

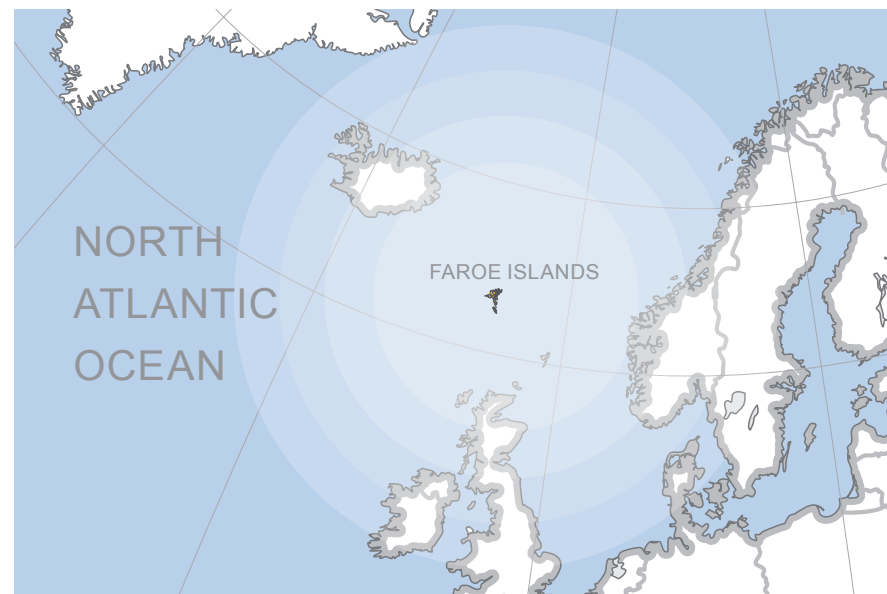


FAROE **Business** Report

THE INTERNATIONAL REVIEW OF FAROE ISLANDS INDUSTRY AND TRADE



2014



Faroe Islands
(Føroyar)

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 kilometers northwest of Scotland, 430 km 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 km (545 sq. 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 km²) and the capital, Tórshavn, is situated there. The highest point, Slættaratindur, is 882 meters 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 North Atlantic Current, there is little variation between winter and summer temperatures. Population: 48,197 of which 19,827 live in the Tórshavn region and 4,867 in Klaksvík, the second largest municipality (2013 figures from Statistics Faroe Islands). Language: The written and spoken language is Faroese, a North Germanic language closely related to other Nordic languages, in particular dialects of western Norway (spoken) and Icelandic (written). 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.

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HERE IS THE 9th issue of the Faroe Business Report. I'm very pleased to present this volume to you and I think it gives a fairly good indication of what is happening in the Faroe Islands, in particular with regard to the business community. The Faroese never cease to impress. One aspect of it is music and creativity—with a population of 50,000, publishing one album every week is indeed impressive; relative to the size of the population, it would correspond to the United States publishing 6,000 albums a week, which is quite unthinkable.

That industrious spirit is something you will find everywhere in the Faroe Islands. Located in the middle of the northeast Atlantic, the islanders are very used to having to fix things themselves; they have to innovate constantly because standard solutions are not always available for small communities. So what do you do if you're in a place without any big market anywhere near you? You have to think, innovate and get things done anyway—waiting for someone else is not going to cut it for you.

There is surprisingly much to report from the Faroe Islands. For one thing, Vagar Airport has just completed a comprehensive development program including an extension of the runway, a new passenger terminal and more, making it safer and more convenient than ever to fly to the islands.

The fishing industry of the Faroe Islands not only has a stunning number of modern vessels of the highest standard, equipped with the latest technology. In euros, the country's seafood exports amounted to as much as 773.3 million last year, which is staggering, again considering the size of the population. Faroese ports are small but very busy and it takes a great deal of logistical capability to handle more than half a million tonnes of fish every year.

The Faroese are also looking to grow their merchant shipping sector while at the same time getting increasingly accustomed to working in offshore energy. As oil and gas exploration continues in Faroese waters, the likelihood of a commercial discovery increases. Such a discovery would present a number of challenges but again, the Faroese like to face challenges head on—and they are good at it. *BÚI TYRIL, Editor in Chief & Publisher*



LONG WAIT FOR BIG THE ONE

Valuable information for later use, if not commercial discoveries, are expected to result from this summer's exploration activities offshore the Faroes, which kick into high gear with two prospects to be drilled—Brugdan II and Sula Stelkur.

BY NICHOLAS NEWMAN

ONE DAY the Faroe Islands could become successful oil and gas producers, just like their neighbor to the east, the Shetlands, which has already joined the ranks of North Sea regions producing oil and gas. Whilst oil and gas fields east of Shetland have faced decline, exploration to the west of Shetland has delivered a series of new oil and gas fields which are extending the lifespan of Britain's oil industry by decades. As a result, the massive oil and gas terminal at Shetland's Sullum Voe is being upgraded and is expected to operate for yet another fifty years, perhaps processing and exporting Faroese oil and gas in the future.

Unfortunately for the Faroese, this island group is in the very early stages of exploration and perhaps it will take at least ten years before it mirrors the oil and gas developments to the west of Shetland. So far, investment in the Faroes since 2000 has only resulted in one well with useful results and another six have proved dry. Due to extreme weather prospects and technical difficulties, another well, Brugdan II, in 2012, was not completed and commercial interest in the Faroes is only now possible due to technological developments and decline in new opportunities in the North Sea.

Despite these limitations there is undiminished interest among the energy companies involved, who are now betting millions of Euros on finding oil and gas below the seabed which links the Shetland Islands with the Faroe Islands. Said Jan Müller, MD Faroes Oil Industry Group (FOÍB): "Faroese people don't expect it to be a significant game changer to the islands' standard of living."

Statoil's country manager for Greenland and the Faroe Islands, Rúni M. Hansen, however, noted that after considerable computer analysis based on earlier exploration results, "this summer we are planning to drill two wells in Faroese waters, Brugdan II Re-Entry and Sula Stelkur."

STILL EARLY: The drilling season for Brugdan II Re-Entry will be April, May and June and for Sula Stelkur July, August and September. Brugdan II is seen as a potential gas well and the other as a possible oil well. Mr. Müller explained that this summer's drilling "is for fresh geological information; it is unlikely there will be a commercial find."

"The fact that we are drilling two wells this summer is a large commitment," Mr. Hansen said. "We are using local supplier industry and working with the authorities to provide positive impact to the Faroe Islands."

The results of the two wells will be important milestones for evaluating the future.

Norway's energy giant Statoil is not alone in investigating the Faroe Islands sea bed for oil and gas. Others include America's super-major ExxonMobil, Danish based DONG Energy, Austria's OMV, and Faroese independent Atlantic Petroleum. Apart from the Faroese Continental Shelf, Atlantic Petroleum has oil and gas interests in the UK Continental Shelf, the Norwegian Continental Shelf, the Irish Continental Shelf, and the Netherlands. It has made no discovery yet in local waters, but its most recent discovery was the Langlitinden well in nearby Norwegian waters this February.

Most of the activity lies in the waters close to the Faroe-Shetland Basin, close to the boundary that divides the Faroes from the UK. However, exploration activities on the Faroese Continental Shelf are still in the early phases, due to the complexity of drilling in a harsh environment and the perceived high-risk of commercial failure. On the other hand, large oil and gas discoveries in the West of the Shetland area, adjacent to Faroese licensed acreage, give some cause for confidence in the potential of the region.

REDUCING DEPENDENCY: The case for commercial quantities of oil and gas being found in the Faroes portion of the

seabed between Shetland and the Faroes is based on several factors, the first of which is that oil and gas discoveries have been made on the UK side of the boundary. It was originally thought that the Faroe seabed was a mirror image to that of the Shetland side of the continental shelf. On the Shetland side of the seabed, Britain has already developed three oil and gas offshore fields; in waters of 400m plus depths. These are the approximately 425 million barrels Schiehallion, the 250M-600M barrels Foinaven field and the 640M barrels Clair, since 1998, with the support of such oil giants as BP, Chevron and Total. The nearby Laggan-Tormore and the Rosebank-Lochnagar discoveries (respectively estimated to

hold about 230M and 240M barrels of oil equivalent) are now in the process of being further appraised for development. (See map.)

At present output from oil and gas fields from West of Shetland is produced from sub-sea wells via manifold and rigid flow lines to a location underneath a floating production, storage and offloading vessel (FPSO). From this point, flexible risers carry the production stream to the FPSO unit. Gas from these fields is transported by pipeline via Shetland to markets in the UK, whilst oil is exported via an FPSO type vessel known as a Sevan Stabilised Platform (SSP) floating production platform, for onward transport by oil tanker. This method is

Seadrill's West Hercules, the semi-submersible rig contracted for the Brugdan II Re-Entry (right); Map showing exploration licenses in the Faroes (opposite).

used since the water depths are too great for rigs fixed to the seabed. No doubt a similar solution will be needed for exporting Faroes discoveries since the local population of 50,000 is too small to make much use of such output. However, the expected oil and gas revenues will no doubt help the Faroes Islanders' ambitions to reduce their dependency on Danish government subsidies and on fishing.

EARLY ACCESS OF SCALE: Since the beginning of the century many energy exploration companies have been convinced that there must be commercial quantities of oil and gas in the tough environment of the waters that surround the Faroes Islands. Since the Faroese authorities issued the first licenses and the first exploration took place on the Faroese Continental Shelf in 2001, several drillings have taken place. However, so far, no commercially viable discoveries have been made but expectations remain high.

The Faroe Islands' first licensing round was held in 2000. Since then, research activity has been ongoing, exploration attempts have included data acquisition, scientific work and the drilling of exploration wells. So far, seven wells have been drilled (not counting Brugdan II) and an active hydrocarbon system confirmed. The geology of the licenses granted tends to be sub-basalt and have a varied geology within different plays.

During 2012, Statoil as operator, working in partnership with Exxon-Mobil and Atlantic Petroleum, drilled the Brugdan II exploration well. As Mr. Hansen said: "The last offshore activ-

ity in the Faroes was Statoil's Brugdan II well in 2012 that had to be stopped before reaching the target due to adverse weather conditions." The well is located around 80 km offshore from the Faroe Islands and was the second drilled in the 223 square-mile license.

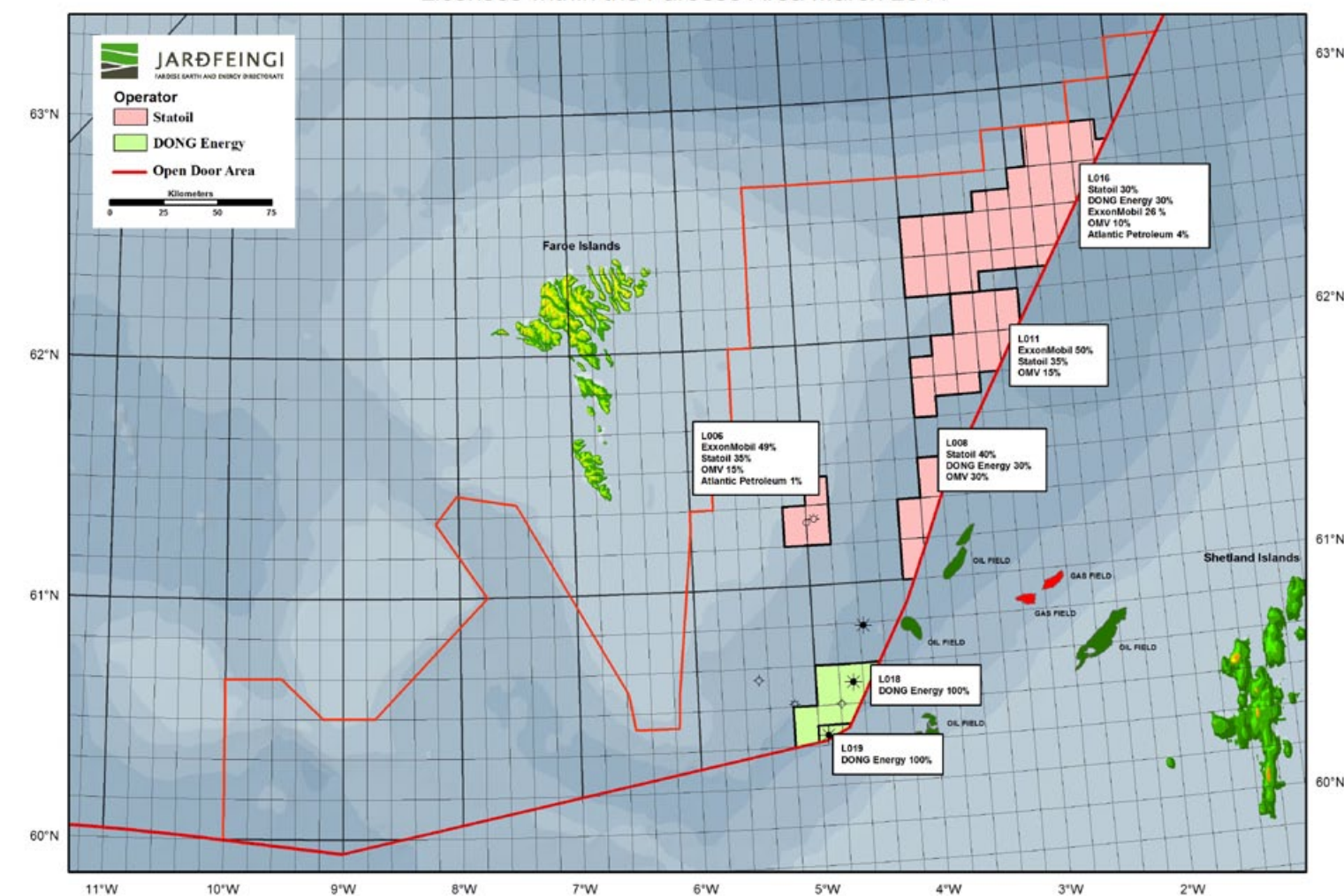
Statoil has been one of the leading oil companies operating in Faroese waters. By far the largest license holder, whether measured by acreage or activity, the company has played a vital role in the Faroes exploration activity. Its position in the Faroes is in line with the company's exploration strategy of early access of scale and establishing a leading position in frontier areas.

EIGHTH WELL: License 009, which was awarded in January 2005, was finally relinquished in January 2014. The license acreage had been actively explored but results were not encouraging for the license holders—Statoil (operator), Exxon Mobil and OMV—to continue.

In November 2013, Statoil signed an agreement to "farm down" (where an exploration company sells a share in its rights over the discovery to other companies) five exploration licenses in the Faroes and two in Norwegian waters with Austrian energy company OMV. The Faroe licenses are L006, L008, L009, L011 and L016, and the Statoil-OMV agreement is a result of a larger



Licenses within the Faroese Area March 2014



2.65 billion USD OMV transaction, announced in August, where it was agreed to look for cooperation in exploration opportunities.

In June 2013 the Faroese Trade and Industry Minister awarded six blocks in the Faroe-Shetland Basin to DONG Energy under the Open Door license round. DONG E&P was awarded a 100% interest and operatorship in the blocks, west of the producing British fields Foinaven and Schiehallion. DONG E&P grew interested in these license blocks once a re-examination of the data from previous exploration attempts sponsored by the Faroese government was completed.

“Maybe DONG could start drilling in two years,” Mr. Müller suggested.

Together with a recent license award in the UK 27th Licence Round, this new award confirms that DONG



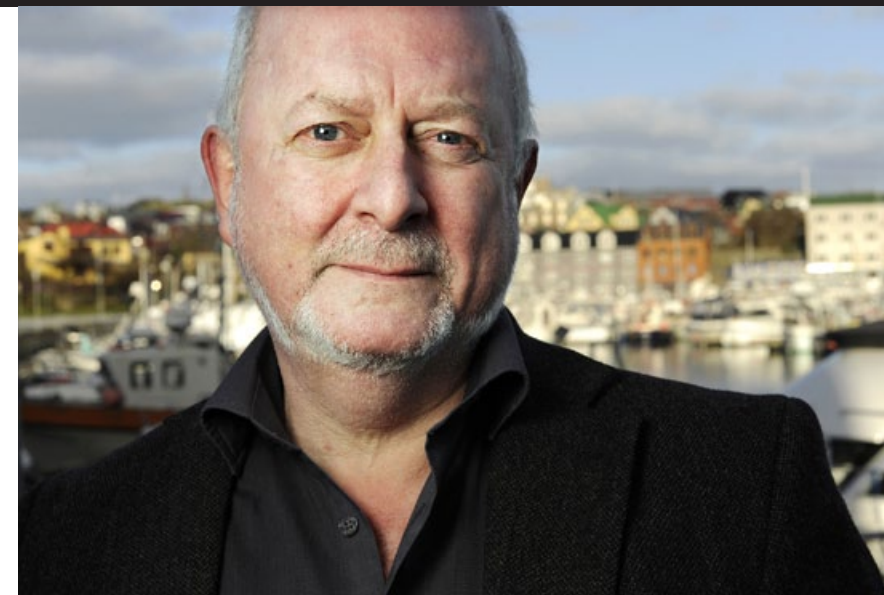
Energy's oil and gas business, DONG E&P, is a major player in the Faroe Islands and in the West of Shetland region—the company with most license interests in this prospective region.

Also in June 2013, Atlantic Petroleum announced that ExxonMobil had acquired a 6% interest in License L016

from Atlantic Petroleum. The revised ownership interests in the license are Statoil (operator) 40%, DONG Energy 30%, ExxonMobil 26% and Atlantic Petroleum 4%. The license, originally granted in the Third Licensing Round in 2008, covers an area of 3,870 square km.

“This deal is part of our continuing portfolio management to optimize the allocation of capital within our exploration budget,” Atlantic Petroleum CEO Ben Arabo commented. “Our strategy is to fund participation in three or four exploration wells each year within North West Europe. We are very pleased to be able to continue our work on the Faroese shelf with our L016 partners, Statoil, ExxonMobil and DONG, as the area remains a part of our portfolio with significant potential at a suitable exposure for Atlantic Petroleum.”

(Continued on page 90)



MAKING THE CONNECTIONS

Continuing to build links to sister organizations in neighboring countries, FOIB, representing oil companies holding licenses in the Faroes, is recognized as a significant player in all matters related to offshore energy.

UNDER THE stewardship of Jan Müller as Managing Director since 2011, FOIB, once barely visible to the public eye, has dramatically raised its profile. One of the ways this has been done this is by establishing a website Oljan.fo which has become the principal source of news about the oil and gas industry in the Faroes.

FOIB (Faroes Oil Industry Group) is the organization representing oil companies holding licenses in the Faroes.

Trade statistics show up to 15,000 hits per week for Oljan.fo. Whilst Mr. Müller's past journalistic experience has come in handy here, his new remit goes far beyond publishing news. It includes, for example, building a network of contacts, particularly with sister organisations, to further FOIB's objectives such as representing members and industry interests.

FOIB's office at Bryggjubakki 22 with its panoramic view of Tórshavn's west harbor has become integral to Mr. Müller's mission. Centrally located close to Parliament and Government offices, it has become a crossroads for people with an inter-

est in the oil and gas industry. Here foreign journalists are entertained and briefed about exploration prospects as well as about the Faroes generally. The result has been glowingly positive articles in publications such as Upstream, Politiken, Aftenbladet, and the Press and Journal, Politicians, civil servants and business people drop by for a coffee which provides an ideal opportunity to informally chat about various industry issues. Bryggjubakki 22 is naturally also the first port of call in the Faroes for executives from FOIB member companies.

The FOIB office also doubles up as a lecture hall when groups of students from schools and colleges visit and receive an authoritative presentation on the oil and gas industry from Mr. Müller.

In June last year FOIB staged a landmark Oil Conference at the Nordic House in Tórshavn. Both Malcolm Webb and Gro Brækken, the respective heads of FOIB's sister organisations Oil and Gas UK and Norsk Olje og Gass, gave presentations at the conference.

“Their presence illustrated the cor-

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Managing Director: Jan Müller
Chairman: Ben Arabo

FOIB is the joint association of the oil companies holding licenses to explore for hydrocarbons in the Faroese area either as license holders or partners.

Current members:
Statoil, ExxonMobil, DONG Energy, OMV, Atlantic 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 and other stakeholders.

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The Sindri Group is a body established by the Faroese Government through which FOIB members, as license holders, fund joint research projects of relevance to the future investigation of the Faroese continental shelf. Sindri shares offices with FOIB in Tórshavn. Kristian Martin Petersen acts as General Coordinator for Sindri.

dial relations we managed to establish in a relatively short period,” Mr. Müller commented. “We also have good contacts with our counterparts in Ireland, Denmark and Greenland and are now working on linking up with others further afield,” he added.

In going about his tasks, Mr. Müller retains his trademark enthusiasm. Although he covered the subject extensively in the media for many years, he said in relation to his current post: “I’ve become even more eager to learn about this fascinating industry—there are so many aspects, it never stops amazing me.”

DONG REINFORCES COMMITMENT TO FAROES

A partner in the Sula Stelkur prospect which will be drilled this summer, DONG Energy increases its acreage on the Faroese Continental Shelf to become a major player on both sides of the Faroe-Shetland Basin.

INCREASING its acreage in the Faroes by two licenses last year (2013), Denmark's DONG Energy believes strongly that a commercial oil or gas find in the area is plausible in the near future. With interests in a total 31 licenses near the Faroe Islands and the West of Shetland area, DONG Energy's oil and gas exploration and production unit DONG E&P has become a leading player in the region.

Together with OMV and operator Statoil, DONG E&P is a partner in the Sula Stelkur prospect, which will be spudded in the second half of this year. The company also holds an interest in the Marjun discovery of 2001, now the subject of renewed interest and revaluation based on cutting-edge technology.

In June 2013 the Faroe Islands' Ministry of Trade and Industry awarded six blocks in two exploration licenses to DONG E&P under the 'Open Door' license round, with DONG as operator holding a 100-percent interest in both licenses. Adding to two further licenses already held in the Faroes, the company now has four exploration licenses on the Faroese Continental Shelf.



"The awarded blocks in the Faroes are located in an area where we have identified a number of attractive prospects close to production fields Foinaven and Schiehallion," DONG E&P Senior Vice President Jan Terje Edvardsen noted. "We are looking forward to become more acquainted with the potential of this area through the aid of new 3D seismic data and special processing technologies."

MINISTER'S VISIT: Since the First Licensing Round back in 2000, DONG E&P has actively participated in exploration in a number of licenses offshore the Faroes, including Marjun, the first find.

"The latest licenses that we have been awarded are the result of our longterm exploration strategy with the Atlantic Margin playing an important role for future growth," Mr. Edvardsen said. "Our persistence in this strategy has earned us a leading position in the region."

Mr. Edvardsen added: "Together with the recent license award in the UK 27th Licence Round, the awards in the Faroes confirm our position as a major player in the Faroe Islands and in the UK West of Shetland area, and it also confirms that DONG E&P is the company with most license interests in this prospective region."

Recognizing its prominent position in the Faroese exploration effort includ-

MAKING POWER SUPPLY SYSTEMS SMARTER

DONG Energy joins forces with utility company SEV in a Power Hub project aimed at minimizing power outages.

NOBODY WILL DISPUTE that the Faroe Islands has to be one of the world's best locations for wind farms. Make no mistake, the islanders are well aware of the advantages that can be gained from utilizing renewable sources of energy—and what better resource than wind to have a closer look at in such a windswept place in the quest to reduce dependency on oil for heating, fuel and power.

In line with the European Union's drive to go green, the Faroese are looking to have about one-quarter of their power usage to originate from wind turbines by the end of this year.

However, in a climate characterized by frequent rain and gail force winds—and with no power cable connections to other countries—integrating renewable energy into the existing grid is easier said than done. What to expect: oft-occurring and large power outages.

In late 2012 DONG Energy and the Faroe Islands' utility SEV cut the power supply to a power station block

through an emergency stop, killing more than one-tenth of the total power supply to the island community. Within only one to two seconds, the Power Hub system had restored the grid's balance by temporary shutting down two selected users, a large cold store and a fish farm.

According to Evert den Boer, DONG Energy Senior Vice President, the focus of the Power Hub project is now to realize its commercial value.

"What is ground-breaking is that we can now prove that a Power Hub system can play a vital role in the integration of Europe's ever-increasing amounts of renewable energy," Mr. den Boer said. "It can enable many of our clients to reduce or increase their power consumption according to changes in prices and production rates."

DONG E&P Senior Vice President Jan Terje Edvardsen (main); Wind turbines at the southern end of Eysturoy, Faroe Islands (below); The Saipem 7000 crane vessel in the DONG-operated Nini oilfield in the Danish sector of the North Sea; (opposite bottom).

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DONG Energy is one of the leading energy groups in Northern Europe. Our business is based on procuring, producing, distributing and trading in energy and related products in Northern Europe. DONG Energy has around 6,500 employees and is headquartered in Denmark. The Group generated 73 billion dkk (9.8BN eur) in revenue in 2013.

DONG E&P is the oil and gas exploration and production unit of DONG Energy.

We have explored for and produced oil and natural gas since 1984. Our activities are focused in the waters around Denmark, Norway, the United Kingdom (West of Shetland area), the Faroe Islands and Greenland.

DONG E&P has approximately 80 exploration and production licenses in total in Denmark, Norway, United Kingdom, Greenland, and Faroe Islands. Interests in four licenses in the Faroe Islands, including the Marjun discovery. Partner in the Sula Stelkur prospect, to be drilled in the summer of 2014.

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GAINING HIGHER GROUND



Amid losses on exploration wells in 2013, Atlantic Petroleum added significantly to its reserves and resources and increased its exploration portfolio to its largest ever—as production revenues look poised for new heights.

LAST YEAR (2013) saw Faroese exploration and production independent Atlantic Petroleum increase its exploration portfolio to record levels while at the same adding dramatically to its prospective resources, which amounted to 50 million barrels of oil equivalent at year end. Meanwhile Atlantic Petroleum was floated on the Oslo Stock Exchange in a successful equity raise that netted the company 115M DKK (15.4M EUR).

With production assets maturing, however, and their replacements yet to be developed into producing fields, the fiscal year ended in the red. As severe weather caused disruptions to operations at Chestnut—Atlantic Petroleum's most important production asset to date—the output turned out slightly lower than

planned while, at the same time, oil prices moved downward.

Further on the downside, two exploration wells were dry and two more were relinquished, dealing a 119-million DKK (16M EUR) blow to the profit and loss account. Ben Arabo, Atlantic Petroleum's CEO, said: "2013 exploration was not as successful as we hoped in terms of wells, but we are building a portfolio for future delivery, and the larger portfolio gives us ample opportunity for low exposure high upside exploration through commercial deals."

The year's net production amounted to 720,000 barrels of oils equivalent, against 928,000 boe in 2012. Earnings before interest and taxes fell to minus 11.6M DKK (1.55M EUR), compared to

246.8M DKK (33M EUR) on the plus side in 2012. Total assets, on the other hand, increased to 1.237 billion DKK (165.57M EUR) against 1.121BN (161.1M EUR) in the previous year. Similarly, total equity increased from 537.1M DKK (71.9M EUR) in 2012 to 597.3M DKK (80M EUR) in 2013.

Significantly, in the company's largest deal to date, Atlantic Petroleum took over a 25-percent interest in the Orlando and Kells fields from Iona Energy. With a price tag of 39.1M USD (28.2M EUR) plus minor royalties, the acquisition of the two development assets in the UK sector of the North Sea entails the largest development commitment ever for Atlantic Petroleum, promising new production revenues in 2016 to replace

The Hummingbird FPSO (floating production, storage and offloading unit) used in the Chestnut production field; CEO Ben Arabo (below).

slowly dwindling income from mature fields.

Production field Chestnut, meanwhile, has outperformed estimates for years on end, and is proving surprisingly valuable with an output curve that has stayed stable for a long time.

EXPLORATION UPSIDE: "As everyone knows, we've got three assets in production at the moment," CEO Ben Arabo noted. "We've got Ettrick and Blackbird; they are getting a bit more mature now, they're in a decline curve and you would expect Chestnut to be in a similar decline curve, taking into account that the field has produced since 2008. But our reserves on Chestnut at the end of 2013 are actually 1.1M barrels net to Atlantic Petroleum."

Mr. Arabo added: "We can see that Chestnut has actually had an increase in production over the last three years. We're producing on average more than a thousand barrels a day from Chestnut and it's a fairly flat curve. We opened the chokes and we actually managed to get an increase in production from '11 to '12 to '13 and the water cut has stabilized just below 50 percent."

"So what's happening now," he said, "is that the operator is looking at the reservoir models and we're looking at contract extension options and also looking at further extensions and other development options. Because if there truly are, perhaps up to ultimate recoverable reserves that could add perhaps tens of millions of barrels in reserves gross, you could look at other options. So this is a piece of excellent news for us and provides us with a very solid base in the near term and gives us a lot of encouragement.

Chestnut produces about half of our total production, and it looks like from this curve that it could keep on producing for quite a while."

Next in line to come on stream will be Orlando, which according to Gaffney Cline has gross proved plus probable ('2P') reserves of 15.37M barrels.

As Mr. Arabo pointed out, the exploration portfolio "is more exciting than ever. We have projects forthcoming where we came in early and were awarded licenses. These prospects will be spudded before long. In the UK, there is, for example, Skerryvore and Aurora."

Then there is Perth which does hold a lot of potential reserves if the technical challenges can be met. At the moment Perth is classified as contingent resource in Atlantic Petroleum's books but if a successful development case can be put forward, the resources will become produceable reserves.

"These potential assets are currently not included in asset analyses. It's up to the operator and the partners to get the Perth project on track; for us there is an upside in case a decision is made to develop it."



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Atlantic Petroleum is a Faroese independent exploration and production (E&P) company with oil and gas interests in the UK Continental Shelf, the Norwegian Continental Shelf, the Irish Continental Shelf, the Faroese Continental Shelf and the Netherlands.

The Company has interests in around 40 licenses containing over 50 fields, discoveries, prospects or leads. Furthermore, Atlantic Petroleum has partnerships with more than 20 international oil companies operating in North West Europe.

The objective of Atlantic Petroleum is to develop offshore oil and gas potential in North West Europe on a commercial basis, and presently the Company engages in activities ranging from exploration, through appraisal, to development and production.

Atlantic Petroleum is currently a small robust and sustainable company.

Our ambition is to grow significantly. Throughout our growth, we will have security in production and use production income to explore.

Our portfolio consists of a wide variety of assets including high-impact potential exploration assets.

Atlantic Petroleum has two highly experienced technical hubs in London and Bergen. The hubs work as a technical unit bringing the know-how from the mature UK sector to the less mature exploration areas.

Atlantic Petroleum is listed on NASDAQ OMX Copenhagen and on the Oslo Stock Exchange (Oslo Børs).

NASDAQ OMX ticker: FO-ATLA CSE
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THOR TO ACCELERATE EXPANSION

Thor is ready for rapid expansion—with four new seismic support vessels under construction and the option of ordering more, plus a set of new chase boats on the drawing board specially designed to work with the new SSVs.

FAROESE offshore shipping company Thor has a record-breaking fleet renewal program underway after the largest business deal in its history—a longterm contract with Norway's Petroleum Geo-Services—was signed in late 2012. The contract was sealed with Thor's shipbuilding order of four new state-of-the-art seismic support vessels; furthermore, additional newbuild orders could be forthcoming.

The PGS deal, which comes with an option to extend the contract or add more vessels to a similar contract, clears the way for Thor to increase its service capacity and expand its market reach, said Managing Director of Operations Gunnbjørn Joensen.

Meanwhile, according to Mr. Joensen, Thor is also considering to order a set of new chase boats, purpose-built to work with the new SSVs.

With construction progressing according to plan at Turkey's Besiktas Shipyard, the first of the four 64.4-meter SSVs is scheduled for delivery this autumn (2014) and the last one by May



Left to right, Managing Director Operations Gunnbjørn Joensen, Office Manager Sue Philbrow, CEO Hans Andrias Joensen; Computer rendition of one of Thor's new offshore support vessels (below); Thor Alpha (opposite bottom).

Thor's new vessels offer a wide range of capabilities, including ice class 1A, passenger capacity for transporting a full seismic crew, extra work boat, towing capability and ability to carry and transfer fuel oil at sea, PGS and Thor said in a joint statement.

"Equipped with modern, efficient propulsion systems, the vessels will be performing their tasks with minimal fuel consumption, enabling fuel cost savings up to 60 percent from the vessels we use today, and further enhancing PGS' cost efficiency in marine seismic operations."

PGS CEO Jon Erik Reinhardsen commented: "The new line of support vessels will ensure a safer and more efficient level of support to our seismic fleet. Our long standing cooperation with Thor makes us comfortable that the vessels will be operated in the most efficient manner, ensuring high standards in HSE [health, safety, environmental] and marine management. Their track record with our operations is first class, and their commitment to the seismic support business makes them a valuable partner for our seismic operations."

In addition to delivering support services worldwide for marine seismic operations, offshore oil and gas exploration and production, cable laying operations, and marine research activities, Thor provides ship agency services in the Faroe Islands and is also well-known as an owner/operator of fishing vessels.

sesses the world's most extensive multi-client data library.

'EXPERT ASSISTANCE': The new SSVs will provide support for PGS' fleet of seismic vessels during operations, covering offshore bunkering, crew change assistance, supply of provision and spare parts, as well as support during in-sea maintenance of seismic equipment.

Adding necessary support for PGS' new Ramford Titan class vessels, the SSVs are purpose designed for seismic support services to improve efficiency at sea for seismic vessels.

2015. The vessels will be operated by Thor and chartered by PGS on 10-year time charter contracts with option for extension.

The four new SSVs will require up to more than 70-80 additional officers and crew.

"We are very pleased with this contract, which is the largest in the history of our company," Thor CEO Hans Andrias Joensen stated earlier.

"Thor has been providing services to PGS for the last 14 years and the co-operation has been very good. We view this contract and opportunity as a great compliment and endorsement from PGS,

inspiring us to continuously provide the high quality and flexible services that is expected of us."

The fleet renewal will consolidate Thor's position as a leading vessel owner/operator in its field, while at the same time strengthening its engagement with PGS, one of the company's main business clients.

With operations worldwide, PGS is known as a focused marine geophysical company providing a broad range of seismic and reservoir services, including acquisition, processing, interpretation, and field evaluation. Headquartered at Lysaker, Norway, the company also pos-

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Marketing Director: Per Gulklett

Offshore shipping company specializing in marine seismic services.

Management and fulfillment services for FAS-registered international vessels.
Owner-operator of fishing vessels.

Denmark subsidiary: Thor DK

Own fleet of offshore support vessels:

•Thor Supporter •Tórsvík •North Star
•Thor Pioneer •Thor Server •Thor Goliath
•Thor Provider •Thor Guardian
•Thor Beamer •Thor Alpha
•Thor Omega •Thor Assister •Thor Chaser

Own fleet of fishing vessels:

•Thor •Vesturland •Ran •Túgvusteinnur
•Phoenix •Sermilik II •Norðheim
•Varðborg •Chr. Høy

Seismic support vessels ordered:

Four newbuilds — Skipsteknisk ST-204
Yard: Besiktas Shipyard
Design: Skipsteknisk
Delivery: Aug. 2014 (first), May 2015 (last)

To help international shipowners who use the Faroe Islands International Ship Register (FAS), Thor likewise offers a management and fulfillment service out of its offices in Hósvík, Faroe Islands. "The FAS registry is attracting a growing number of primarily Scandinavian vessels, not least for its fiscal and operational advantages," Mr. Joensen said.

"In this context we provide expert assistance to shipowners who want to conduct business under Faroese jurisdiction."



SKIPSTEKNISK

As QHSE standards continue to rise in the offshore oil and gas industry, Atlantic Supply Base pushes the envelope on its own operations while increasing compliance requirements for its subcontractors—disrupting the status quo.

IN THE PERIOD leading to this year's (2014) exploration activities offshore the Faroe Islands, the country's only oil supply base has been undergoing a fresh round of facilities maintenance alongside a review of procedures and policies relating to QHSE (quality, health, safety, environment) management. In the process Atlantic Supply Base has advised local subcontractors on the latest compliance requirements for working with the offshore oil and gas industry—raising an eyebrow or two, according to ASB managing director Eli Lassen.

"The oil and gas industry operates under very strict QHSE standards and these standards are frequently updated," he said. "For ASB and our subcontractors, we need to make sure that our processes and arrangements are always in keeping with the standards and practices outlined by the oil companies."

That involves, for example, reporting and information management—something that remains counterintuitive for many in the Faroes, where contractual relationships are often oral and informal.

In other words, complying with oil industry standards can prove somewhat challenging for the uninitiated.



"This safety and compliance culture is still new for some companies and in that respect you may say we're on an educational mission," Mr. Lassen said. "However," he added, "we do see a change of mentality. Call it a revolution in slow motion—from a local, traditional point of view, we're introducing a whole new way of doing business."

Over the last couple of years, ASB has developed and successfully implemented a QHSE management system based on specifications from the International Association of Oil and Gas Producers (OGP).

"We have spent considerable resources on the system but we believe nonetheless that we will see a good return on the investment," Mr. Lassen said in connection with the implementation of ASB's OGP-compliant system back in 2012.

"This system adds a layer of administration that you won't normally see in this country. Yet it's essential in the oil and gas industry, so much so that you need to have it if you want to be part of this industry. So we have to be able to log, document, trace and analyze every incident, every near-incident, every deviation from standard, every disruption, and—depending on where responsibility lies—either take corrective action ourselves or request it from those we work with."

ASB has long been ISO 9001 certified. In the oil and gas industry, however, the process requirements and guidance on QHSE management from the OGP carries considerably more weight, Mr. Lassen said.



Left to right: Operations Manager Valdimar Olsen, Managing Director Eli Lassen, QHSE Manager John Jakobsen; Platform support vessels receive services (opposite).

"Having an OGP-compliant QHSE management system in place is the de facto industry standard. It's a minimum requirement for operating in the industry."

FORMER BRIDGE OFFICER: Having successfully served as supply base for all drilling campaigns to date in the Faroes, ASB is looking ahead with confidence as work on the eighth exploration well is set to resume in the summer, alongside the spudding of the ninth well, both with Statoil as operator.

"ASB performance ... was exemplary in terms of HSE and operational performance," as one of the oil companies stated according to 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."

With maritime agency contracts for all the support vessels involved in the exploration activities, ASB has expanded its core business, offering clients a com-

prehensive solution through a single point of contact.

The company has two buildings near the Kongshavn Harbor at Runavík, with 1,900 square meters of warehouses, several offices plus a large outdoor area for further storage. In addition to warehousing and storage, ASB key services include, for example, docking, crew change, loading and discharge of goods and equipment, supplies, waste management, and mud mixing.

A former bridge officer in the merchant fleet, as well as a land based oil

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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.

OGP compliant QHSE management.
ISO 9001:2008 certified by DNV.

QHSE: TIGHTENING UP STANDARDS

and gas worker, Mr. Lassen's skills and working experience put him in a league of his own. Well known for his hands-on and straightforward approach to management, Mr. Lassen says he has had luck in attracting good people to work for ASB.

"Many of our clients have offered highly positive remarks on the services that we provide in liaison with the local port authority," he added. "They have been impressed with the fact that operations have been smooth, and that the Port of Runavík remains congestion free."

SKILLED MANPOWER FOR OFFSHORE INDUSTRY

Having supplied engineers and craftsmen to the oil and gas industry since 1998, PAM Offshore Service is upping its effort to help oilfield services companies build modules and components for Norway's energy infrastructure.

PAM Offshore Service is stepping up its effort to provide Norway's booming offshore industry with skilled manpower from the Faroe Islands. According to CEO Mouritz Mohr, the clients are mostly leading oilfield services companies including construction firms and shipyards involved in energy infrastructure projects.

PAM Offshore Service, a subsidiary of Faroese shipyard and engineering company MEST, has an active pool of around 220 engineers, electricians and craftsmen, most of whom work regularly in the Norwegian offshore industry.

"The teams work in various shifts," said office manager Anja Jacobsen. "The arrangements have been developed over the years and most people are happy with

it. It basically means you concentrate on work for a certain period, then having time off for the same length of time."

Much of the work has to do with repairing and building modules for drilling rigs and offshore production units



MORE OIL & GAS RELATED BUSINESS

As the Faroese become increasingly involved in the oil and gas industry, more and more repair and maintenance orders from offshore support vessels are booked with the MEST shipyard and engineering company.

THE TWO exploration wells to be drilled offshore the Faroe Islands this summer (2014) will doubtlessly amplify a message that is already resonating in the Faroese business community—the oil and gas industry is moving closer. Two Faroese shipping companies, so far, have managed to establish themselves internationally with their fleets of offshore support vessels; both will be involved in this year's drilling on the Brugdan II and Sula Stelkur prospects.

In the hundreds of million euros, the investments associated with the Statoil-operated exploration wells are record-breaking by Faroese standards.

For MEST, the Faroe Islands' main shipyard and engineering company—with yards in Tórshavn and at Skála, plus a stainless steel equipment manufacturing unit at Runavík—the offshore business has grown slowly but steadily over the last 15 years.

"Fishing still dominates but we're

including subsea systems, fixed platforms, floating production systems and drillships. Main clients include Aker Solutions, Kvaerner, Aibel, COSL, SEC, and Westcon.

"Our workforce has many competitive advantages and one of them is language and communication skills—they understand and speak Norwegian fluently, which is very important in Norway."

QUALIFIED SUPPLIER: Skilled workers remain in high demand in the offshore industry. However energy companies have lately introduced a series of cost-cutting measures and contractors have taken a hit; subcontractors, in turn, could be next in line.

By raising quality control and documentation standards, PAM Offshore Service is hoping to reduce the risk of potential contract losses, Mr. Mohr said.



"After all, the fundamentals are still very positive whichever way you look at it," he said. "Oil companies are reducing their operational costs and contractors and subcontractors are certainly not immune to such movements. We are nonetheless determined to rise to the challenge and sharpen our competitiveness, and constantly consider how the high quality of our service can be further improved."

PAM Offshore Service is set to receive its ISO 9001 quality certification this May [2014], Mr. Mohr said. The company is already a qualified supplier in Achilles JQS, the joint qualification system for suppliers to the oil and gas industry in Norway and Denmark.

*CEO Mouritz Mohr (left);
Tórshavn slipway (opposite);
The COSL Pioneer (main);
Electrician at work (top);
Dry dock at Skála (right).*



gravitating toward the oil and gas industry," said CEO Mouritz Mohr.

"We have built two offshore support vessels and completed a number of repair and maintenance jobs on such vessels and even on drilling rigs. What

we've noted is that the offshore industry, which was more or less non-existent for Faroese businesses back in the 1990s, is now undeniably a growing market."

In 1998, PAM Offshore Service, fully owned by MEST, was founded. The company focuses squarely on providing manpower for development projects and maintenance in Norway's energy infrastructure.

"Exploration off the Faroes was starting around the time we founded PAM and so we made a strategic decision to prepare for this new indus-

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PAM Offshore Service

Specialists in providing skilled manpower for oilfield services companies

MEST is the Faeroe Islands' leading shipyard and engineering group. Shipbuilding, conversions, repairs, maintenance, related services. Technical consulting. Advanced tools for e.g. vibration analyses, stability calculation, laser alignment. Comprehensive spares department, general agents for leading brands in marine and food industry equipment and accessories.

Tórshavn: Berth length 200 m, Two slipways 2500 + 1000 tonnes, Two construction halls, Mobile cranes.

Skála: Berth length 400 m, Dry dock 115 m, Slipway 2000 tonnes, Construction hall, Mobile cranes.

Runavík: Design and manufacturing of processing equipment and fish factories. Specially designed hygiene conveyor used in food industry. Fishfarming equipment.



try, which we figured would become important for the country in the years ahead."

With global competition from the East, shipbuilding orders have become infrequent in recent decades. Between them, however, the MEST yards, since the company first opened for business back in 1936, have delivered over a hundred newbuilds, mostly fishing vessels but also car ferries and, more recently, offshore support vessels. In the same period of time, the company has completed thousands of overhauls and repairs.

LOCAL PLAYERS EXTEND GLOBAL REACH

Transformed from a domestic fishing business to an international operator of platform supply vessels with activities off East Africa as well as in the North Sea, Skansi Offshore is attracting talent to build a Faroese merchant shipping sector.

WITH ASSETS WORTH 1.6 billion DKK (214 million EUR) spread over five top-of-the-line platform supply vessels, Skansi Offshore is fast becoming the epitome of a new breed of successful Faroese shipping companies. Since its entry into the offshore business, the company—originally part of a fishing conglomerate owned by Tummas Justinussen and his family—has seen rapid growth following its baptism of fire as it took delivery of its first PSV in 2009. By the time a fifth new PSV was added to its fleet, in 2013, a remarkable transformation of the company had taken place.

Still family owned but now together with several external investors, Skansi Offshore has had a strong launch, winning contracts with the likes of Statoil, BG Group and BP Norge. The company today employs about 135 people, of which more than 100 work at sea.

While the North Sea remains the main area of operation for Skansi, the company has lately been contracted to work offshore Tanzania and Mozambique.

As most of Skansi Offshore's operations take place within the Norwegian sector of the North Sea, the Faroese people's ability to communicate in the Norwegian language offers an advantage, CEO Jens Meinhard Rasmussen noted.

He added: "What's more important is our people's commitment to their work and their ability, at the same time, to be flexible when necessary."

Charged with the task of turning what was then called Supply Service into an international, high-profile shipping company serving the offshore energy industry in the North Sea, Mr. Rasmussen—a Master Mariner with a Masters degree in Law as well—was recruited back in 2006.

"We've had a steep learning curve," Mr. Rasmussen said. "We knew, however, that entering this business was not going to be too easy. So recruiting the right talent has been a top priority from

the outset, and we put a lot of effort into research and made sure early that we had critical expertise in house. We were keen to see that the vessels we were building were going to be state-of-the-art, and this in turn has helped us create a high-quality concept. Part of it, of course, is meeting the latest industry standards, not least with regard to HSEQ [health, safety, environment, quality]."

'PROMISING FUTURE': Social responsibility has become an increasingly im-



portant aspect of the business, according to Mr. Rasmussen. "It's a priority and part of our culture to foster economic, social and environmental sustainability," he said.

"We are a Faroese company working in an international market. From the moment we began operations, we had a clear vision of what kind of business we wanted this to be. We had, and still have, the motivation and ambition to create opportunities in our own society; therefore we recruit locally only.

"So far we have created job opportunities and career development opportunities exclusively in the Faroes. As times change, however, we now look to apply our social responsibility strategy overseas as well. Since we were awarded with a contract from Statoil in East Africa and the opportunity presented itself, we have started to make plans to develop a Local Content Programme, which means we will help provide job training opportunities for young locals there."

Skansi Offshore has an excellent reputation as a workplace.

HSEQ Manager Sámal Sivertsen—employed since 2008: "I like the fact that our work environment is international.

As a former marine officer, finding a job on shore was not going to be easy in the Faroe Islands; but things are changing, much thanks to companies like Skansi Offshore. I find it exciting to be at the heart of the process of building the Faroese merchant shipping sector."

Financial Manager Jógvan Emil Nielsen—employed since 2011: "This company has a very special position in the Faroes as a pioneer in its field. We are developing a new industry, which I find very exciting. As a former banker and an engineer, I enjoy to deal with people from many different countries."

Crew Manager Anna Kalsø—employed since 2013: "I like the optimism and the exciting feeling to be on a journey to an unknown but promising future. This company is competing at a high level and growing not merely in size but certainly also in knowledge, skills and competencies."



CEO Jens Meinhard Rasmussen (main);
The Kongsborg, delivered in 2013 (top);
HSEQ Manager Sámal Sivertsen (right);
Crew Manager Anna Kalsø, standing, with
Financial Manager Jógvan Emil Nielsen (far right).

Skansi Offshore

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Executive Management:
Jens Meinhard Rasmussen
Tummas Justinussen

Non-Executive Directors:
Osmundur Justinussen
Per Sævik
Tage Bundgaard

Shipping company providing field services for the international offshore energy industry.

Based in the Faroe Islands, Skansi Offshore can ensure a consistent workforce of experienced, highly qualified and flexible seamen.

Own fleet of platform supply vessels:

Eldborg

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

Saeborg

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

Sjoberg

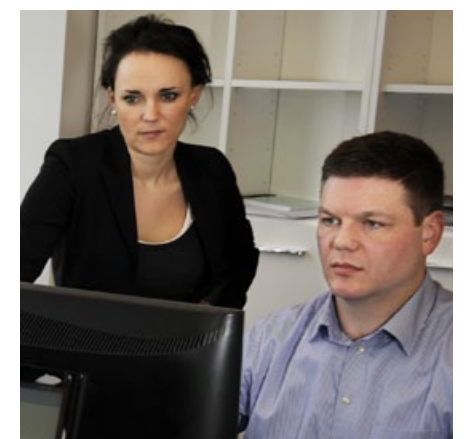
Type: PSV, Length: 86m
Yard: Havyard Leirvik, Year: 2012
Build no: HLE 106, Design: Havyard 833

Torsborg

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

Kongsborg

Type: PSV, Length: 86.8m
Yard: Havyard Leirvik, Year: 2013
Build no: HLE 111, Design: Havyard 833



From p. 76—Long Wait for the Big One

In November 2012, Statoil and its partners ExxonMobil and Atlantic Petroleum decided to suspend operations on the Brugdan II well offshore the Faroe Islands. The Brugdan II well has drilled into the sub-basalt section, but the primary objective has not yet been reached. The decision to suspend the drilling was based on the expected bad weather and technical issues at the time. The Faroese authorities have approved a suspension until end 2014. Statoil has 50% equity in the Brugdan II prospect, while ExxonMobil holds 49% and Atlantic Petroleum 1%. The Brugdan II well is the eighth exploration well drilled in Faroese waters since 2001.

EXPIRING LICENSES: There are several problems facing energy companies operating in the Faroes apart from extreme weather conditions and remote

location. These include uncertainty about the size of potential discoveries, the remoteness of the fields, and local content policies. Statoil has been a good operator employing local staff and companies in its exploration activities. The company has eight employees in the Faroe Islands, according to Mr. Hansen and has used the locally based airline Atlantic Airways for delivering staff and supplies to rigs by helicopter.

Another local content proposal under discussion is for all oil and gas output to be landed on the Faroes. “This is unlikely to happen, unless there are significant discoveries made,” Mr. Müller said. Instead, he said, it is likely that any Faroese gas production will connect up with the British pipeline network via Shetland or Saint Fergus on the Scottish mainland. Meanwhile any oil output is expected to follow the practice of West of Shetland oil fields, with oil exported

via FPSO and tankers to refineries in Rotterdam and elsewhere. One more issue is that of the licenses, for most of the exploration licenses are due to run out soon. The government needs to renew or extend existing licenses. “There are discussions to extend existing licenses,” Mr. Müller said. “Nor does it help operators that the total tax takes, when you include royalties and corporation tax could perhaps reach 58%, if finds are significant.”

As for the future, if oil and gas is found in the next few years, it is likely that existing exploration companies will shift their interest to the northern-most license L016 that adjoins the Faroe-Shetland seabed boundary, according to Mr. Müller. In addition, the Faroese government plans to proactively market the region to potential investors, NOCs and IOCs by attending major oil and gas conferences such as the National Oil Company Congress this May in London.

Turnkey Communication Solutions for the Offshore Industry

Via the Faroese Telecom PoPs, we provide the offshore industry with turnkey and future proof communication solutions.

Turnkey Communication Solutions

Faroese Telecom ensures that high speed low latency communication solutions are within reach.

Via the Faroese Telecom Network, production units are connected, offshore as well as onshore.

We offer a single point of contact, take care of preliminary surveys and select the best suppliers of fibre optic cables and technical equipment. Our expertise and the Faroese Telecom Network, enables us to deliver future proof high capacity connections.

Connecting Offshore and Remote locations

Faroese Telecom has vast experience and expertise. We have established communication solutions between production units West of Shetland, Flotta and Sullom Voe to offices in Aberdeen and from production units in the Danish North Sea to offices in Copenhagen and Esbjerg.

Our Communication solutions enable optimizing of daily operations 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 Cara, Orkney - Banff & Aberdeen, Scotland - London - Copenhagen

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Serkunnleiki í
Norðuratlantshavi



Statoil