

In cooperation with the **Ministry of Foreign Affairs** and the **Ministry of Trade and Industry** 

FAROE **Business** Report

THE INTERNATIONAL REVIEW OF FAROE ISLANDS INDUSTRY AND TRADE



2011

FAROE ISLANDS

EUROPE

Find your right suppliers and partners in the Faroe Islands.

THE MINISTRY OF FOREIGN AFFAIRS and the House of Industry have teamed up to promote Faroese exports and bring you valuable information on the Faroese business environment.

Most people only ever see the Faroe Islands on the in-flight map 30,000 feet above the North Atlantic between Europe and North America. But zooming in for a real bird's eye view will enable you to see the bigger picture—the international business picture.

You'll see, for example, that there is plenty of business opportunities in the maritime sector, in seafood, aquaculture, tourism, and technology, to name some.

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WELCOME TO THE 2011 EDITION OF THE FAROE BUSINESS REPORT

I'M PROUD TO PRESENT the 6th edition of the Faroe Business Report. It's a pleasure again this year to bring you this information package about the Faroese business scene in cooperation with leading businesses and government departments and agencies. I want to thank all of the participants in the Report for their contributions, especially the Ministry of Foreign Affairs and the Ministry of Trade and Industry, our main sponsors.

So what's new? First, I encourage you to take a read to check the state of affairs in the Faroese business environment and see what some of the main events are compared to last year or a few years back. I guarantee that there's quite a few things that happen in the course of a single year — major change can occur very quickly in the Faroe Islands.

That's in fact part of this year's analysis: what is it that enables such a small country as the Faroes to stand out and gain advantage in a world characterized by fierce competition?

No wonder so many people are impressed by the level of proficiency found among Faroese businesses and their ambitions to continually raise the bar, to always excel at what they do. The same thing can be said, for that matter, of Faroese artists and musicians, and — as we highlight in a photo essay in this issue — an exciting Faroese gourmet cuisine is emerging as part of the New Nordic Food movement.

We cover a wide range of business sectors, from tourism to seafood to maritime services and oil and gas exploration. To an extent the dynamic financial sector is also covered, which again adds perspective to some of the stories.

Many of these stories are produced on behalf of those featured but we go to great lengths to ensure that everything we publish in this Report is informative, accurate, and relevant to the overall subject of Faroese trade and industry, including essential services available for those looking to invest in the Faroes, import seafood or other goods from the country, or explore opportunities in e.g. the maritime sector.

Búi Tyril

Publisher and Editor in Chief

BY JEREMY CRESSWELL

ON MARCH 1 this year (2011) news broke that mighty ExxonMobil had agreed to farm-into three licenses operated by Statoil in Faroese waters. And, during the second half of the year, the pair are expected to spud the 8th offshore well ever drilled offshore Faroe.

Moreover, the now 50:50 partners in licenses 006, 009 and 011 intend to drill a further well in the relatively near future, though the timing and, possibly, location will likely be influenced by the outcome of the Brugdan-2 well (also known as Brugdan Deep), which will be drilled on license 006 several kilometers from the original Brugdan well of 2006.

Brugdan-1 was the first sub-basalt well attempted on the Faroese Continental Shelf. On that occasion, operator Statoil drilled more than 400m past its original projected depth of 3,780m. While it encountered only traces of gas, the company said then that it provided valuable experience drilling in volcanic sub-basalt rock.

At that time, license 006 was held by Statoil 27.15%, DONG 21.91%, Anadarko 13.00%, Enterprise Oil (Shell) 12.47%, Amerada Hess 11.09%, BG Group 10.31%, Faroe Petroleum 4.04% and Atlantic Petroleum 0.03%.

Today license 006 is held by Statoil 50%, ExxonMobil 49% and Atlantic Petroleum 1% ... a massive shift in participation that tells its own story about how tough the oil and gas hunt offshore Faroe has been and remains.

Statoil entered the Faroe sector in 2000 and was quick off the mark with the drill-bit. Indeed the Norwegian company earned itself a place in the Faroese energy history book by becoming the first ever company to drill offshore the mid-Atlantic archipelago.

All three wells were drilled in the Judd Basin, which is a proven hydrocarbon province that has so far delivered the UK sector commercial discoveries Foinaven and Schiehallion.

Statoil's Longan well (6005/15-1) was drilled summer 2001 in license area 003, 130km southeast of Faroes to a total depth of 4000m, terminating in Paleocene sediments.

Rolf Magne Larsen, who was in charge of the company's international exploration and production program at the time, was reported to be disappointed, though he said that data obtained would be useful while planning Statoil's next commitment well.

INCONCLUSIVE: Next off the starting blocks was BP (66.67%), partnered by Shell (33.33%) and working with the super-drillship West Navion. Drilling of well 6004/12-1 started on July 23, some 27km to the northwest of the UK sector Suilven discovery, and was eventually completed on September 19 2001. The well was taken to a total depth of 4,354m, again in the Paleocene, and was side-tracked.

The Svínøy exploration well penetrated the objective targets and demonstrated the presence of both oil and gas, but not of sufficient quantity to warrant BP's continuing interest.

Then came the Amerada Hess-operated 6004/16a-1 Marjun wildcat well, there had been speculation for several days that the big semi-submersible Sovereign Explorer was on to something good. The bets were on gas with condensate or gas with oil. In the event the news was good. Oil & gas were encountered over a gross pay zone of 170m.

Unfortunately, the well, which was drilled to a total depth of 4246m in 950m of water instead of just 3800m as originally intended, was not tested owing to poor weather conditions and has remained an enigma ever since, though Graham Stewart, CEO of Faroe Petroleum has long nursed the ambition to go back and work a lot harder on Marjun than perhaps Amerada Hess did at the time the well was drilled.

That was the first campaign ... oddly inconclusive despite the Marjun success and the fact that they were drilled in the Judd Basin that gave BP the commercially successful Foinaven and Schiehallion fields on the Shetland side of the UK-Faroe boundary.

HOPES HIGH FOR BRUGDAN DEEP

With the Brugdan-2 exploration well poised to deliver some highly valuable data, and quite possibly something more, ExxonMobil teams up with Statoil and Atlantic Petroleum for the oil and gas hunt in the Faroe Islands.

Since then various other wells followed, all delivering frustrating results ... neither outright failures nor resounding successes in terms of the hydrocarbons encounters, not least Eni/Faroe Petroleum's Marimas exploration well drilled in 2003 ... it had been postponed from 2002 ... and found only traces of hydrocarbon. It was promptly abandoned.

DILUTING INTERESTS: Mention has already been made of the first Brugdan well of 2006, which perhaps delivered a better result than observers of the probe had been led to believe at the time.

But maybe the most disappointing well drilled was William ... operated by BP and which had been singled out for attention by the company following license horse-trading with the Faroese government.

William, drilled into thick basalts, reached a depth of 3,383m, terminating above the target Paleocene sandstones of the Vail formation, which had been anticipated at a depth of 2,320m.

The 6005/13-1 exploration well was drilled over a six-month period by the Transocean Rather rig in 743m of water. Drilling was hampered by technical problems and bad weather. The well was in fact suspended for possible future deepening. BP has yet to return.

Then of course there was the 2010 probe Anne Marie. A success? Appar-



ATLANTIC SUPPLY BASE

ently yes. Resoundingly so? That's hard to tell. However, Faroe Petroleum teased with a statement issued late year that said the well "encountered hydrocarbons in thin sandy layers dispersed in a thick Paleocene volcano-clastic sequence, indicating robust evidence of the presence of an active petroleum system".

The well was drilled on license 005 using the Seadrill rig West Phoenix and operated by Eni. The well was pushed to a total depth of 3,901m. The acid test will be whether anyone returns to further investigate Anne Marie, once all well data has been thoroughly evaluated and perhaps further seismic run.

And so to this year's enterprise, Brugdan-2, operated by Statoil but, as indicated above, which is shared 50:50 with Exxon.

For the Norwegian company, this has been an 11-year journey thus far since the 2000 Faroese Licensing Round. For a considerable period, the company held a portfolio of six licenses solus, since when all but one have been diluted as a strategic risk reduction measure.

License 008 (near Chevron-Rosebank on the UK side of the boundary) is now diluted to 50% and shared with DONG and OMV. License 016 is also diluted to 50% and is shared with DONG, Atlantic Petroleum and Faroe Petroleum.

Then there are the three farmed down to Exxon ... licenses 006, 009 and 011, leaving just 010 held 100%.

CLOSE TO ROSEBANK: "We're in a good position now because we have part-

ners in five of our six licenses," said Rúni M. Hansen, head of operations for Statoil Faroe Islands and Greenland and who was involved with Brugdan-1.

He was clearly delighted with Exxon's involvement.

"They're a big company and they're clever; we're very happy to have them on board. But it should be remembered that this is a frontier area ... high risk ... but there is also the potential for high reward," he said.

"Statoil already works with Exxon elsewhere and we're really looking forward to working together in the Faroes. We're very optimistic about this co-operation.

"Our plan is to drill Brugdan-2 later this year. It's not firm yet but at the latest, we would drill early next.

"Basically, the plan is for the second half of this year."

Mr. Hansen said Statoil had a number of high specification rigs working in the Norwegian sector on long-term contracts and that one of these will most likely be used on an opportunistic basis, hence the relatively wide window in terms of spudding Brugdan-2.

"There's a lot of basalt where we're going to drill. But we think we have enough knowledge of drilling basalts to give us an edge. We're very advanced with the planning for Brugdan-2."

While Mr. Hansen said the geological target was deeper than for Brugdan-1, he declined to say more about it, nor divulge anything further about the results of the 2006 well.

As for other targets, Mr. Hansen said: "We have another well that we're also planning on drilling." That will be on license 008, very close to Rosebank in which Statoil holds a 30% interest alongside Chevron (40%) and OMV (20%).

CASH FLOW: Also involved with Brugdan-2 is Atlantic Petroleum, the CEO of which is Ben Arabo, who was previously with Amerada Hess of Marjun-1 note for several years.

He agreed that it has been a long haul for the Faroes in terms of the hunt for oil and gas riches.

"But what's important to realize is that there's been a fairly steady amount of activity over this period of time," said Mr. Arabo. "Admittedly there have been some years with more happening than others but I think the area has picked up momentum of late.

Support vessel North Challenger berthed at Runavík (right); Statoil rig Statfjord C (left); support vessel docking at Runavík during 2010 exploration activities (main).

"The fact that Exxon has joined the hunt is very important. Taking 49% in a planned well is a major commitment."

Commenting on the 2010 Anne Marie well, Mr. Arabo said Atlantic had not been involved with the project but that he thought it fair to conclude that it was not a "barn-stormer" in terms of results delivered.

"It's good that 2011 will be another year with another well being drilled in the Faroes; that's important for the islands. However, like Faroe Petroleum, Atlantic had to generate its own revenues if it was to survive and, like its bigger sister, build an exploration portfolio elsewhere, that is, the North Sea.

Today, Atlantic enjoys equity production from the UK sector Chestnut and Ettrick fields.

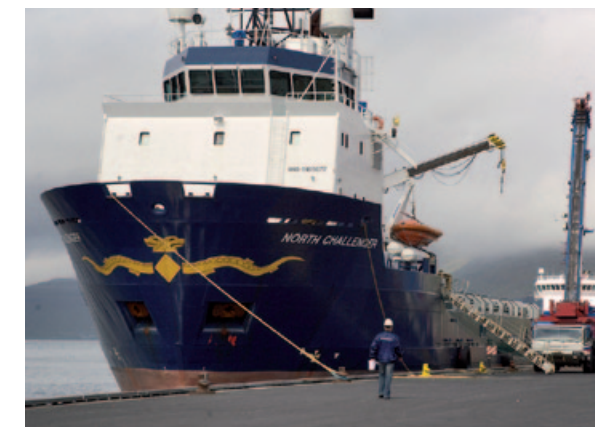
"That's what's enabling us to do the deals that we're now doing because the cash flow from Ettrick and Chestnut is very good these days," said Mr. Arabo.

"We had a very good 2010 with earnings before interest and tax of 147 million dkk (19.7m eur), which is good. We produced 963,000 barrels net to Atlantic last year, so just under 1 million barrels. With the oil price being where it is now, our cash flow remains good."

'VERY VALUABLE': But how are Ettrick and Chestnut standing up in terms of economic lifespan? According to Mr.



HARALD PETERSEN STATOIL



EYEING A NEW ENERGY REALITY

The Faroes prepares to reduce imports of oil by dramatically decreasing dependence on fossil fuels for heating and power — betting on the islands' vast, untapped energy resources: wind and ocean currents.

IN ITS POLICY advice to the Ministry of Trade and Industry concerning the Faroe Islands' move toward renewable energy, Jarðfeingi (Faroe Earth and Energy Directorate) has alluded that conditions for generating power from wind and ocean currents present “virtually unlimited potential.”

According to information presented by the Directorate in February to the political and administrative leadership of the public energy sector, the Faroes could soon become self-sufficient in electricity and heating — and even competitive with offshore wind farms in the North Sea — if wind energy were to be utilized more fully.

Until now, wind power has only been used to a limited degree in the Faroes as the volatile nature of the resource presents special challenges to a power grid of limited size. According to Jarðfeingi's senior energy adviser Kári Mortensen, however, the ideal wind conditions found in the country are now beginning to look economically viable, in particular when combined with the latest in wind turbine technology and energy conversion.

“We're looking at virtually unlimited potential when it comes to wind power,” he said.

“Advances in wind energy conversion technology in the last five years or so mean it's now technically and eco-



MARIA OLSEN

nomically feasible to invest seriously in wind turbines.”

He added: “We can see in a similar way that ocean currents are beginning to look very promising as a power source although the technology may need further refinement. Based on what we know about relevant projects in neighboring countries, we believe the technology could be close to commercial breakthrough. When it comes to assessing the strong currents around our coasts, there is already a good body of research suggesting that we should most definitely include this resource in our longterm energy development strategy.”

SMART GRID REQUIRED: The strategy adopted by the Faroe government, largely based on advice from Jarðfeingi,

calls for a substantial move from fossil fuels toward renewable sources of energy. Accordingly, in its latest advice on technical and economic aspects of future energy development, the Directorate proposes massive electrification based on locally abundant, renewable resources to replace oil-based power generation; change the source of residential and commercial heating from oil combustion to heat pump technology drawing heat from the air, the ground or the sea; and facilitate electric transportation throughout the islands.

While everything on land is thus in for an overhaul when it comes to energy, ships and boats are not covered in the plan.

“By and large, oil still reigns supreme in the marine sector,” Mr. Mortensen

Wind turbines at Nesbøgi, Eysturoy; Jarðfeingi managing director Petur Joensen, left, with senior energy adviser Kári Mortensen (below).

offshore, which means easier access and less costly installation, and more competitive operations — and yet no less energy generated. The cost of transferring the power to overseas, on the other hand, is one consideration. And of course, the investments would be very substantial.”

Meanwhile, upgrading the existing power grid may pose a major challenge. Owned and operated by SEV, the monopoly utility controlled jointly by the Faroe municipal councils, the grid dates back to 1960 with later extensions and capacity improvements. The utility, however, is known to work with Danish energy giant DONG in a project aimed at preparing the way for a smart grid solution.

“The pressure is mounting on the existing grid,” Mr. Mortensen said.

noted. “We do however keep an eye on developments with regard to clean technology and there are certainly concerns over the price of fuel.”

On a more speculative level Jarðfeingi is suggesting that the Faroe Islands could become a net exporter of renewable energy by setting up wind farms and ocean current turbines and installing overseas cables to transfer power through.

“Compared with financially viable offshore wind farms in the North Sea, the Faroes has an even greater potential,” Mr. Mortensen said. “The wind here is abundant, steady and frequent; and with leading-edge turbine technology from Germany, very effective power generation will be possible. Above all, we're dealing with onshore rather than

Faroe Earth and Energy Directorate

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Jarðfeingi
— Faroe Earth and Energy Directorate
is a government agency reporting to the
Ministry of Trade and Industry.

Jarðfeingi's combined responsibilities are the administration and responsible utilization of the Faroe earth and energy resources, with the following main areas of business:
Hydrocarbon Matters
Energy Matters
Geological Survey

“People are increasingly using heat pumps and while this eliminates or reduces their dependence on oil for heating, it likewise has a severe impact on the overall consumption of electricity. That means the grid needs more capacity and much of its power is generated by fossil fuel. Managing more fluctuating power sources — and handling the growing power consumption from electrified heating and electric transportation — will make it necessary to switch to a smart grid.”



SLOWLY BUT SURELY...

FOÍB remains committed to promoting the oil and gas industry in the Faroes encouraged by the government's new open-door policy and the growing activities in areas surrounding the Faroe Islands.

MORE THAN a decade since the first well was drilled offshore Faroe by Statoil, Faroes Oil Industry Group (FOÍB) chairman Nils Sørensen remains highly optimistic, despite no clearly commercial hydrocarbons finds having been made to date.

As is the case for everyone in the Faroese oil and gas industry, Mr. Sørensen is excited that the American super-major ExxonMobil (Exxon) has joined the hunt, having farmed into three of the six licenses held by Statoil and with the current prospect of two further exploration wells being drilled near-term.

Overall, the pace has been slower than was anticipated in 2000, but he is philosophical about that.

After all, it had been slow on the UK Atlantic Frontier for many years, though the pace has quickened of late with a number of notable successes along the so-called Corona Ridge, including

by Faroe Petroleum of which he is a director.

Today, the emphasis is on “maturing” the offshore Faroes sector, without placing oil companies under quite the same pressure for drilling commitments as previously. Mr. Sørensen said FOÍB itself had gone through a maturation process, evolving from being heavily involved in the technical side of oil company involvement to playing a wider role as the industry’s voice, including lobbying the Faroese government for changes to regulatory processes and encouraging it to develop a more pragmatic approach.

It’s about making sure that we in the Faroes can respond to the wider North Atlantic oil and gas dynamic.

Mr. Sørensen: “In a nutshell, we’re adapting to the changing environment. We can see what’s happening west of Shetland on the UK side ... it’s becoming more active and successful. Iceland is coming in with a round this year; Greenland is active; and we’re sitting in the middle of all of it.”

Pragmatic approach: It seems likely that FOÍB’s success in its dialogue with government and the positive way in which it is responding to the need for change are factors that probably helped sway Exxon to join with Statoil’s hydrocarbons quest, leaving aside tantalizing evidence of oil and/or gas from some of the seven wells drilled to date, coupled with significant UK sector discoveries close to the Faroe-UK boundary.



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Chairman: Nils 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: Atlantic Petroleum (Atlants Kolvetni), DONG Energy, Eni, Faroe Petroleum (Føroya Kolvetni), OMV, Shell, Sagex, Statoil.

*FOÍB chairman Nils Sørensen;
map of Faroe exploration licenses (opposite);
support vessel Viking Lady at Runavík
during last year's drilling (below).*

take it or leave; the approach is more pragmatic and there is the realization that making companies drill wells could be more damaging to the reputation of the Faroes short-term than by taking a more considered approach by maturing the area.

“Our government is listening; they are trying to do what we ask for. They have to anyway ... from an oil company perspective it’s a buyer’s market out there at the moment.”

good over time. For example, Faroe Petroleum has high hopes for the Wyville-Thomson ridge acreage.

Back to FOÍB’s achievements with government, Mr. Sørensen is proud of the way in which it was persuaded to change licensing legislation so that there is now an open door licensing policy, rather than relying strictly on licensing rounds.

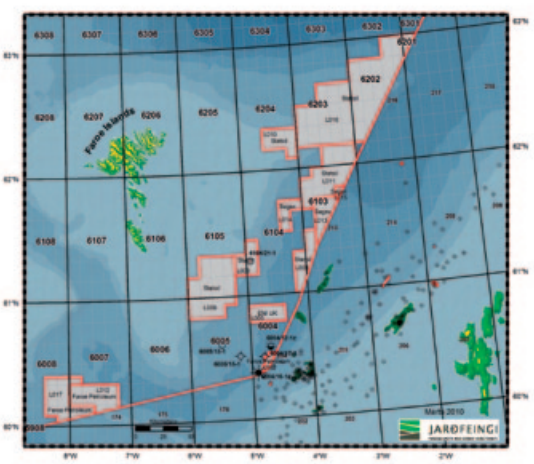
“This way, companies seeking exploration licenses in our sector no longer have to wait until a licensing round before they can negotiate a license. In this regard the new system is quite similar to the UK’s out-of-round process that has operated successfully for a number of

years, but in parallel with conventional licensing rounds.”

If a company applies for a license, it is necessary to advertise this in the European Journal in the event that other companies are interested in securing the same acreage, which could conceivably lead to an operating partnership, but this assumes compatibility.

As for relinquishing licenses, a number are due for surrender in 2012. However, according to Mr. Sørensen, the process is significantly more flexible than when the licensing system was established in the 1990s, with the first round licenses awarded in 2000.

“The attitude is now not so much



STEPPING UP GROWTH

2010 saw profound changes for Atlantic Petroleum, which went in one year from being a company still in its build-up phase to a financially strong E&P company looking for new opportunities in the oil and gas business.

REPORTING REVENUES of 422.5 million DKK (56.7m EUR) and an operating profit of 147m DKK (19.7m EUR), Faroese oil and gas independent Atlantic Petroleum emerged transformed from 2010. With revenues almost doubled and bank debt dramatically reduced, the financial position had been turned on its head following a period of uncertainty.

Preceded by a rearrangement of the company's finances in 2009, 2010 was Atlantic's first profitable year, and the 10-year anniversary of its first exploration license.

"We're now in a very different situation to one year ago," said CEO Ben Arabo. "We have moved from being cash-constrained to rather being opportunity-constrained and for many oil and gas companies of our size, that is an enviable position. The challenge is now to use this leverage wisely to accelerate our growth."



An aggressive growth strategy has been laid out to boost Atlantic's production profile while increasing its exploration acreage in the North Sea and beyond.

"We need to retain and increase revenue-generating assets while maintaining a prudent mix of development and production acreage and exploration prospects," Mr. Arabo said.

That, he said, may involve a bit of rethinking with regard to natural gas although Atlantic's focus has historically been centered on oil.

"Gas is cheaper than oil and doesn't promise the same financial returns but on the other hand it generally offers more stability and less risk. We will therefore be taking a closer look at natural gas assets as part of our mid to long term growth plan."

Mr. Arabo left his position as Exploration Business Manager at Hess to join Atlantic Petroleum as new CEO in the spring of 2010.

His experience as a senior negotiator with Hess is seen as highly relevant for Atlantic at this stage.

"For sustained success, we need to make sure our portfolio always includes an unbroken continuum of producing fields to secure revenue flows," he said.

"That means keeping a good balance between exploration and production assets, as part of the exploration licenses are, in time, going to be developed into sources of revenue."

Acquiring the right oil and gas assets at the right time and at the right price is something that requires both



technical knowledge and negotiation skills.

"When it comes to discoveries already made, equity is more expensive," Mr. Arabo noted. "The earlier you enter the process, the greater the uncertainty and the lower the access cost. This business is much about recognizing the good opportunities and assessing the risks without underestimating the time and cost involved."

He added: "In terms of technical knowledge and business knowledge, I think we have a very strong team."

BETTING ON PERTH: Chestnut and Ettrick, the two production fields in the UK sector of the North Sea in which Atlantic Petroleum holds a 15-percent and a 8.27 pct. stake, respectively, came on stream in 2008 and 2009.

The Ettrick field produced a total of 6.63 million barrels of oil equivalents (boe) in 2010 while Chestnut delivered 2.74m barrels, making Atlantic's net production in 2010 960,000 boe.

To compensate for the depletion in only a few years of such relatively small fields, Atlantic has decided to take part



Atlantic Petroleum CEO Ben Arabo; corporate headquarters in Tórshavn (opposite bottom); FPSO (floating production, storage, offloading unit) Sevan Hummingbird at Chestnut (opposite top).

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Atlantic Petroleum is an independent exploration and production (E&P) company with oil and gas interests in the North Sea, Celtic Sea and on the Faroese Continental Shelf. The Company has interests in 15 licenses containing over 30 fields, discoveries, prospects or leads and is in partnerships with 19 international oil companies.

2010 net total production: 960,000 barrels of oil equivalents (boe) from the Chestnut and Ettrick fields in the Central North Sea. Total revenues amounted to 422.5 million DKK (56.7m EUR).

2010 activities included participation in the drilling of two development wells on the Ettrick field, one appraisal well on the Blackbird field, the collection of 167 seabed cores on License 016 in the Faroes and completion of a site survey on Faroese License 006 in preparation for a potential exploration well in 2011.

Atlantic Petroleum is listed on NASDAQ OMX Iceland and on NASDAQ OMX Copenhagen. NASDAQ OMX ticker: FO-ATLA & FO-ATLA CSE. Bloomberg ticker: ATLA IR. Reuters ticker: FOATLA.IC

in the development of Blackbird, a tie back to Ettrick, as well as raising its stake in the Perth discovery to 10.8 pct.

The company was recently awarded two UK 26th Licensing Round exploration licenses, adding more exploration acreage to the four Faroese exploration licenses already in the portfolio.

According to Atlantic Petroleum's Annual and Consolidated Report and Accounts 2010, one of the objectives for 2011 "is to participate in three ex-

ploration wells of choice with equities between 5 - 20 pct."

One of these exploration wells is the Brugdan Deep well planned for drilling in the Faroes in the summer of 2011 in partnership with ExxonMobil and operator Statoil.

Perth is an old discovery known to hold large reserves however technical challenges have stopped it from being fully developed. Yet progress in recovery technology together with other factors

has brought plans of development back on the agenda.

Said Mr. Arabo: "We hope that the Perth partners will be able to submit a Field Development Plan this year [2011] with first oil possible as early as 2013."

Contingent reserves in Perth are estimated at 2.77 million barrels for Atlantic Petroleum with its 10.8% share in the discovery, which means the development could dramatically extend the company's production profile.

THOR PLANS TO ORDER NEW OFFSHORE VESSELS

As part of a renewal plan initiated in 2006 to modernize and add tonnage to its now 14-strong fleet of offshore support vessels, Thor is set to order two to three new vessels for its Offshore Services division in the near term.

THOR, THE FAROE ISLANDS' leading vessel operator in the offshore services business and a significant player in the country's fishing industry, is looking to have two or three new offshore support vessels built in the near future. According to the company's management, the investments for the Offshore Services division will be designed to meet the rising international and environmental standards demanded by clients, as well as to increase fleet tonnage.

"We are planning to order either two or three newbuildings within the near future," Thor chief executive Hans Andrias Joensen said. "The timing and other details of the transaction will depend on contracting and financing issues. You may say, however, that this is part of our fleet renewal program which was initiated with the building of two new vessels that we took delivery of in 2008 and the purchase of another new vessel one year earlier."

As more new vessels will join the Thor Alpha (2008), Thor Omega (2008), and Thor Assister (2006), Thor's com-

mitment to high quality service for the seismic sector will be brought more into focus.

"It's all about having the right people and the right vessels for the right purpose," operations managing director Gunnbjørn Joensen said.

The seismic industry operates in all parts of the globe — in part depending on where there is summer.

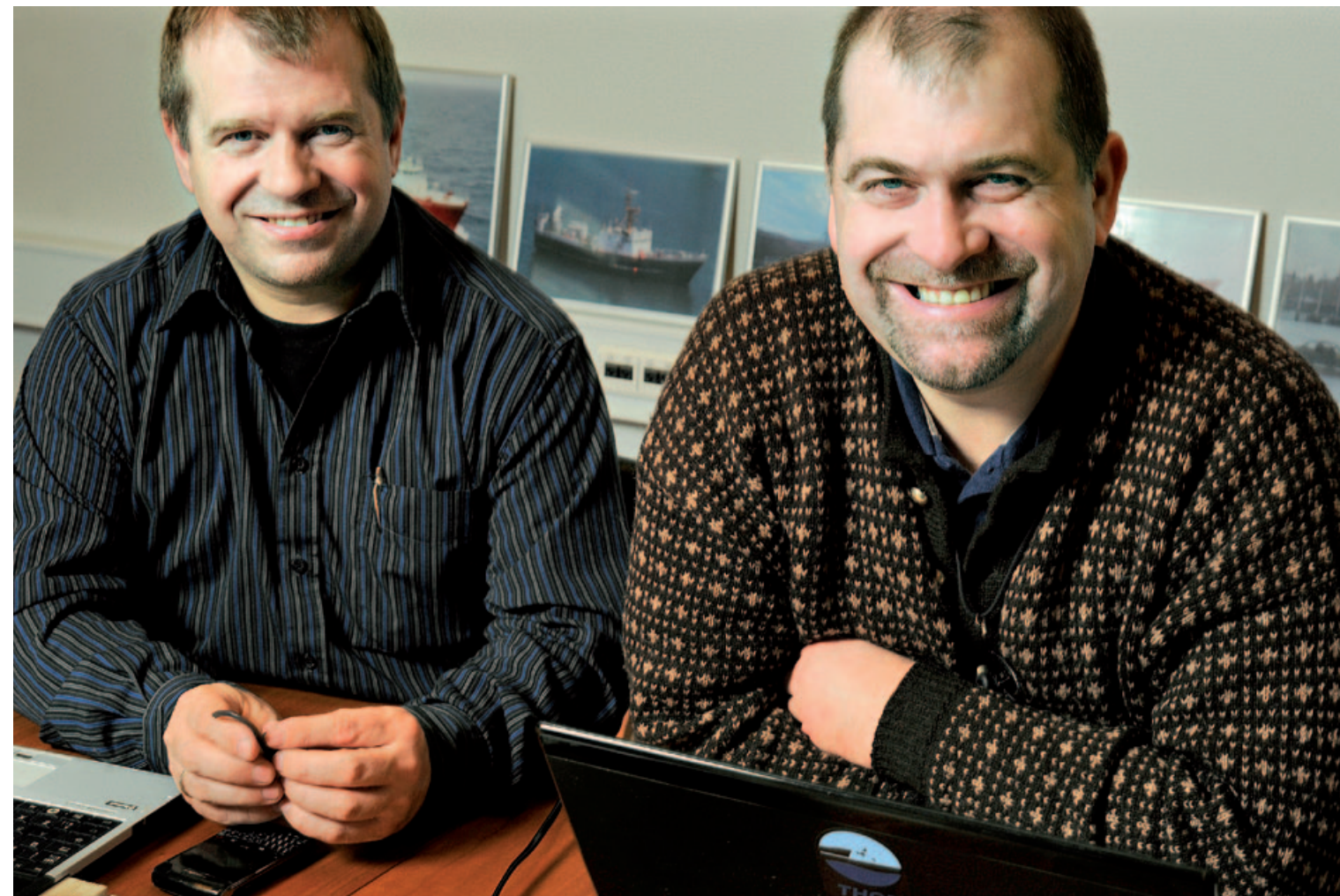
"Their operations are highly sensitive to weather conditions and therefore take place exclusively in the summer," Mr. Joensen added, pointing at a world map with blinking dots marking the various current whereabouts of Thor vessels. "Like our clients, we follow the summer."

While many of the officers on Thor's boats are Faroese, the crews come from all over the world. Good language and communication skills are crucial.

"We train all our sea officers at these premises before they actually start working. Also they must be multilingual because the working environment is very international. All crew have to be good at communicating with client representatives, among themselves, and with our people here."

'FORWARD-LOOKING': Owning and operating 14 offshore support vessels and 8 fishing vessels, Thor is headquartered in Hósvík, about halfway between Tórshavn and Runavík. The company employs some 300 people worldwide with a staff of 25 at the Hósvík offices.

Thor was originally founded in 1994



Chief executive Hans Andrias Joensen, right, with operations managing director Gunnbjørn Joensen; office manager Sue Philbrow (below); the Thor Alpha newbuilding, delivered in 2008 (bottom left).

as a fishing enterprise. The company was offered the opportunity to provide support services in 1997 as seismic surveys for offshore oil and gas were conducted on the Faroese Continental Shelf. Offshore services quickly became a growing part of the business and before long Thor had a fleet of support vessels engaged in various places around the world.

Hans Andrias Joensen said: "It started with networking and going to seminars and conferences to learn about the offshore business, which was a very hot topic in the Faroes at the time. We became interested as we figured that because we knew how to operate boats and ships for catching fish, we could also

learn it for a different purpose like offshore services."

He added: "We soon discovered that there was an international market for our services. Our clients were happy and as they operate on a global level, we started working for them wherever they needed us to."

But what's the secret to Thor's success in the marketplace? According to the Joensens, it has much to do with demonstrating reliability and quick responsiveness to offer top quality service at all times. And although fishing and offshore support services are two very

different worlds, good seamanship and effective operations of sea vessels are equally important on both sides.

Thor's leading position in the seismic sector may well be linked to the fact that the company was able to seize a window of opportunity in the late 1990s and gain a foothold in a specialized niche market — and keep it.

Said Mr. Joensen: "Your reputation spreads rapidly. So you have to prove that you can be trusted to deliver, every day, throughout the year. You must show that you care enough to make sure your service is second to none. Regarding the

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Operations MD: Gunnbjørn Joensen

Vessel operator and marine services company, specializing in offshore support services for the oil and gas industry; shipping; fishing. Transport of crews, freight, spare parts.

Chase/support and guard vessels:

Thor Supporter, Tórsvík,
North Star, Thor Pioneer,
Thor Supplier,
Thor Server,
Thor Goliath,
Thor Provider,
Thor Guardian,
Thor Beamer,
Thor Alpha
Thor Omega
Thor Assister
Mars Chaser (operate only)

Fishing vessels:

Thor VN 87 (gillnetter 292 GT)
Vesturland VN 307 (gillnetter 295 GT)
Ran TG 752 (freezer trawler 1,100 GT)
Túgvusteinar VN 556 (crab trawler 269 GT)
Athena (factory trawler 7,805 GT)
Phoenix (fresh fish trawler 699 GT)

Denmark subsidiary: Thor DK



THE FIXER

Offering a comprehensive range of goods and services in Faroe, Runavík's Atlantic Supply Base has taken over maritime agencies to act as the offshore oil and gas industry's first point of contact on the Faroese Continental Shelf.

IT'S BEEN A DECADE since the Faroe Islands' first and only supply base for offshore oil and gas exploration was installed at Runavík on the island of Eysturoy. Since then, Atlantic Supply Base has been put to the test in seven drilled wells, passing with flying colors according to customers' reports.

ASB has thus been involved with handling all incoming and outgoing cargo related to drilling activities in Faroese waters. In addition, reaching out beyond territorial borders could secure new contracts from West of Shetland and other Atlantic Margin operations, said ASB managing director Eli Lassen.

With experiences ranging from land based oil and gas worker to captain in the merchant fleet, Mr. Lassen takes a 360-degree approach to his job. ASB offers the full range of services, he pointed out, from making arrangement for crew changes to docking to loading and discharging equipment and goods, to a host of related services.

"Supplies, mud mixing, warehousing, waste management — customers' requirements vary although there are certain services that all of them need," Mr. Lassen noted.



Good quality of service is certainly of paramount importance to long term success. Since 2008, ASB has been certified according to the ISO 9001:2008 standard, with the following specification of business activities: "Supply base service in exploration phase. Receive, store, mix, and ship material (bulk and mud). Receive waste from the exploration area. Handling of gear and tools from the exploration area. Maritime agency."

One client stated in an ASB customer satisfaction survey: "ASB performance ... was exemplary in terms of HSE [health, safety, environment] and operational performance. Zero incidents or rig down time experienced. The entire Faroes team embraced the ... safety culture with enthusiasm and energy always looking to go, and going the extra mile to satisfy the offshore customer."

For any vessel calling at a port not well known to its navigators, there is bound to be a number of potential headaches to come, whether related to piloting needs, available docking space, or anything that might be subject to misunderstanding.

Not so at Runavík, according to Mr. Lassen.

"I know what it means for a skipper

to call at a foreign port," he said. "Our clients can rest assured that we're here for them. In fact we set out to prove every day that Runavík is congestion-free, smooth and accommodating for all vessels arriving here. We don't ask them very often to move from dock to dock because calling at Runavík means no hassles and no worries."

ONE-STOP SHOP: With still only a limited amount of drillings taking place in the Faroe Islands, ASB may have to look elsewhere to make sure commercial operations can be extended beyond the summer period.

"We're in the process of establishing contacts with representatives of oil and gas companies active in the West of Shetland region and elsewhere in the northern North Atlantic," Mr. Lassen said.

"The idea is of course to share with them some of the great benefits of using the Faroe Islands and more specifically ASB for supply base."

He added that the Faroese business environment offers clear advantages with key services more easily accessible than perhaps anywhere else.

"Our location is very competitive and at the same time we have a highly developed maritime industry concentrated in a small place, all combined with a general level of accessibility that is probably unmatched in the whole world. Using our base is a smart way to save time, effort, and monetary resources. By offering our services to companies operating both within and outside of Faroese ter-



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Managing Director: Eli Lassen

Atlantic Supply Base is the only operational offshore supply base in the Faroe Island. ASB is located centrally in the only all-weather harbor in the Faroes — Runavík, situated in the Skálafjørður (the longest fjord in Faroes) on the island of Eysturoy.

Atlantic Supply Base successfully supported the drilling of the first 7 Faroese exploration wells from 2001-2010.

The company has likewise been chosen as supply base for next exploration well on the Faroese Continental Shelf, the Brugdan Deep prospect, operated by Statoil, in the summer of 2011.

Shipping and port agency, freight and stevedoring, forwarding services, customs clearance, material management and inventory control systems.

Able to handle all normal offshore cargo.

ISO 9001:2000 certified in 2008 by DNV.

Atlantic Supply Base managing director Eli Lassen; storage facilities (below); the ASB team (opposite bottom); providing services to Viking Lady (opposite top).

ritory, we believe we may soon see our commercial activities extended beyond the summer period."

Meanwhile renewed agreements for the next upcoming drillings in Faroese waters together with new agency contracts could make ASB poised for strong growth.

"With our people and skills, our facilities, and a comprehensive network of specialist suppliers, we're able to take

care of pretty much anything that gets thrown our way," Mr. Lassen said.

Part of his current optimism may have to do with the fact that ASB recently became maritime agent for all of the companies involved in exploration activities in the Faroes.

"Before we took over these agencies, things were more complicated.

"Now that we can coordinate all enquiries coming from offshore oil and

gas from a single point, we're able to make sure every single item is followed through in the most effective and satisfactory way."



Arabo, both fields will produce for rather longer than initial estimates and have significant greater reserves, which is fairly normal in the North Sea.

“Chestnut started production in 2008 and we extended the lease on the FPSO (floating production storage and offloading) unit and we expect the field to continue producing through to 2014 or thereabouts. The field was found 22 years before it was finally taken in hand and developed by Venture Production [now a unit of Centrica].

“As long as revenues are in excess of operating costs we’ll keep going with Chestnut; likewise Ettrick.”

And the next development opportunity for Atlantic? That would be Blackbird; which is a small oil accumulation located 6 km south of Ettrick.

“We have committed to developing the field, together with operator Nexen.

The plan is for a 6 km subsea tie-back and to start production in Q1 2012. Our equity is 9.4% and the field is still economically robust, even after the latest UK tax increase.”

“We have increased our equity in some of the assets in which we hold an interest, such as Perth; plus we recently did a farm-in of the Orchid prospect on UK block 29/1.

“For us, Faroe is the high risk, high impact part of the portfolio, but we’re also trying to increase our exposure to medium risk, medium impact exploration. That’s the kind of assets we’re seeking in the Central and Northern North Sea.”

But the real dream for Mr. Arabo is to one day produce oil and/or gas in his home waters. Meanwhile he and the rest of the Faroese population have to be patient.

“We remain very active in the Faroese sector and very much wish to be part of whatever success there is. But the company is now an established oil producer, albeit from the UK, and that’s very important, as is trying to build some further exploration upside.

“A lot of people recognize that the well to be drilled this summer might be something special; both because of the involvement of Statoil and Exxon and because it’s the second Brugdan well.

“It’s being looked upon as a possible watershed ... a very valuable well.

“Worst case scenario is that it will give us a huge amount of information about the stratigraphy; best case is encountering what we’re hoping to discover.

“Meanwhile, it’s good that you can have a company headquartered in the Faroes but which is not entirely dependent on local success!”



Standing at a new frontier



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IT SEEMS ineffective or insufficient communication costs businesses and governments vast amounts of money every year. The good news, however, is that business communication can indeed be managed effectively — not only to avoid known pitfalls but to create amazing results.

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Apply for E&P licenses at any time: Introducing the Faroes open-door policy

AVAILABLE acreage on the Faroese Continental Shelf includes high-impact opportunities. With the new open-door policy announced in the latest amendment to the Hydrocarbon Act 1998, oil and gas exploration and production companies may apply for licenses on the Faroese Continental Shelf throughout the year.

For further information on the application process, contact Jarðfeingi, the Faroese Earth and Energy Directorate. Details available on our website at www.jarðfeingi.fo.



JARÐFEINGI
FAROESE EARTH AND ENERGY DIRECTORATE

Jarðfeingi is responsible for all administrative tasks related to oil and gas exploration and production activities in the Faroe Islands. This involves communication with Faroese and foreign E&P companies and with Faroese government departments and agencies in charge of tasks related to the activities of Jarðfeingi as well as communication with the general public.