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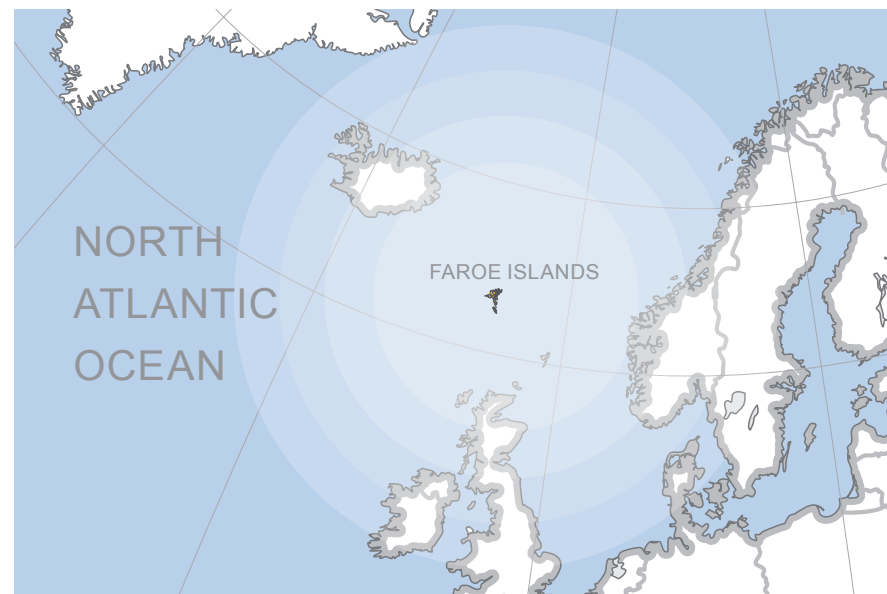
IN ASSOCIATION WITH VAGAR AIRPORT

# FAROE **Business** Report

THE INTERNATIONAL REVIEW OF FAROE ISLANDS INDUSTRY AND TRADE



2012



The Faroe Islands is a self governing country within the Kingdom of Denmark (which also comprises Greenland), located in the North Atlantic (62°Nort 7°West), approximately 300 km northwest of Scotland, 430 kilometers southeast of Iceland, and 600 km west of Norway. The Faroe Islands is comprised of 18 islands, separated by narrow sounds or fjords. Land Area: 1400 square kilometers; 545 square miles. The distance from the northernmost point of the archipelago to the southernmost is 113 km, and the distance from east to west is 75 km. The largest island is Streymoy (375 km<sup>2</sup>) and the capital, Tórshavn, is situated there. The highest point, Slættaratindur, is 882 m and the average elevation above sea level is just over 300 m; the total coastline is a little above 1,000 km. The climate is typically oceanic; the weather is moist, changeable and at times windy. Due to the influence of the Gulf Stream, there is little variation between winter and summer temperatures. Population: 48,778 (2009). Of this number, 19,649 lived in the Tórshavn (capital) region and 4,927 in Klaksvík, which is the second largest town. Language: The written and spoken language is Faroese. The Faroese language is a North Germanic language closely related to Icelandic and to the dialects of western Norway. Nordic languages and English are understood and spoken by most Faroese. Religion: Approximately distributed as follows: Evangelical Lutheran Church: 85 percent; Christian Brethren: 10 pct.; Other: 5 pct. History: The Faroe Islands is believed to have been discovered and inhabited in the 8th century or earlier by Irish settlers. The Norwegian colonization began about hundred years later and developed throughout the Viking Age. The settlers established their own parliament on Tinganes in Tórshavn. The Faroese Parliament is believed to be the oldest in Europe.—*Excerpted from Information Memorandum 2009, published by the Governmental Bank.*



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I'M PROUD to present the 2012 edition of the Faroe Business Report—The International Review of Faroe Islands Industry and Trade. The fact that this is the seventh volume in this annual series gives, in my view, a clear indication of the success of this project. It has indeed been a journey into the unknown—no other publication has ventured into an editorial mission of the same kind, creating a bridge of communication between the Faroese business community and an international readership consisting largely of businesspeople with existing or potential interests in the Faroe Islands.

During this journey, we've become acquainted with quite a number of nuances and stories and the amount of change we've seen since 2005 has been enormous; like some ongoing revolution, relentlessly shaping debates and pushing agendas. Where does it come from? Where does it go?

There is this popular saying that the only thing that is certain is that nothing is certain. While the wisdom of that may seem too self-evident, it nonetheless gives cause for reflection every now and then, and will serve to remind us that of course there are certainties—the fact that we take them for granted will never change that. How could businesses otherwise thrive, if there weren't any sure ways to handle known problems? Luckily, we still have regularities in all areas of life and business—reminders that, thank God, not everything changes all the time.

The Faroese have the ambition and the ability to produce top quality products and services; they have incredibly much to offer. When it comes to disciplines and technologies related to their traditional areas of strength, seafood and shipping, the potential to develop more winning solutions seems endless. Then there are other, perhaps less traditional areas of great opportunity and potential: energy—including but not limited to, offshore oil and gas—and business tourism, especially conferences, meetings, and corporate events.

I wholeheartedly recommend that you read some of the inspiring business stories found in this publication.

BÚI TYRIL

Editor in Chief & Publisher



BY JEREMY CRESSWELL

HERE IS A SENSE of déjà vu to this 2012 oil&gas report as exactly a year ago, the plan was that the Brugdan II (Brugdan Deep) exploration well would be drilled by Statoil with partners ExxonMobil and Faroese company Atlantic Petroleum.

However, in May 2011, the brakes were applied and this very important well was put on hold for a year pending further preparation and evaluation of data, including by then new partner Exxon which announced a ‘farm-in’ to the license two months earlier in March.

Brugdan II is now scheduled for this year, with drilling operations likely to start late in the second quarter subject to there being no delays to the contracted drilling rig’s work book. The advanced, effectively brand new sixth generation super-semisubmersible COSL Pioneer is booked and it would appear that all systems are go.

It has been six years since the first Brugdan well designated 6104/21-1 was drilled in 2006. However this probe, the first sub-basalt well to be attempted off the Faroe Islands, turned out to be ‘dry’ though traces of natural gas were encountered.

The well was drilled by Statoil using the Stena Don rig, which failed to reach an extended target depth of 4,400 meters, significantly beyond the original commitment depth of 3,780m. The plan this time is to drill significantly beyond 4,000m and possibly as deep as 5,000m.

The first well encountered thicker basalts than expected, but was not drilled deep enough to reach one of the secondary targets in a type of sand body known in the trade as Vaila and which could harbor hydrocarbons, if the geological conditions are right.

That Statoil continues to hold the 006 license and is prepared to have a second try at the Brugdan prospect is encouraging; that ExxonMobil chose to farm-into the project is doubly encouraging as the American super-major has a reputation for thorough research before it makes any move.

And the size of the target, which is located about 30 kilometers to the west of the Faroe-UK maritime boundary?

According to Atlantic, which has a 1% stake in the 006 exploration license, the P50 reserves estimate is 920 million barrels oil equivalent of which it would be entitled to 9.5m boe.

Should a convincing hydrocarbons strike be made, the likelihood is that it would be mainly gas. But whether oil or gas, the potential prize could be significant.

Calculations leading to this estimate were made by geophysical specialists Fugro Robertson who judged the prospect “economically viable to drill” despite water depth and isolation.

Should Brugdan II come in (trade-speak for be successful) then it could still be at least a year before a further well is drilled on the prospect, leaving aside other geological targets that Statoil has in mind for 2013 and beyond.

**‘EXXON FACTOR’:** According to Jan Müller, managing director of FOIB (Faroese Oil Industry Group), there has been a major change-out in the companies prepared to roll dice at the Faroese exploration table; not only that but a considerable reduction too.

This is unsurprising given the lack of drilling success so far, even though significantly fewer than 10 wells have been drilled to date.

“We know it took 100 wells West of Shetland before there was a commercial find,” says Mr. Müller, urging a sense of proportion. “Around 30 wells were drilled offshore Norway before there was a find and 90 wells in the Barents Sea before a discovery.”

*As ExxonMobil joins the Statoil-led quest for hydrocarbons in the Faroese continental shelf, the cause for cautious optimism becomes increasingly convincing—not least judging from the latest developments West of Shetland.*



# NEW WAVE OF OPTIMISM



Mr. Müller recalls that what encouraged the early interest was growing success on the West of Shetland side of the Faroe-UK boundary.

"We had a lot of oil companies involved with the Faroes during the early years of exploration and this was very much driven by the UK West of Shetland story.

"When oil production started from the BP-operated Foinaven, Schiehallion and Clair fields, this had a very positive impact in terms of Faroese hopes. Indeed, at one point there were 15-20 oil companies interested in the Faroes.

"BP thought it saw a mirror of Foinaven and Schiehallion on the Faroese side, but that turned out to be wrong at the time. However, we know a lot more now than then, even though the wells drilled in our waters to date have been disappointing.

"The hope is that as more and more discoveries are made on the UK side and further fields are developed, this will encourage companies working in Faroese waters to keep hunting and that this will eventually lead to success."

Mr. Müller says that even though big brands like BP, Chevron and Shell

have given up the hunt for Faroese hydrocarbons, fortunately Statoil has stayed resolute, firmly committed.

"We can thank Statoil for being the driver of activity today; it holds about half of all current licenses, operating six. And ExxonMobil is a stakeholder in three of those through farm-in.

"We of course still have DONG and OMV, plus there is a new name, and that is Valiant Petroleum, which holds a position through its acquisition of Sagex (licenses 013 and 014) last year."

"All in all we have six-seven companies active in Faroese waters now."

Mr. Müller says that the decision by Statoil to open its data-room on its Faroes interests marked a "turning point" in terms of the current revival and that this decision to be open attracted a lot of oil company interest.

"That ExxonMobil has taken an interest in the Faroes means that we are still considered to be a worthwhile target, which is very important.

"They are very cautious and generally do not make a move until they have carried out thorough research.

"Exxon has told us that, when they arrived last year, if the well drilled this year provides at least some evidence of hydrocarbons, they will be interested in further drilling with Statoil."

**CAMBO SURPRISE?** Meanwhile Mr. Müller sees the UK game being raised, not least by the British Treasury decision to offer 3 billion GBP in tax concessions for deepwater Atlantic Frontier activity.

This tax relief, geared to projects in more than 1,000m of water and announced in the 2012 Budget by Chancellor George Osborne, is currently seen as benefitting one discovery only and that is Chevron's imminent Rosebank-Lochnagar development located barely 15km from the Faroe-UK boundary.

"The Osborne tax relief is very inspiring for license holders in the Faroes and our policymakers."

The problem with Rosebank-Lochnagar (two separate stacked reservoirs) is that Chevron has chosen to say very little but has spent a fortune on appraisal drilling, including probing neighboring prospects with tie-back potential.



If Hess modeling and analysis suggests such potential then presumably the Faroese Government will have been advised.

But the biggest problem with Cambo is the failure of operator Hess to say anything much about any of the four wells drilled there so far. Cambo-4 was completed towards the end of last year.

UK Department of Energy & Climate Change material indicates that Cambo wells 204/10-1 and 204/10-2 proved 8m (25ft) and 20m (65ft) of net reservoir respectively. And the Cambo-4 appraisal well drilled in the second half of last year is reported to have been a success.

The fact that this important discovery is now a development candidate has not yet seeped out into public domain. There has been no announcement, formal or otherwise from Hess.

Mr. Müller: "With Cambo I have a feeling that the story is again telling us that what is going on West of Shetland will have a very big impact on exploration in the Faroes."

He will be proven right.

As if that isn't enough, Mr. Müller

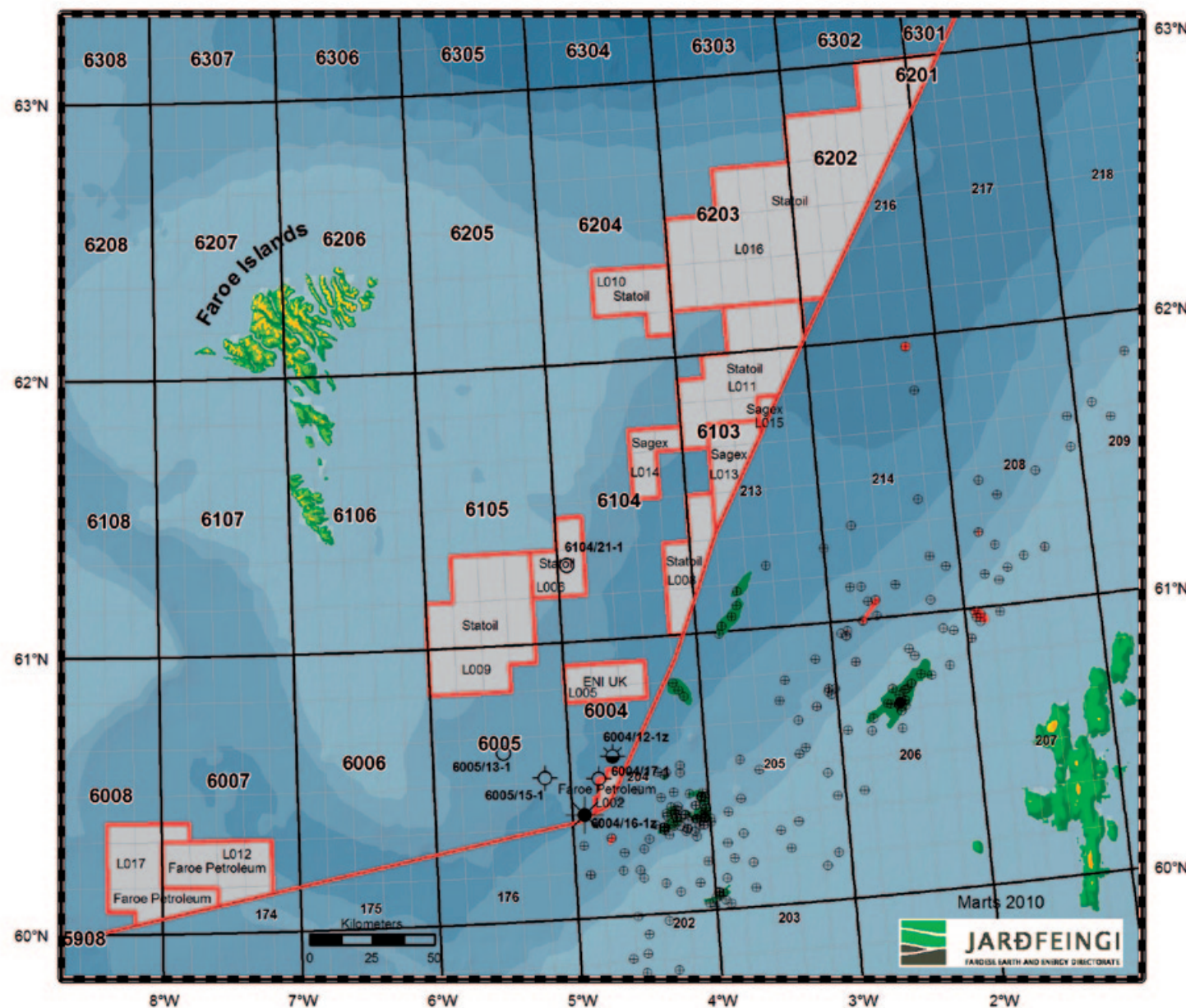
While the company has provided zero technical details about Rosebank-Lochnagar wells, it can be disclosed that the log (record) for the important discovery well 213/27-1Z shows that the drill-bit encountered numerous oil, plus oil/gas shows throughout more than 150m (500ft) of Upper Jurassic sandstones, plus shows in Lower Cretaceous formations.

Little wonder the company has spent so much time and money on appraisal work. An investment decision is expected in 2013, according to Chevron. And according to SubseaIQ, Rosebank is "considered to be one of the biggest discoveries" on the UK Continental Shelf.

Mr. Müller has a hunch about the Cambo discovery too. As this is literally just on the UK side, the chance of hydrocarbons being found just over the boundary in Faroese territory is tantalizing.



Map of exploration licenses in the Faroes;  
Loading a supply vessel at Runavik (right);  
The North Challenger docked (above).





is also excited about an exploration well just started by BP, again West of Shetland. The prospect in which Faroe Petroleum holds a 6.25% interest, is located on UKCS block 213/25c, approximately 125km northwest of the Shetland Islands and some 30km southeast of the UK-Faroes median line, water depth is 1,290m. The reserves potential in Jurassic age sediments is described as “significant” and BP expects any oil found to be light.

“Evidence from the Eribol well 18km away, and the Rosebank and Lochnagar wells 40km away, which are the nearest wells with hydrocarbons, indicate the most likely oil type, if present, at the North Uist site would be a relatively light crude,” says BP in the North Uist environmental statement.

On a cautionary note, the earlier South Uist exploration drilled by Shell was a failure.



Even if North Uist turns out to be dry, Mr. Müller points to the current West of Shetland map, highlighting the growing list of gas and oil discoveries destined for development sooner or later: Glenlivet, Solan, Tormore, Laggan, Torridon, Victory, Edradour, Bombardier and Lancaster.

And then there is the ongoing Clair Ridge development with a likely phase three of Clair to follow, the Schiehallion redevelopment and ongoing success of Foinaven, not forgetting the Laggan Tormore gas project led by Total, plus Hurricane’s decision to develop Lancaster and Chrysaor’s success in attract-

ing Premier Oil to farm into its ongoing Solan project.

Little wonder Mr. Müller is optimistic.

**‘EXPENSIVE OUT THERE’:** Another optimist is Graham Stewart, CEO of Faroe Petroleum; and he remains so despite the company being involved in some of the dry wells drilled to date in Faroese waters.

Like Mr. Müller he believes that the more infrastructure that gets built West of Shetland the better it could turn out to be for the Faroes in the event of any commercial finds.

He agrees that the new tax concession for West of Shetland will likely kick-start Rosebank-Lochnagar.

“It seems to be designed almost exactly for that situation. And that’s great as it will lead to more infrastructure,” says Mr. Stewart. “Total’s Laggan-Tor-



more project is also coming along, plus the company will also be getting Edradour lined up.

“It all helps and that’s got to be good for the Faroes. OK, there’s not a lot happening there and many of the companies that were there have gone and things are basically now led by Statoil.

“Who knows what could happen except that, if Brugdan Deep is a success then that would bring about big change and play a big part in unlocking the (geological) puzzle, the main focus being sub-basalt.

“We’ve been in four wells in the Faroes; one of which wasn’t sub-basalt ... it was stratigraphic and that was back in 2003 with Eni. That didn’t work. The target was sizable.

“The other wells didn’t work basically because we were unable to drill through the basalt; or we’re not sure that we got through it.”

Faroe Petroleum’s approach to the Faroes oil and gas hunt has changed.

“We no longer have traditional licenses; we have the new Prospecting type license. It will allow us to look at other play types; but without the pressure of a work program timetable.

“It’s a broad exploration license that, if we find anything exciting, we can then apply for a traditional license (to take

things further forward). We’re looking at things from a different perspective using all the data that we have and as much other data as we can get our hands on.”

However, Mr. Stewart is clearly disappointed that he had to let go of the company’s Wyville-Thompson Ridge concession.

“We were unable to de-risk the area sufficiently; the issues were just too difficult to deal with; to get anybody in with us. We did hope that we might have drilled a well or two but that was not to be.

“If Statoil or Exxon had become involved, that might have been a different kettle of fish and that the whole sub-basalt play becomes really hot.

“We were under pressure to commit to a well; but we just couldn’t do it on our own, so we withdrew.

“We’re still committed to the Faroes; and we’re hoping that what we and others learn on the UK side can be applied in the Faroese sector too. To the casual observer, it may look as if there’s not a lot happening. But we have people working on it.”

Mr. Stewart is enthusiastic about

the North Uist probe and the fact that Faroe Petroleum has diaried an electromagnetic (EM) survey over the huge Grouse prospect ... near Lagavulin, which was successfully drilled last year.

“We’re hoping to drill one well on the Atlantic Margin next year,” said Stewart. “There are a couple of candidates and one would be either Grouse or Aileen, a Cretaceous target south of Total’s Edradour. It could be oil or gas but more likely to be gas.

“We’re partnered by E.ON in Aileen and E’ON and Idemitsu in Grouse,

“But it’s expensive working out there on the Atlantic Frontier!”

*Jeremy Cresswell has been an energy journalist/analyst for more than 20 years and is best known as the editor of the Energy supplement at the Press and Journal. He has an MBA from the Robert Gordon University and has contributed to many business and energy-oriented titles, co-authored upstream oil & gas reports and publications, and is the author of four energy-related books and an associate of the energy economists Mackay Consultants.*



*OSLPioneer, the rig hired to drill the Brugdan II exploration well; Loading a supply vessel (opposite); The Mærsk Feeder (above).*

## Turnkey Communication Solutions for the Offshore Industry

Through Faroese Telecom's PoPs, we offer the offshore industry turnkey and future proof communication solutions.

### Turnkey Communication Solutions

Faroese Telecom offers a single point of contact for arranging offshore assets to be connected to offices onshore, or connections between onshore offices, via the Faroese Telecom network.

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Faroese Telecom has the experience and expertise. We have already established communication solutions between production units West of Shetland to offices in Aberdeen as well as between offices in Sullom Voe to offices in Aberdeen via the Faroese Telecom network.

Our communication solutions open doors for optimizing the daily processes offshore and in remote locations, as great amounts of data can be transmitted “real time” to headquarters and processes can be managed more efficiently.

**Faroese Telecom has PoPs in:** Tórshavn, Faroe Islands – Maywick, Lerwick & Sullom Voe, Shetland – Ayre of Care, Orkney – Banff & Aberdeen, Scotland – London – Copenhagen

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*The Faroes Oil Industry Group (FOÍB) enters a new era as former media operator Jan Müller takes the helm with a remit to raise the organization's hitherto low profile and provide a more vocal advocacy for the industry in the Faroes.*

SINCE THE summer of 2011, FOÍB has undergone significant organizational change. The post of Managing Director has been created and invested with executive functions with the aim of delivering a new level of working relationships between member companies and stakeholders.

Jan Müller who has been appointed as Managing Director is well known in the industry from his track record as a journalist and newspaper editor.

He has been a long-standing oil and gas industry enthusiast with expert knowledge of offshore developments, especially those related to the Atlantic Margin including the Faroese continental shelf.

"I'm very excited about this," Mr. Müller says of his new position at FOÍB. "Much of my career in journalism has prepared me for a job of this kind. It will of course present a fair amount of challenges but working for the oil and gas industry is something I find hugely fulfilling and I passionately believe that the industry is of crucial importance to the future of the Faroe Islands."



## THE NEW FACE OF FOÍB

In a statement dated 1 September last, announcing the appointment of Mr. Müller, FOÍB said it "will in future be more focused on communication and information activities."

Alongside the Faroese Authorities, Business Community and General Public, FOÍB's counterparts in neighboring countries, such as Norway's OLF (Oljeindustriens Landsforening) and Oil & Gas UK, were cited as a key group to improve communications with.

**PREPARING THE NATION:** Announcing the organizational changes last year, FOÍB stated its intention to be more focused on communication and information activities in future.

One early concrete step in this direction came with Mr. Müller's launch of an online news service—Oljan.fo—with daily updates of news and information on offshore oil and gas in relation to both the Faroe Islands and the wider world. This has already proved a tremendous success with the website attracting thousands of regular readers after only a few months online.

"The enthusiasm has much to do with the job market but not only that," Mr. Müller says. "We have a lot of small and medium sized business owners and managers who are interested in learning more about this industry, probably because they expect it to expand in the Faroes over the next few years."

The Faroes has long had a large number of merchant navy officers, fishermen and other seafarers who work abroad while keeping their permanent residence on the islands. Nowadays, their ranks are being bolstered by those pursuing careers in offshore oil and gas. This is becoming an increasingly attractive option and a trend that looks set to gain further momentum with more and more Faroese students taking a higher education degree related to that industry. Even as things stand those engaged in the industry represent a significant sector of the Faroese workforce and make a commensurate contribution to the economy.

These developments in education

*FOIB managing director Jan Müller; COSLPioneer, the rig hired for the Statoil-operated Brugdan II exploration well, scheduled for a 5-month drilling campaign starting in the early summer of 2012 (opposite, bottom).*

and careers can be seen as helping prepare the Faroese for the challenges of the global labor market regardless of the success or failure of offshore exploration in the Faroes.

"Look," Mr. Müller adds, "there is no doubt we have large amounts of hydrocarbons buried deep down in the Faroese continental shelf.

"The question is, when are we going to have the first commercially viable find? It could be this year, could be later. Nobody knows. The important thing right now is that we continue the hunt and persevere, even when we're faced with temporary setbacks. After all the Norwegians had all but given up back in the 60's when Phillips struck gold with the Ekofisk discovery. We are fortunate in the Faroes because Statoil are so committed to leading the charge. Now they've got ExxonMobil on board as well, which raises confidence and expectations further.

"The Faroese business community has made impressive progress in developing the service infrastructure that will be required, and have been noticeably successful in serving the needs of the seven exploration wells that have been drilled to date.

"But whatever may or may not materialize in the months and years ahead around the Faroes, those who have undergone their training in oil and gas will be at a great advantage.

### FOÍB – The Faroes Oil Industry Group

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Managing Director: Jan Müller  
Chairman: Nils Sørensen

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:

Statoil, DONG Energy, ENI, OMV, Valiant Petroleum, Atlantic Petroleum, Faroe Petroleum.

FOIB's aim is to promote the offshore oil and gas industry in the Faroe Islands by working closely with member companies, the Faroese government authorities and other stakeholders.

FOIB runs a news website: [www.oljan.fo](http://www.oljan.fo)

SINDRI

The SINDRI Group is an offshoot of FOÍB. It fulfills the commitment of the members, as license holders, to sponsor joint projects of relevance to the future investigation of the Faroese continental shelf. It aims at standards of excellence by attracting the top researchers in this field to conduct relevant and innovative studies. At the current time there are approximate 15 different projects funded by SINDRI.

SINDRI shares offices with FOÍB in Tórshavn. Kristian Martin Petersen acts as the Administrative officer for FOÍB as well as General Coordinator for SINDRI.

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"Worldwide demand for the product looks set to remain strong for the foreseeable future.

"I am determined that FOÍB will be at the forefront of promoting initiatives to benefit the industry and those working in it and to be pro-active in communicating information about all the developments to our stakeholders not least the general Faroese populace."





# BRUGDAN II: SEARCH FOR FAROES BREAKTHROUGH DEEPENS STATOIL-EXXONMOBIL PARTNERSHIP

*In a partnership deal reminiscent of a recent Tanzanian success story, the Brugdan II exploration well—the deepest ever to be drilled offshore the Faroes to date—sees global oil and gas giant ExxonMobil team up with operator Statoil.*

OVER THE LAST few years it's become increasingly clear that the locomotive force in the oil and gas exploration effort offshore the Faroe Islands is none other than Statoil. The Norwegian exploration and production company has long exhibited an interest, backed by serious commitment, to lead the way in solving the hydrocarbon riddle of the Faroese continental shelf—a plateau covered with layers of basalt yet located near several commercial finds West of Shetland.

With this summer's spudding of the Brugdan II, an estimate four or five-month drilling campaign, Statoil is arguably in a better position than ever to achieve a good result. There are several reasons—knowledge accumulated from earlier Faroese prospects and data analysis; ongoing advances in offshore and subsea technology.

In addition, Statoil has entered into a partnership with ExxonMobil, one of the international companies that have been exploring sub-basalt plays on the Atlantic Margin the longest.

While Statoil holds 50 percent of license 006 which includes Brugdan II, ExxonMobil has a 49-pct share, and Atlantic Petroleum 1 pct.

As an exploration company, Statoil



*Chief Executive Rúni Hansen, Country Manager Statoil Faroes and Statoil Greenland; Tristan Asprey, ExxonMobil's Exploration Operations Manager for Europe & Greenland (below).*

ed at almost 4,200 meters in total depth. According to Mr. Hansen, Brugdan II is intended to go deeper.

“This is certainly a deep well and that brings additional challenges—this well is likely to be very important for the Faroes area.”

Rumor has it that anyone asking Jarðfeingi [Faroese Earth and Energy Directorate] for advice will be told that today's problem in the Faroes is that no well, as yet, has gone deep enough. The theory is that, in the geological sense, no one has to date reached the depths equivalent to what has been reached on the UK side of the border—as the hydrocarbon layers on the Faroese side sit further down.

company considers the Faroes as both Frontier territory and an area with high-impact potential.

“The Faroes, in this respect, is an area of interest and that's why we have a commitment here,” Mr. Hansen said. “Now, this is the 8th exploration well to be drilled here and everybody knows that the layers of basalt make things somewhat tricky. This is considered to be a territory with high uncertainty. Of course we hope to find something and besides, it will give us more knowledge about the area. So there is an upside potential because we also have a few other licenses here.”

Statoil were also operators of the Brugdan I and that drilling was conclud-

has been extremely successful lately, with a higher discovery rate during 2011 than any other E&P company worldwide—a trend that may continue this year.

“Of the 41 exploration wells we drilled during 2011, no less than 21 turned out to be discoveries,” Rúni M. Hansen, head of operations for Statoil Faroe Islands and Greenland, noted.

Statoil's latest high-impact discovery, Pão, was made offshore Brazil and announced in February 2012—high impact meaning at least a total 250 million barrels of oil equivalents (boe) or more than 100m boe for Statoil. Within the last 12 months or so, the company has made five other such finds: Skrugard and Havis in the Barents Sea, Johan Sver-

drup (former Aldous/Avaldsnes) in the North Sea, Peregrino South off Brazil, and Zafarani off Tanzania in East Africa.

The Zafarani discovery, likewise announced in February, is seen to highlight a deepening partnership between Statoil and ExxonMobil. The two companies have established a similar partnership in the Faroes, with ExxonMobil farming in to what used to be Statoil's 100-percent license. As a case in point, not only has Statoil lately been remarkably successful in exploration—the Zafarani discovery was also made together with ExxonMobil.

**‘ENCOURAGING RESULTS’:** According to public information from Statoil, the

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Chief Executive: Rúni M. Hansen,  
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and Statoil Greenland

Statoil is an international energy company with operations in 36 countries. Building on 40 years of experience from oil and gas production on the Norwegian continental shelf, we are committed to accommodating the world's energy needs in a responsible manner, applying technology and creating innovative business solutions.

Statoil is headquartered in Norway with 21,000 employees worldwide, and is listed on the New York and Oslo stock exchanges.

More information on [www.statoil.com](http://www.statoil.com)

Participates in exploration on the Faroese Continental Shelf with six operatorships including License 006, in which the Brugdan II prospect is to be drilled in 2012. Partners in License 006 are Statoil with 50%, ExxonMobil 49 % and Atlantic Petroleum 1%.

These waters are technically challenging since large areas of the seabed are covered by thick layers of hard basalt (old volcanic lava). Statoil's positive encouragements in the area has resulted in an increase in exploration activities in all our operated licenses in the Faroes.

salts. The results to date are encouraging and we are hopeful of making success, but there are no guarantees.”





# ATLANTIC ON NEW GROWTH PATH

*For Atlantic Petroleum, forward-looking business development and consolidation bring renewed growth and improved financial performance—with assets further boosted through the acquisition of Volantis Exploration.*

IT MAY SEEM a long time ago but it was only back in 2010 when Ben Arabo left Hess to become CEO of Faroese oil and gas independent Atlantic Petroleum. In the two years that have passed since Mr. Arabo took the helm at Atlantic, the exploration and production company has undergone rapid development and growth with increased acreage, a boosted management team, and a strengthened financial position.

The basis for this development had arguably been put in place already through the company's early partnership in Chestnut and Ettrick, two oil fields in the UK sector of the North Sea that came on stream in 2008 and 2009, generating fresh cash flow for the company at a time when leverage was relatively high.

Much of the bank debt has been paid down since then, placing Atlantic in a very different situation with a cash chest that sets it apart from many other companies of a similar size.

"2011 was a year of development and consolidation and in many ways a transformational year," said Mr. Arabo. "We're now well funded and fully engaged in building our portfolio, and we believe we will have a strong cash flow in the long term."

The year's operating profit amounted to 126.3 million DKK (17m EUR), compared to a corresponding figure of 147.3m DKK (19.8m EUR) for 2010.

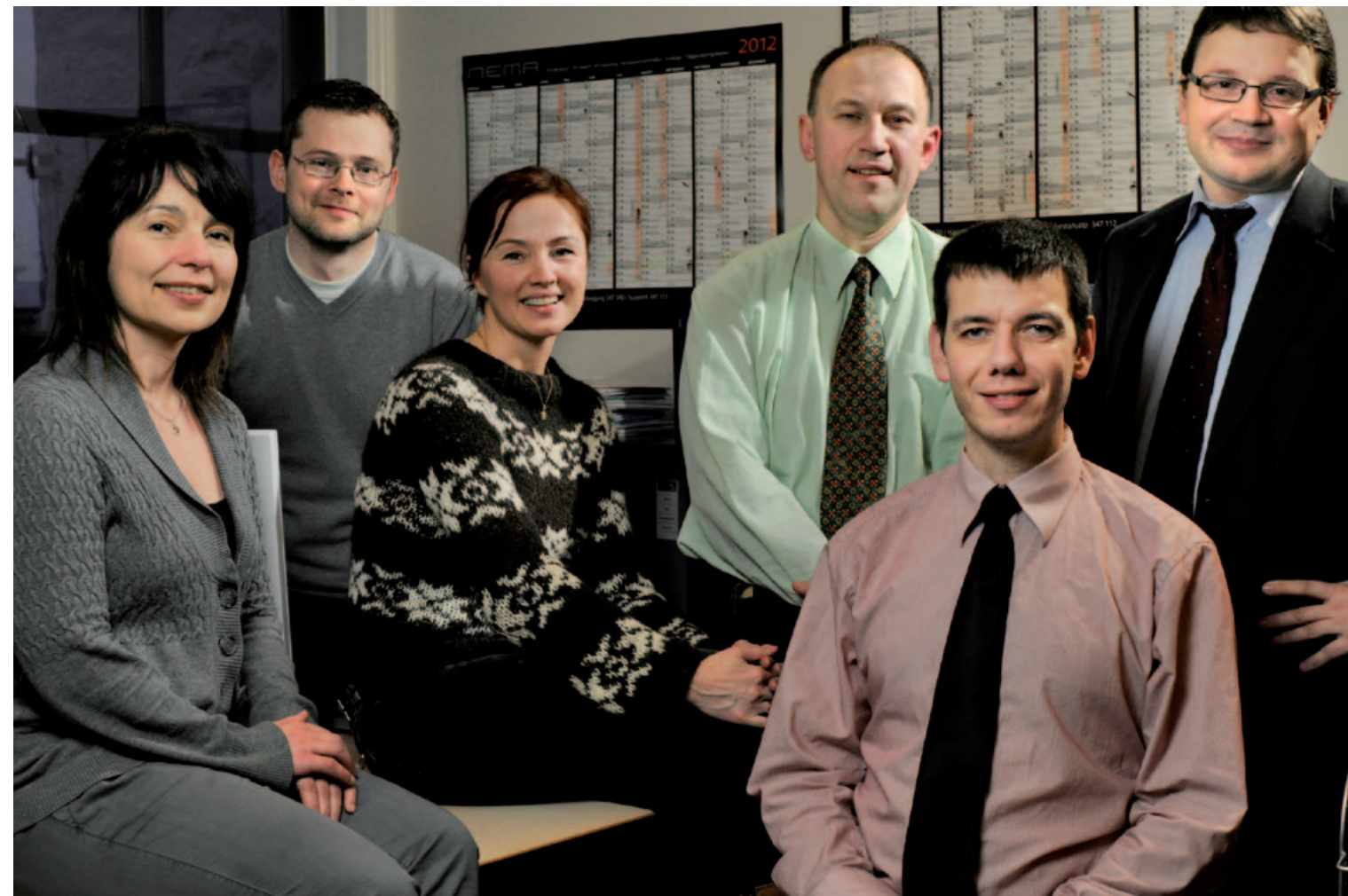
According to the company's Annual and Consolidated Report and Accounts 2011, Atlantic's cash position was strengthened with cash-at-hand amounting to 114.3m DKK (15.4m EUR) by year end. For the first time in the company's history, the shareholders' equity crossed the 400m mark to total 444.5m DKK (59.8m EUR).

Throughout 2011 Atlantic invested around 50m DKK (6.7m EUR) in exploration and appraisal activities and around 135m DKK (18.2m EUR) in field development and producing assets.

Since November 2011, a third production field—Blackbird, a tie back to Ettrick—has helped secure Atlantic's revenue stream.

Another UK field, Perth, could be on track for new development, with possible first oil in 2014.

"The Perth Field Development Plan was submitted to the UK authorities on the 30th September 2011," the Annual Report stated.



*Atlantic Petroleum employees in Tórshavn, from left to right: Fia Petersen, Hallur Durhuus, Aimi Justinussen, Zvonko Mrdalo, Mourits Joensen, Ben Arabo; FPSO (floating production storage and offloading) unit Sevan Hummingbird (opposite, bottom).*

"Consent to the plan is expected in approximately six months. The plan envisages the initial phase of development to consist of three production wells and two water injection wells tied back to a floating production storage and offloading vessel (FPSO)."

**'CONSIDERABLY STRONGER':** Yet periods of slowdown due to technical issues reduced Atlantic's oil production in 2011 to 2,020 barrels of oil per day (boepd), compared to previously expected 2,100 to 2,600 boepd.

While Blackbird came on stream six weeks ahead of schedule and on budget, shutdowns because of annual maintenance coupled with work to complete the tie-in constrained Ettrick production in the third quarter. Chestnut produc-

tion in 2011 was lower than expected because of water injection issues. These were resolved late 2011, however, allowing for normal production to resume in early 2012.

With production poised to increase in 2012, considerations for the long term have to be focused on exploration as well, Mr. Arabo told the Faroe Business Report.

"We need to constantly keep a healthy balance," he said, "between, on the one hand, what we can earn in the near term through production and, on the other, what we can identify for exploration at a viable price with an eye on possible future development."

Atlantic's acquisition—through

subsidiary Atlantic Petroleum UK—of Volantis Exploration, in mid 2011, brought in new equity stakes in 15 licenses in the southern North Sea on the UK continental shelf.

The deal added key personnel from Volantis, including CEO Nigel Thorpe, who is now Atlantic's Business Development Director, and increased the number of staff in London to nine, surpassing the seven-strong headquarters in Tórshavn.

Another new member of the management team is Wayne J. Kirk, Technical Director, who has previously been Managing Director of OMV (New Zealand) to join Atlantic in late 2011.

"Volantis Exploration has successfully built up an attractive portfolio of

## Atlantic Petroleum

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CEO: Ben Arabo

Business Dev. Director: Nigel Thorpe

CFO: Mourits Joensen

Technical Director: Wayne J. Kirk

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 31 licenses containing over 50 fields, discoveries, prospects or leads. Furthermore, Atlantic Petroleum has partnerships with 29 international oil companies operating in North West Europe.

2011 net total production: 737,000 barrels of oil equivalents (boe). Total revenues amounted to 434.8 million DKK (58.5m EUR).

Operational highlights: Acquired Volantis Exploration adding significant acreage and drilling projects in the UK Southern North Sea Gas Basin. The Ettrick field produced a gross total of 5.9MM barrels of oil equivalents (boe) in 2011 and Blackbird produced 0.4MM boe gross. The Chestnut field produced a gross of 1.39MM barrels (bbls) in 2011. Increased equity in the Perth licence to 13.35%.

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

exploration and appraisal licences in the UK Southern Gas Basin," Mr. Arabo stated.

"The Volantis Exploration team brings a wealth of knowledge and experience to Atlantic Petroleum and will form an important part of our endeavours going forward."

"We had a strong team already before we purchased Volantis," Mr. Arabo added in an interview. "We're even stronger now."





# BUILDING A GLOBALLY MOBILE WORKFORCE AT HOME AND ABROAD

*Promoting an agenda of workforce mobility for the Faroese—and radical change for pelagic fisheries—Thor inspires domestic interest in offshore oil and gas and the maritime industry, boasting a track record of international success.*

AS ONE OF THE Faroe Islands' leading vessel owners and operators, maritime services provider and fishing company Thor has had a profound influence on both public opinion and economic life in its home country.

Based on many years of experience in fishing, Thor launched its Offshore Services division in the mid 1990s, establishing itself as the first Faroese company to set up a dedicated vessel operation for the offshore oil and gas industry.

The company's success in the seismic industry inevitably brought with it a changed culture over the years, not only internally but also more generally in the Faroese business community and the job market.

Influences from Thor's business activities are widely known in the Faroe Islands. For one thing, other Faroese companies have followed Thor's lead to enter the offshore business as domestic investment capital has found its way into

new ship building projects aimed at the oil and gas industry.

The recent progress noted in the FAS open ship registry seems to suggest a growing domestic and international interest in the Faroese shipping industry. Likewise, a boom in the number of applications received by the Centre for Maritime Studies and Engineering is seen to indicate that young people, increasingly, want to work in international merchant shipping and offshore oil and

gas. While many end up working for Norwegian or Danish companies, others opt to stay with a Faroese employer, such as Thor.

"This is a global market," notes Thor CEO Hans Andrias Joensen, "and those who work in this business have to be extremely mobile. Our staff come from every corner of the world however most of our sea officers are Faroese. The support vessels they'll be working on are operating in very different parts of the globe."

Mr. Joensen says that the Faroe Islands has a natural advantage when it comes to working at sea and in the maritime business. He also maintains that more should be done to strengthen travel links in and out of the country.

"Thor as a company and besides, all the Faroese people who work abroad in the international shipping or oil and gas industry, would have a great advantage if our country offered better and more affordable connections with neighboring countries. I would say this is a question of national interest and should be treated as such, perhaps by similar approach as used in developing our domestic road and ferry infrastructure—that is, maximum mobility for all.

"Such conditions would attract many expatriates to return and might stop others from moving abroad, as the borders of our country would no longer pose a barrier for those looking to work

elsewhere. And let's face it, there are only so many jobs available here; remember our entire population is no more than 48,000."

Mr. Joensen adds: "Thor's real strength has to do with the fact that we see the entire world as our market and workplace. By extension, the same thing applies to this country."

**SECURING A SHARE:** As for the fishing business, Thor has clearly made a mark on public policy, in particular concerning domestic pelagic fisheries, where high economic rewards have recently been reaped from a sea change in the way the Faroes asserts its rights in the international arena.

"We knew for a long time that we were sharing our resources too generously with the fishing fleets of other countries," Mr. Joensen says.

"For years the northeast Atlantic mackerel stock was growing increasingly abundant in our waters and staying there for a very considerable time each year, and its impact on the marine ecosystem was becoming an issue. But we had to fight hard before people in the industry and the government were ready to recognize that the Faroese share of the mackerel quota was everything but fair under the Coastal States Agreement.

"Now that we're going into the third season since the change of policy that eventually happened, it's becoming clear that we were right in our assessment—that this particular domestic fishery could be worth a billion [135 million EUR] per year."

## Thor Offshore Services

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CEO: Hans Andrias Joensen  
Operations MD: Gunnbjörn 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

Thor's entry into the pelagic business in the Faroe Islands was largely built on the company's efforts in international waters in the South Pacific, which led to the establishment of a new management regime for the horse mackerel fishery there, securing the Faroe Islands a share based on historic rights.



CEO Hans Andrias Joensen, left,  
with crew manager Justin Philbrow;  
the Thor Alpha, built in 2008 (right).

MARIA OLSEN



# A CRITICAL LINK FOR DRILLING OPERATIONS

*Following a year without drilling action offshore the Faroes, activities resume in June when the Brugdan II prospect is to be spudded in a campaign expected to last for several months—with busy times for Atlantic Supply Base.*

FOR DRILLING activities related to offshore oil and gas exploration on the Faroese continental shelf, the Port of Runavík has a crucial part to play. Ever since the first prospect was drilled more than a decade ago, the port's function as a traffic hub for all transports related to the upstream oil and gas industry has been handled by Atlantic Supply Base (ASB).

ASB has acted as the supply base of choice for all seven drilling campaigns which have been completed to date in the Faroe Islands—with such compelling results as to prompt words of praise from the company's clients.

"ASB performance ... was exemplary in terms of HSE [health, safety, environment] and operational performance," one client stated in a customer satisfaction survey, adding: "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."

Eli Lassen, ASB managing director, said that reliability and other key aspects

of service quality have been central to ASB's business strategy since day one.

The company has, since 2008, been certified according to the ISO 9001 quality standard, with the following specification: "Supply base service in exploration phase. Maritime agency." According to Mr. Lassen, the ISO 9001:2008 was to be incorporated in the new QHSE MS (quality-health-safety-environment management system), set to be released during spring 2012.

In a recent scoop that could potentially increase ASB's revenue base going forward, the company won maritime agency contracts for all vessels involved in the exploration business offshore the Faroe Islands.

"We know this business inside out and have the ability and capacity to make sure our clients receive the best service possible," Mr. Lassen said.

Mr. Lassen used to be a captain in the merchant fleet and is also a former land based oil and gas worker. With skills and experience that make him a very hands-on manager, he has been successful in recruiting personnel for ASB operations.

"The competencies we have are clearly of advantage to our clients," Mr. Lassen said. "For example, it can be challenging for a vessel to approach a foreign harbor and the unknown factors can be many. So we have worked hard with the Port authority to proactively address potential issues that may occur. The outcome has been excellent and we've

received a very positive response from our clients.

"They appreciate the fact that we have no harbor congestion, only smooth operations."

ASB offers a comprehensive range of services: crew change arrangements, supplies, docking, loading and discharging goods and equipment, mud mixing, warehousing, waste management, and more.

The company now owns the two warehouses that used to belong to Faroe Ship's former base at Runavík, providing indoor warehouse storage of 1,000 + 900 square meters, and seven offices.



## Atlantic Supply Base

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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 II prospect, operated by Statoil, in the summer of 2012.

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 9001:2008 certified by DNV.

*Unloading a support vessel;  
MD Eli Lassen (opposite).*

petitive industrial services. Bureaucracy is low and the general level of accessibility is high—you'd normally have no problem getting an appointment with say, a government minister."

Attracting more clients from areas other than Faroe Islands is likely to remain high on Mr. Lassen's agenda for the foreseeable future.

"We'd like to keep our facilities busy throughout the year and the way to do that is to get people from other places more involved," he said.

"We've seen good progress but our outreach efforts will need to continue in the months ahead. This will take time but we're in it for the long haul."

"We want to make it easy for our clients to get what they need through one single point of contact," Mr. Lassen said.

While the drilling of the Brugdan II exploration well was cancelled last year, the Statoil-operated campaign is on schedule this year (2012) instead.

"We're looking forward to see at least five very busy months this year," Mr. Lassen said.

**'MEET THE MINISTER':** The Faroe Islands indeed offers several advantages for upstream oil and gas services with a business environment seen to be straightforward and uncomplicated.

In that respect, while pointing to the strategic location of the Faroes, ASB is looking to attract clients from other areas in the Northern North Atlantic.

"Geographically the Faroes is very close to West of Shetland," Mr. Lassen pointed out. "It would make sense for offshore support vessels engaged there to consider our services rather than steaming long distance to their usual port of call. As for Greenland and Iceland, I'd say we should be relevant as well, although the distances involved are somewhat greater."

"Faroe is a friendly place with a modern infrastructure and many com-





# RECORD SHIPPING INVESTMENT SEES SUPPLY SERVICE IN STRONG OFFSHORE POSITION

*Supply Service is to take delivery this year of its third and fourth new offshore support vessels to establish itself as a trusted provider in oil and gas field services—to the tune of a 1.2 billion NOK (157 million EUR) investment.*

IT TOOK Supply Service only four years to order and receive four new-build, state-of-the-art platform supply vessels from Norway's Havyard at an average price of more than 300 million NOK (39m EUR) per vessel. That's a major investment, in fact the largest ever in the Faroese shipping business if counted as one single investment.

With the first vessel received in 2009, the second in 2011, the third in March 2012, and fourth set for delivery in the summer, Supply Service has maintained a stable operation with an eye on establishing itself as a trusted and preferred oil and gas service provider.

Long experience in the fishing industry has laid the basis for the new oil and gas services business.

"Even a short period of time can make a big difference when it comes to building a track record," said Supply Service managing director Jens Meinhard Rasmussen.

"Compared to our first year, things look very different today even though it's been little more than three years since we set out in this industry. The change is remarkable but it makes sense—you can't just walk into this market as a newcomer and expect everyone to know who you are from day one.

"Achieving a reputation for excellence is a process that takes time and requires total commitment to quality; but it's amazing to see that we've already come a long way in that respect. The amount of recognition that we get today is beyond comparison with the initial period back in 2009 and 2010. So we're more confident today, and we're very excited about receiving the Sjoborg and the Torsborg."

**BUILDING EXPERTISE:** Working mostly in the Norwegian sector of the North Sea, the first two vessels in the fleet, Eldborg and Saeborg, have largely been engaged in long-term contracts. As for the two additional newbuilds, a similar level of business is expected, according to Mr. Rasmussen. However, he says, the vessels will to some extent also be operating on the spot market.

"The rule of thumb is that long-term contracts offer a higher degree of stability whereas the spot market promises good rewards for relatively short jobs.

The idea is to have a prudent balance between the two."

All of Supply Service's newbuilds are high-end platform supply vessels: the 78.60 meter Eldborg (2009), the 86 m Saeborg (2011), the 86 m Sjoborg (2012), and the 86 m Torsborg (2012).

"All of the vessels look very similar although there are some minor differences in capacities and equipment," Mr. Rasmussen said.

The original plan was to build three vessels but two of them were cancelled owing to complications in the shipbuilding industry at the time the order was placed. Ultimately, after a year's delay three more vessels were ordered instead, all of them from Havyard, who also designed the first one.

"We've been happy with Havyard," Mr. Rasmussen said. "Their work is outstanding and we opted to order three of the vessels through their yard."

"The emphasis has been on top-of-the-line design and technology for operating efficiency, crew comfort, and



*Welcoming the Saeborg, in Tórshavn, September 2011 (above). The Sjoborg arriving to Bergen for naming ceremony, March 2012 (opposite, top). Naming ceremony in Bergen, left to right: Jens Meinhard Rasmussen, managing director Supply Service; Jóhanna Rasmussen, godmother; Tummas Justinussen, shipowner, Supply Service; Geir Johan Bakke, CEO Havyard Group; Per Sævik, chairman Havyard Group; Osmund Justinussen, chairman Supply Service (opposite, bottom).*

HSEQ [health, safety, environment, quality] management, including clean combustion and compliance with all relevant industry standards."

Mr. Rasmussen added that Supply Service's vessels are operated in accordance with the recognized HSEQ management system for ships: the ISM (International Safety Management) code, the ISPS (Ship and Port Facility Security) code, the OHSAS (Occupational

Health and Safety Standard) code, the ISO 9001 quality standard, and the ISO 14001 environmental standard.

By the time all four vessels have become operational, about 100 employees will be working for Supply Service, most of them as crew members—that is, 24 crew per vessel including captain and officers, working 12 at a time in four-week shifts.

"Our aim is to build a highly com-

## Supply Service

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Executive Management:  
Jens Meinhard Rasmussen  
Tummas Justinussen

Non-Executive Directors:  
Osmundur Justinussen  
Per Sævik  
Tage Bundgaard  
Magnus Petersen

Oil and gas field services for the international offshore energy industry. Own fleet of platform supply vessels:

### Eldborg

Length: 78.60m  
Yard: Fjellstrand AS  
Build no: 1680  
Design: Havyard 832CD  
Type: PSV  
Year: 2009

### Saeborg

Length: 86m  
Yard: Havyard Leirvik  
Build no: HLE 102  
Design: Havyard 832L  
Type: PSV  
Year: 2011

### Sjoborg

Length: 86m  
Yard: Havyard Leirvik  
Build no: HLE 106  
Design: Havyard 833  
Type: PSV  
Year: 2012

### Torsborg

Length: 86m  
Yard: Havyard Leirvik  
Build no: HLE 109  
Design: Havyard 832L  
Type: PSV  
Delivery: July 2012

petitive company with a leading edge in all aspects of health, safety, environment, and quality.

"To be able to build that position we need to attract the best crew, and in order to do that we need the best vessels possible.

"We believe strongly in the Faroese seafaring tradition and what we really seek to build is a solid base of expertise in our industry."







True Adventure  
standing at a  
new frontier

## It's the right message that is golden.

COMMUNICATION is one of those phenomena that can truly reward you when it's properly taken care of—as sure as it can cost you dearly if mismanaged. Trouble is, as easily as this fact is neglected, as difficult it can be to get it right.

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Working with OpenEye.biz is a smart and safe way to enhance your communications and boost your public image.

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**Statoil**