reinforced edition has also been designed to withstand the most rough and rocky seabeds.

The Injector Stealth product line of doors for midwater trawling has lately been stepped up with the F9 and the F15, respectively.

Stealth F9 is made for optimum midwater trawling to the extent physically achievable with a door made of steel, while the Stealth F15 is for the ultimate in midwater trawling using lightweight material instead of steel.

**'Fagraberg' skipper Högni Hansen says:** "We have gone from 15 m<sup>2</sup> traditional to 13m<sup>2</sup> Injector Stealth F15. We could even go down to 12m<sup>2</sup> without any problem. Powerful doors... We increased our speed from 3.6/3.7 knots to 4 knots without using more fuel. We could have chosen to save fuel by using the same speed as before, but we opted to increase speed without using more fuel. These 13m<sup>2</sup> Injector Stealth F15 we can use for our 2048 and also for our lager trawl 2306. This we couldn't do before. Also in bad weather these doors are excellent. Very easy to shoot, they stand upright when shooting, spread very fast, extremely stable during towing; also in hard current they show the same stability. To be able to do backside adjustments on the wire side is FANTASTIC (the EasyRig). It took us only a few minutes to make adjustments to the doors, whereas before we couldn't do certain adjustments without going to shore. This is the future, no doubt! We have never tried pelagic doors so powerful on shallow waters. At 70 fathoms we had no problem getting the spread we needed, which is impressive."

*After all, your effort is worth the best equipment.*

### Injector. Benefiting fishermen, caring for the environment.

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**PRnewsMedia.com**  
NORTH ATLANTIC INFORMATION SERVICES

Faroe Business Report — 2008  
The International Review of  
Faroe Islands Industry and Trade

ISBN 978-99918-998-3-9  
ISSN 1903-1173

Published, produced and designed by  
PRnewsMedia.com  
(North Atlantic Information Services, Spf.)

In cooperation with  
SamVit — Faroe Islands Enterprise

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Printed in Denmark  
by Nørhaven Book

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**WELCOME TO THE  
2008 EDITION OF THE  
FAROE BUSINESS  
REPORT**

**T**HEY SAY THAT THREE rounds constitute a basic unit, so what does that make a fourth one? If you haven't noticed, the answer is already given in our... slightly adjusted title. Welcome to the 4th edition, a brand new 2008 edition of the Faroe Business Report!

Don't worry, it's still the same concept and the same format as the former Annual Business Report. It's still the same publisher, the same producer, and the same editorial team.

It's just that after the first three highly successful issues—2005, 2006, and 2007—we decided it was time to go for a bolder title to take this publication to the next level. Like its subtitle says, it's "The International Review of Faroe Islands Industry and Trade."

We are very thankful to our loyal sponsors and advertiser who, together with our enthusiastic readers and many supporters, have made this publication such a whopping success.

And let it be acknowledged in this context that the close cooperation we have with our key alliance partner, Faroe Islands Enterprise, and the Government of the Faroe Islands, is absolutely essential.

Compared to earlier editions, we attempt in this one to broaden the scope of topics and companies presented to make the picture as complete as possible. At the same time we have worked to sharpen the overall focus in order to secure optimum clarity and readability.

In the lively Faroese business scene, the past year has seen more events than would be possible to cover appropriately in these pages. We present most of the major developments and important events, however, as these relate to the products and services offered by the leading companies highlighted here—the businesses and organizations that together represent the bulk of Faroe Islands exports and some of the vital services in the country's business environment. Enjoy the read.

Búi Tyril

*Publisher and Editor in Chief*



*From a Faroese perspective, patience has to be the name of the Atlantic Frontier Game—but when Chevron finally pushes the button on the most exciting project thus far on the UK Atlantic Frontier, it is only a short distance from the dividing line.*

# A LONG WAY TO GO

By JEREMY CRESSWELL

**O**N OCTOBER 22<sup>ND</sup> 2007, the fourth generation rig Transocean Rather started drilling the first exploration well on the William Prospect (Faroes License 007) in 743m of water. The rig was still on location 120 days later, with no clear indication as to when the probe would complete. With operator BP maintaining strict communications discipline ... even a blackout ... media leaks regarding William have been eliminated. Not even in the Faroes has anything slipped out regarding progress. In a brief statement issued for this review, BP said: “The well was scheduled to be a 120-day program and is expected to continue through to mid March as we have experienced some bad weather.”

“We’re drilling a single sub-basalt exploration well as part of our commitment to the license. Drilling commenced in October in an area adjacent to where we drilled the previous well in 2001.”

Jan Müller of Sosialurin, arguably the best-informed media source in the Faroes said: “They have had problems I know with very bad weather, but I can’t get any information.”

The main reservoir objective in William is located towards the flank of a known basalt rock sequence, approximately 20km northwest of the Longan exploration well that was drilled by BP in 2001 and which encountered thick reservoir quality sandstones in multiple objectives ... but neither oil nor gas.

While it is likely that the well will have been completed prior to this review being published, the black-out is likely to remain in place for some time, unless of course a significant hydrocarbons column is encountered, in which case it would be highly appropriate for the Faroese Government to get excited and issue a statement as soon as possible.

Partners in William are BP (50 percent and operator), Shell (20 percent) and Anadarko (25 percent).

With only one well completed in 2007 (Brugdan), the same this year and just one scheduled for 2009 (Ann Marie), with nothing firm scheduled thereafter, once again the offshore Faroes outlook appears less than encouraging.

**ANALYZING BRUGDAN:** However, there is talk of Chevron, teamed up with OMV, StatoilHydro and DONG, drilling the Súlan prospect on the Faroese side of the UK-Faroe boundary, adjacent to Chevron’s large Rosebank oil & gas discovery, perhaps next year subject to suitable drilling hardware being available.

The purpose of such a probe will be to learn whether the geology that has delivered Rosebank/Lochnagar extends westwards across the line.

Meanwhile, to the north of most earlier Faroes sector activity, Sagex Petroleum (60 percent) is working with Atlantic Petroleum (40 percent) on the PL13 and PL14 licenses that, the partnership claims, are home to at least two “Rosebank analogues” ... Stella Kristina and Marselius.

In 2006, Sagex and Atlantic completed a 1,800km long-cable 2D seismic survey and Sagex notes in a February 2008 presentation that surrounding licenses are to be drilled within the next two years.



That data continues to be worked on, including integrating information garnered from the unsuccessful Brugdan well.

Indeed, Statoil-operated Brugdan on license PL006 is seen as crucial to understanding the geology of PL13 & 14.

Atlantic says in its 2007 annual review, published February 2008: "It is believed that there is remaining potential for hydrocarbons at deeper levels than the total depth reached by the (Brugdan) well (4,201m).

"The well is significant for future oil & gas exploration in the Faroes, as the well determined the thickness of the basalt on the East Faroe High and has provided significant experience and knowledge of drilling through basalt."

Once satisfied with the seismic modeling, Sagex (formed in 2007 by merging Geysir, Inoil and Sagex) and Atlantic intend to invite interest from potential farm-in partners, thereby spreading risk during hoped for even-

tual drilling. Under licensing rules, the partners have to drill by 2009 or drop the PL13 & 14 licenses, though it is hard to see the Faroese authorities enforcing this; rather the granting of an extension may be the pragmatic way ahead.

Meanwhile, Atlantic, which has successfully mitigated risk of late by investing in UK and Irish assets, and Geysir intend to participate in the Third Faroese Licensing Round.

**THICKER TOWARD WEST:** However, the persistently low level of activity coupled with serial disappointments begs the question as to what the real level of interest will be in the forthcoming Third Round where, in essence, oil companies are being asked to take their pick of the Faroese Continental Shelf.

Even if the William well was a success, there is a danger that the pessimists will hold sway.

But to dissolve into gloom at this stage is surely ill-advised, given the way in which UK activity West of Shetland is showing signs of warming, even hotting up.

All eyes are especially on Chevron's Rosebank discovery, with a reserves estimate said to be more than 400million barrels of oil, plus significant quantities of natural gas.

Throughout the past winter, there has been intermittent speculation around Aberdeen about when Chevron will declare Rosebank commercial, notwithstanding that a further appraisal well is planned.

It is no longer a question of if, rather it is when the US major will push the button on what must surely be the most exciting project thus far on the UK Atlantic Frontier from a Faroese perspective, because it is only a short distance from the dividing line.

Surely the Norse gods would not be so cruel as to deny hydrocarbons on the Faroese side, which is why the intended Súlan probe, about which virtually nothing is known, is so important.

Meanwhile, at Chevron, Rosebank development concept studies are under way, evaluating the options that basically distill down to a floating production unit and a suite of subsea wells. A production vessel (FPSO) is the most likely option as ship specialist BW Offshore has carried out work on the project.

It was in late 2004 that Chevron, with Statoil, OMV and DONG as partners, made the Rosebank/Lochnagar discovery on UK block 213/27. Well 213/27-1z drilled the crest of a large anticlinal structure named Rosebank. Two oil and gas accumulations were encountered with that well.

They were identified within a 3-400m thick Palaeocene volcanic rock sequence, in particular an approximately 100m thick unit of inter-bedded basaltic lava flows.

Rosebank has "proven crestal hydrocarbons" in several separate zones on a large structure. The big challenge is taking full account of the volcanic rocks ... basalts that get progressively thicker towards the west—and of course the Faroes. Indeed, basalt remains and will always present the greatest challenge to detecting hydrocarbons anywhere on the Faroese Shelf.

While there remains a lack of clarity over just how many exploration/appraisal wells might be drilled this year outside the core UK West of Shetland producing fields.

Clair and the Foinaven/Schiehallion cluster, there should be at least four and perhaps as many as six or seven, some of which are highly relevant to the Faroes.

Shell is due to drill South Uist using the super-rig Leiv Eiriksson, newcomer Chrysaor wants to drill Solan in a bid to revive the moribund discovery, Faroe Petroleum plans to appraise Freya subject to a suitable farm-in deal and a rig being secured; and Hess is apparently going back to probe Cambo again.

**SOUTH UIST:** Shell has said hardly a thing about this probe, even when approached for a statement. This prospect is located on block 214/21a and lies north of the Torridon gas discovery and east of Rosebank. It IS BEING drilled using the Norwegian super-rig Leiv Eiriksson as part of a three-well sequence—one each on the UK and Irish Atlantic sectors and the third in Norwegian waters. Unfortunately the program was already running several months behind schedule ... even before drilling on South Uist started.

**SOLAN:** It was in 1990 that Amerada Hess made the Strathmore discovery (well 205/26a-3), closely followed by the Solan find (well 205/26a-4) in 1991. But the initial excitement gave way to a hard slog and failure to formulate a commercially credible project. The acreage was ultimately relinquished back to the British government.

That might have been it, but for former Hess man and successful exploration & production company entrepreneur Phil Kirk who, in 2007, went to the UK authorities to negotiate securing 100 percent control of the block containing Solan/Strathmore.

The upshot is that he is planning an appraisal well in July this year in a bid to firm up reservoir size with a view to moving rapidly towards development, either as a standalone though most likely a tieback to the nearby Schiehallion field



*A support vessel berthed at Runavík in early 2008 (above); Atlantic Petroleum's board of directors inspecting the Sevan Hummingbird FPSO vessel at an Asian shipyard before it was taken to the Chestnut field (bottom left).*

operated by BP and which is itself scheduled for a major revamp that will involve a major overhaul of the current production ship, or maybe even replacement.

The rig Byford Dolphin has been contracted to drill Solan with Senergy of Aberdeen managing the project.

**CAMBO:** Also very close to the Faroe sector, the 204/10-1 Cambo well drilled by Hess in 2003 has been the subject of much speculation. It seems that what is known in the trade as a "four-way dip enclosure" will also be drilled this year. Rumors are persistent but, as yet, no hard evidence has come to hand.

**FREYA:** Another hopeful for drilling this year, Freya is running many years behind schedule, bearing in mind that operator Faroe Petroleum once thought it could be developed and onstream by 2005.

However, this analogue and near neighbor to BP-operated Clair will only be drilled if 100 percent interest

holder Faroe can entice a farm-in partner to spread the risk, which is low as a significant column of hydrocarbons was encountered when the field was initially drilled by Mobil in 1984.

Among the several other possibles for drilling in 2008 is OMV-operated Tornado. Even if the timetable slips another year, the view is that success on this prospect could transform the Suilven (UK) and Marjun (Faroe) corner by offering scope for joint development.

And will Total be back to appraise its 2007 discovery Tormore, which appears to offer the key that should finally unlock the French group's long planned Laggan gas development?

So, yet another mini-annual review ends with a distinct lack of tangible results in Faroese waters. But never forget the saying "hope springs eternal," nor should it be forgotten that, despite over 35 years of exploration, 141 exploration wells, and a number of significant discoveries, UK acreage West of Shetland has yet to fully realize its potential.





# THE MAKING OF A GREEN ISLAND

*Together with StatoilHydro, Enercon and other key partners, Jarðfeingi is considering a project designed to create a truly sustainable and independent power and heating supply for the island of Nólsoy, based on renewable energy.*

IT'S BEEN TRIED with success in a more limited scope and on a much smaller scale on the Norwegian island of Utsira but now the time could be right to take it to the next level: Making a 100-household island community self-sufficient with regard to energy—sustainable energy, that is.

For the Faroe Islands, the number one source of renewable energy would be wind. Well, the 265-inhabitant Nólsoy is a distinct community located 5.5 kilometers east of the Faroese capital of Tórshavn, or some 20 minutes by boat. A maximum 2.3 kilometers wide with only a couple of hundred yards at its narrowest, the island stretches 9 kilometers in a northwest-to-southeast diagonal. And there's plenty of wind.

But wind is not a stable source of energy. Unlike water, for instance, you can't easily collect and contain wind to achieve a controlled output of power. For one thing, the existing grid infrastructure can hardly tolerate the unevenness of non-interfaced power imports from wind turbines—appropriate means will be needed to even out the spikes and fill

out the gaps. Besides, sustainable means economically viable too.

A feasibility study of the Nólsoy Project suggests that all this is perfectly possible as far as power is concerned. However, the community's total heating demand requires a 10-percent backing of imported fossil fuel, if the bounds of practicality are not to be exceeded.

Headed by Jarðfeingi—the Faroese Earth and Energy Directorate—together with Norway's hydrogen experts Statoil-Hydro, Germany's windmill manufacturer Enercon, Faroese utility monopoly SEV, and local authority Municipality of Tórshavn, the Nólsoy Project promises major progress in the quest for sustainable energy supplies.

"If successfully carried out, this project will open up some very interesting perspectives," said Jarðfeingi's renewable energy specialist Terji Durhuus.

The Nólsoy Projects falls in line with the Faroe Islands' new energy policy, as proposed in a task force report co-authored and delivered by Jarðfeingi to the Faroese government. Among the most tangible recommendations of the report: 20 percent of the country's total energy consumption on land to be based on renewable energy sources by 2015; and the fuel consumption of the nation's fishing fleet to be reduced by 15 percent in relation to the total volume of catch.

Besides, the Faroe Islands' new utility bill encourages less fossil fuel dependency, recommending more use

of renewable energy sources and competition as far as concerns the production of electricity.

"Wind power is envisaged to be outsourced via competitive tender," Mr Durhuus said. "It's the only economically credible alternative for power generation in many places, not least in the Faroes. We have a huge potential here. If we manage to stabilize wind power, we'll largely be able to supply Faroe's energy need. But this is a challenge inasmuch as wind is an unstable power source."

The solution: even it out with hydrogen—produce hydrogen in periods with excess wind power; store it and



MARIA OLSEN

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Jarðfeingi  
– Faroese Earth and Energy Directorate is a government agency reporting to the Ministry of Fisheries and Natural Resources. Jarðfeingi's combined responsibilities are the administration and responsible utilization of the Faroese earth and energy resources, with the following main areas of business:  
Hydrocarbon Matters  
Energy Matters  
Geological Survey

*Jarðfeingi's renewable energy adviser Terji Durhuus;  
SEV's power station at Sund (below);  
view of the island of Nólsoy (bottom left).*

should be seen in a global business context.

"As to the hydrogen produced by electrolysis with power from the wind, this can be used to power more electricity or as a fuel."

And if the new Nólsoy ferry "Ritan" gets the go-ahead, it will be completed in about two years—prepared for using hydrogen in conjunction with diesel to produce electricity for driving the propulsion.

convert it back to electricity in periods with insufficient wind power.

In spite of the fact that economic success hasn't been achieved yet, the up and coming hydrogen technology is capturing the imagination of the energy sector across the globe with massive vindication.

"So we are looking at hydrogen to stabilize power output," Mr Durhuus added.

"The Nólsoy Project will be economically viable if surplus energy can be exported to the existing grid—that is, when the hydrogen storage is full with sufficient energy being generated

at the same time, if that surplus can be exported to the SEV grid, then this will be economically viable, based on today's energy prices. And the heating will be taken care of using heat pump technology, either geothermal or air-to-water. In other words, the people of Nólsoy will be paying the same for power and heating as they do now."

Interesting perspectives? From a Faroese point of view, making the system a success, then scale it up for the whole of the country, would indeed make a difference.

From a StatoilHydro and Enercon point of view, the underlying incentive





# DONG ENERGY: IN IT FOR THE LONG HAUL

*For the offshore exploration and production division of DONG Energy, the Atlantic Margin represents long-term prospects of large gas reserves, ranking alongside the mature North Sea as one of two major areas of focus.*

DENMARK'S RISING energy giant DONG Energy has long been building a significant presence in the Faroes as part of placing big bets on the northeast Atlantic Margin. The vast region stretching from Irish and UK through Faroese to Norwegian territories comprises large structures that haven't been drilled yet and there is growing consensus that it's likely to yield huge discoveries in the years to come.

Active in the Faroes from the start of offshore exploration here in 2001, and present in the UK since the same year, DONG Energy through its DONG E&P subsidiary is recognized as one of the leaders in the Faroes/West of Shetland area, with a 21-percent combined share of total exploration and development licenses.

"Our exploration and production activities are focused in two major areas," Senior Vice President Jan Terje Edvardsen explained. "These areas are the mature North Sea and the Atlantic Margin. The center of gravity of our E&P business is to produce a substantial part of the DONG Energy group's total gas turnover."

In Tórshavn, Faroe Islands, DONG E&P's representative Regin Hammer added: "As part of the Atlantic Margin, the Faroes is obviously included in our long term strategy to secure oil and gas at the upstream level. And when we engage in an area, we are thorough and persistent."

After decades of effort, understanding Atlantic Margin reservoir and hydrocarbon characteristics continues to

present a viable challenge for the oil and gas industry. However, significant fields such as Norway's Ormen Lange, as well as Foinaven and Schiehallion west of Shetland, have brought new enthusiasm—as has the recent Lochna-gar/Rosebank find close to the Faroese

area. DONG Energy's strategic interest in the region has become exceedingly evident since its 2005 purchase of a 10.34 percent share in the gigantic Ormen Lange gas field off mid Norway. With Ormen Lange on stream since late last year, DONG's 2 billion

USD investment is now returning enviable access to an energy source in high demand. DONG Energy's share of the estimated reserves in the field amounts to a staggering 40 billion cubic meters of gas—that's roughly the equivalent of Denmark's total gas consumption for a whole decade. The company is also part owner of Gassled, the Norwegian gas transport system through which massive streams of gas are channelled to the UK and other overseas markets.

Technical challenges posed by tough weather conditions in the winter and, at times, layers of basalt rock contribute to making drilling costly. However, with a well-informed team of scientists and engineers, DONG Energy is able to take advantage of its special knowledge of Atlantic Margin geology, according to Mr Edvardsen.

"Geologically, we're looking at basins and structures irrespective of geographical borders," he said. "As far as the Faroes is concerned, we've been involved in two wells, one of which had very thick layers of basalt to work through. Experiences such as these help us build a unique knowledge base; and as technology has evolved lately, more useful seismic images of sub-basalt sediments are becoming available. The basalt problem isn't going to go away just like that but it's becoming less of a block."

DONG's success rate in exploration wells is remarkable, he noted. "We've placed emphasis on becoming basin master, meaning we're very keen on

understanding the geology here—and good at combining data from Denmark, Norway, the UK, Faroes, and Greenland, to apply the specialized knowledge and perspectives needed for successful operations. On average, we've had a 50-percent exploration success rate, at low cost."

When it comes to production, DONG Energy is seen as a top quartile operator. "In fact, we're one of the top three most effective drillers in the North Sea," Mr Edvardsen said.

The mature North Sea is about pursuing a hub driven strategy to maximize value creation from the existing infrastructure, whereas the Atlantic margin is viewed in the context of "long-term, larger gas reserves in areas with substantial potential."

Another DONG E&P "future potential area" is seen in the company's commitment to a high risk/high reward Greenland venture.

Holding 68 licences in Greenland, Denmark, Norway, UK, and Faroe, DONG E&P has a strong market position in the North Sea and the Atlantic Margin. The company produces ap-

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Headquartered in Denmark, DONG Energy is one of the leading energy groups in Northern Europe, with more than 5,000 employees. DONG Energy's business is based on procuring, producing, distributing, trading and selling energy and related products in Northern Europe. Revenues: 41.6bn DKK (5.6bn EUR).

DONG Energy has been involved in oil and gas exploration and production since 1984. At the end of 2007, DONG Energy participated in 55 exploration and appraisal licences.

DONG E&P explores for, develops, and produces natural gas and oil in the central North Sea area, offshore mid-Norway, the Atlantic Margin, and Greenland. E&P's focus on gas exploration and production supporting down-stream gas sales comprises oil and gas in Denmark, Norway, the UK (West of Shetland area), the Faroe Islands and Greenland. The business area includes a stake in Gassled (the entire gas pipeline network from the Norwegian fields to continental Europe and the UK) and the ownership of Denmark's only oil pipeline, which connects North Sea oil fields with mainland Denmark.

proximately 50,000 barrels of oil equivalents per day, with more than 20 years of production worth of known reservoirs in possession.



*DONG E&P Faroes representative Regin Hammer; production platform in the Siri oil and gas field, North Sea (right).*





# REACHING PRODUCTION MILESTONE



MARIA OLSEN

*2007 saw substantial business growth and field development investments for Atlantic Petroleum—with first oil expected this summer as the Chestnut and Ettrick fields come on stream after months of weather related delays.*

**T**O THE SOUND OF FIRST oil flowing, international upstream oil and gas company Atlantic Petroleum will celebrate its 10-year anniversary at some point in 2008.

The landmark achievement for Atlantic Petroleum will represent a day of significance for many Faroese shareholders—this is a company essentially rooted in the Faroes, with origins in local initiative and investment.

Starting from scratch to reach revenue generation through hydrocarbon production a decade later, means huge resources have been invested into obtaining the industry expertise necessary and

gaining the financial power required for success in oil and gas.

The big moment was set to arrive last year when, alas, extreme winter weather conspired to defer the date month after month, quarter after quarter.

A March 2008 update on the Chestnut field in the UK sector of the North Sea—Atlantic Petroleum has a 15-percent stake in the P.354 license, operated by Venture—made clear that commissioning work and subsea tie-in activity on Chestnut was ongoing; “however progress on these activities is slower than anticipated therefore first oil from the Chestnut Field is anticipated during

the third quarter of 2008, with a ‘stretch’ target of second quarter 2008.”

A positive piece of news was added to the story, however, with signs of higher reservoir levels than expected. Thus, through new technical subsurface work, “a potentially significant upside to the field” had been identified south to the Chestnut wells.

As to the Ettrick field in UK licenses P.272 & P.317, in which Atlantic Petroleum holds a 8.27 percent share: Development of the field was, by February, “on track with first oil expected mid 2008.” At that point some 82 percent of the development effort had been

*Atlantic Petroleum chief executive Wilhelm Petersen, view over Tórshavn's East Harbor; FPSO (Floating Production, Storage and Offloading) vessel Sevan Hummingbird installed at the Chestnut Field in the UK sector of the North Sea (below).*

completed, with Atlantic Petroleum's expected share of the total development cost coming to 260 million DKK (34.9m EUR).

“Work is also ongoing to determine whether the North Ettrick and Jarvis discoveries can be tied into the Ettrick development,” the company added.

According to the Annual Consolidated Financial Statements, total assets amounted to 411m DKK (55.1m EUR) at year-end 2007, while the financial year's cash investments in exploration, development and acquisition activities reached 220m DKK (29.5m EUR).

In addition to participating in one exploration well and one appraisal well last year, Atlantic Petroleum farmed into the UK Marten discovery, however the year's most significant investments were related to Chestnut and Ettrick development and production assets at 156m DKK (20.9m EUR). The company's total investments in these fields amounted to 313m DKK (42m EUR) at the end of 2007 with half the amount invested in the previous year.

Meanwhile 2008 investments directly related to Chestnut and Ettrick field development were set to decrease as completion approached.

Likely to become the first year in the black as a result from Chestnut and Ettrick production, 2008 was expected to see a profit of about 100m DKK (13.4m EUR) after tax, before deduction of unsuccessful exploration costs and exchange differences.

“We are disappointed that operational delays are putting back the date for Chestnut first oil,” chief executive Wilhelm Petersen commented. “However,” he said, “the considerable upside

identified to the south of the currently drilled wells could add significant value to the project, so we are looking forward to finalizing subsurface work on this.”

In the Faroes, Atlantic Petroleum holds a 40-percent share in Licenses 013 & 014, which contain the Stella Kristina and Marselius leads. In this context, seismic data acquired in 2006 is being processed, interpreted and tied to data from the Brugdan well of License 006, in which Atlantic Petroleum holds 0.025 percent with the option of increasing the share to 1.2905 percent. “Our strategy here is to mature the understanding of the geology before farming out a portion of our holdings in the two licenses,” Mr Petersen said.

In early 2007, Atlantic Petroleum purchased 11 percent of Ireland's Standard Exploration License 2/07, which includes four discoveries—Hook Head, Ardmore, Helvick, and Dunmore—plus further exploration structures, the company said. An appraisal well on Hook Head drilled later “confirmed a signifi-

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Chief Executive Officer: Wilhelm Petersen

Founded in 1998; the Faroes' first independent upstream oil and gas company.

Participates in exploration on the Faroese Continental Shelf (four licenses) and exploration and development of oil fields in the North Sea (UK) and the Celtic Sea (Ireland). Fourteen UK licenses inc. Chestnut (on stream in second half of '08), Ettrick (in production mid '08), Perth (in production after '08). Five Ireland licenses inc. Lennox/Crosby and Blackrok developments.

cant oil accumulation, with good quality oil recovered from target reservoir zones.”

On the outlook, the Atlantic Petroleum vowed to “increase exploration and farm-in activities by taking more and larger steps. In order to be in a better position to follow the Group's growth strategy in the short term, a share capital increase is being considered to take place during the course of 2008.”





*As a joint association for oil companies that have been granted license to explore for oil and gas in the Faroes, FOÍB provides a single point of contact on matters of broad policy and on general operational issues.*

**D**E-RISKING THE FAROESE continental shelf is complicated and takes time but real progress has in fact been made. Indeed the William exploration well operated by BP marks the latest major step along the road, with another major step, the proposed Third Faroes Offshore Licensing Round marking the next major stage.

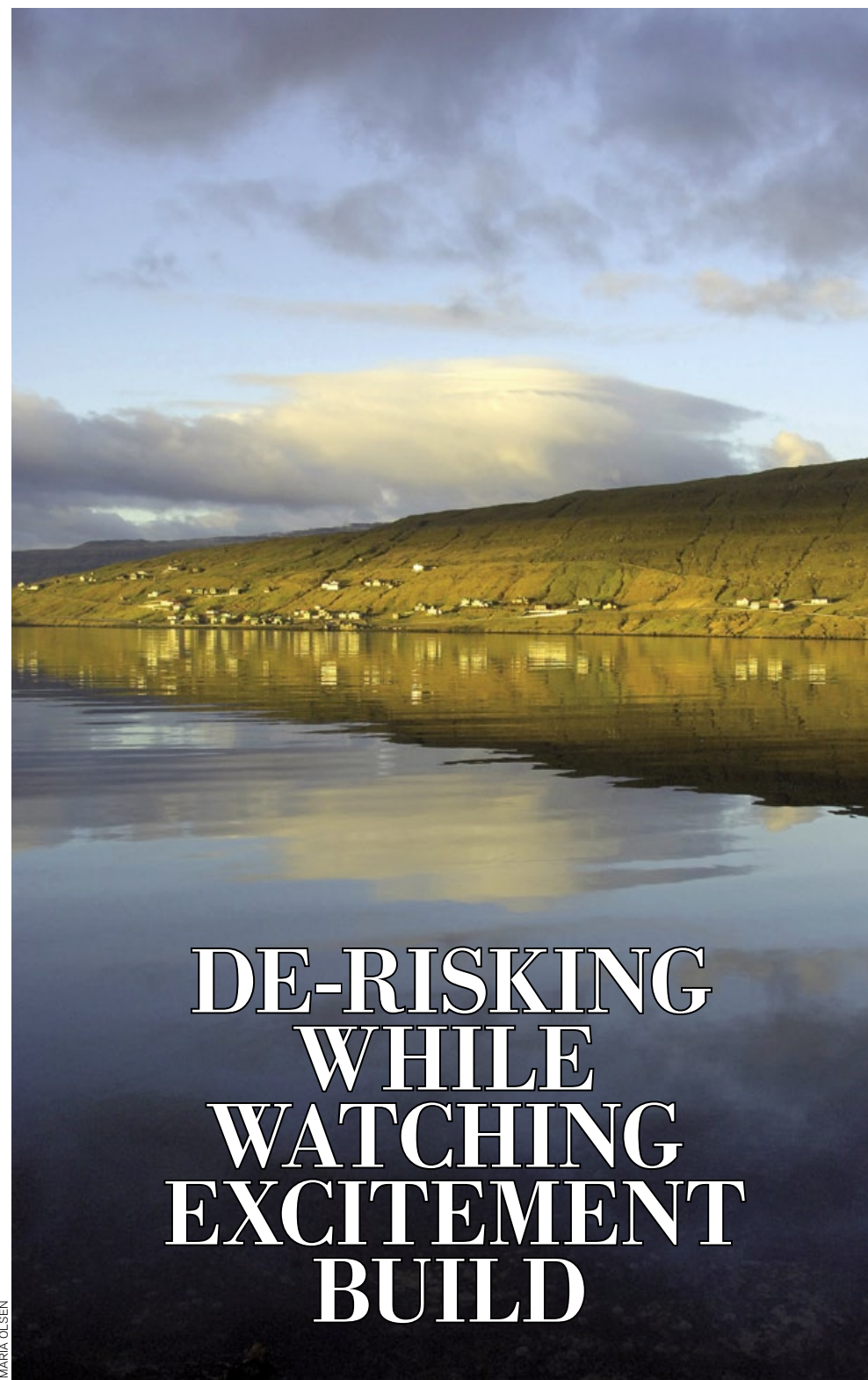
Indeed, the drilling of the William well completes fulfilment of the First Round commitments. A well planned by ENI, most likely to be drilled in 2009, though on First Round acreage, is a result of the de-risking process and is not a commitment well.

While drilling has been one of the signatures of the First Round, there are no such commitments built into the Second Round. However, the licensees have carried out a great deal of de-risking work on the acreage, where basalt is the major challenge.

The Third Round is most likely to be announced in July (2008), with submissions for bids around September. This Round covers an area and oil companies will be invited to table submissions as to their preferred blocks.

But that Round is in the future, meanwhile, unless the BP well encounters clear evidence of oil and/or natural gas, the First Round Marjun-1 well offers the most positive sign of a hydrocarbon system on the Faroese Continental Shelf.

Basalt remains a big challenge, but so too is attracting sufficient investment



## DE-RISKING WHILE WATCHING EXCITEMENT BUILD

MARIA OLSEN

from petroleum companies that have the global stage to invest on; also drilling hardware.

It is well recognized that the Faroese sector is a tough area to explore, plus there has so far not been a commercial discovery.

Few rigs are equipped to drill out in the North Atlantic... the operational season tends to be short and long planning lead times is necessary. While there are rigs capable of working "out of season", this is a costly option.

It is important to realize that there

*Partial view of the villages of Strendur and Innan Glyvur on the western arm of the Skála-fjörður fjord (left); area map as proposed by Jarðfeingi for Third Licensing Round (below).*

is a proven hydrocarbon system and it is possible to drill through the basalt. However, in the context of the basalt itself, the greatest issue remains "seeing" through such volcanics, even with the state of art seismic technologies and interpretation techniques that are now available.

Of course, it is excellent news that there have been successes on the UK side of the Faroe-Shetland Channel, most notably the large Rosebank/Lochnagar discovery being appraised by Chevron; but also Cambo.

Fortunately, the Faroes have been successful in attracting international oil companies and, of course, they are hopeful of making large discoveries. It is good that they are active in UK West of Shetland waters. From a Faroese Oil Industry Group (FOÍB) perspective, it is good that all the oil companies active in the Faroese area are members of the organization. There are currently 11 in membership.

Indeed FOÍB has played an important role in the hunt for hydrocarbon resources offshore the Faroes. It started life in 1997 as an oil company networking organization, which then evolved into FOÍB.

In a nutshell, FOÍB is a joint association for oil companies that have been granted license to explore for oil and gas. It provides a single point of contact with the Faroese authorities and institutions on matters of broad policy and on general operational issues.

One of its purposes is to ensure that jointly funded projects are managed and the results dis-

seminated in an efficient and effective manner. Other core elements of its mandate are:

- To maintain and expand the knowledge base for the Faroese area, obtaining new data for the benefit of the development of an offshore oil & gas industry in the Faroe Islands.

- To engage in constructive dialogue with interested parties in the islands as a forum for industry communication with the Faroese Authorities and other interested parties.

- To strengthen and promote the development of competitive Faroese oil industry through co-operation and stakeholder dialogue.

- To address regulatory and fiscal issues whilst maintaining the highest commitment to HSE matters.

Clearly, with excitement building on the UK side of the Faro-Shetland channel regarding Chevron's Rosebank/

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Chairman: Niels Sørensen,  
Executive Director, Faroe Petroleum

FOÍB acts as the joint association of the oil companies holding licences to explore for hydrocarbons in the Faroese area either as license holders or partners.

Current members: Anadarko, Atlantic Petroleum (Atlants Kolvetni), BP, Chevron, DONG Energy, Eni, Faroe Petroleum (Föroya Kolvetni), Geysir, OMV, Shell, StatoilHydro.

Lochnaga and its likely development, and with other companies planning further drilling, these are exciting times on the Atlantic Frontier.

But it should not be forgotten that this is an industry where progress is measured in years; it takes time and patience. One day the oil prize will also surely be realized for the Faroes.

3rd Licensing Round

