NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

January 2016 Issue: 53

2016 - BRACE YOURSELF

We take a look at what's in store for this year

2015 SPOT ROUNDUP

A look back on the North Sea's annus horribilis

WESTSHORE
SHIPBROKERS AS

Contents

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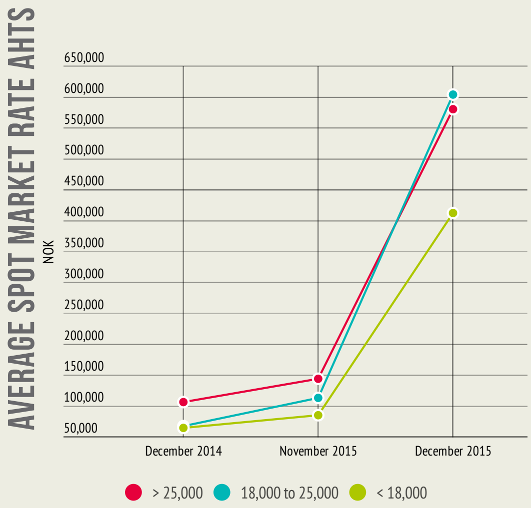


82.8%

Average AHTS utilisation in December

94.1%

Average PSV utilisation in December

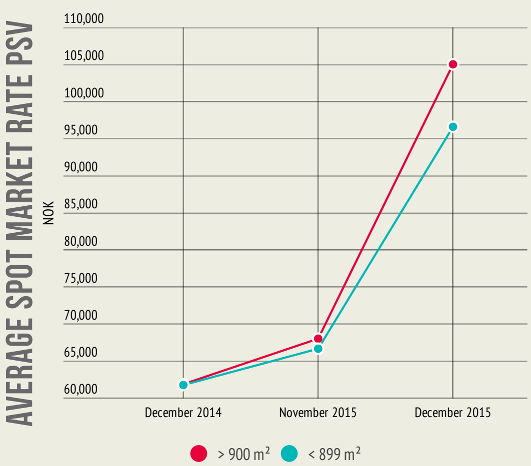
	Nov 2014	Dec 2014	Nov 2015	Dec 2015
Number of supply spot fixtures	81	100	91	84
Number of AHTS fixures	53	49	38	43

15

Rig moves in December (compared to 28 in December 2014)

11

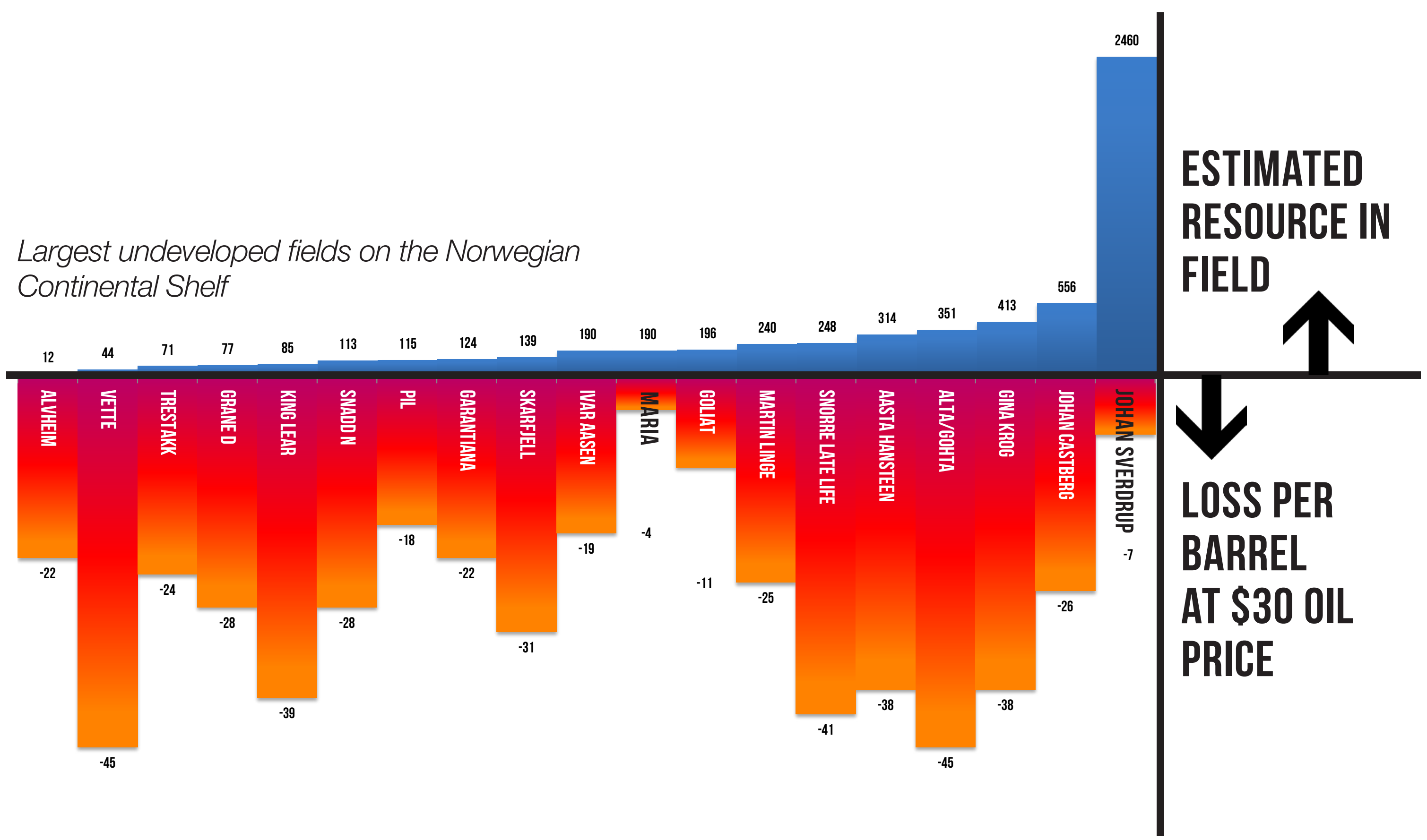
Rig moves in November (compared to 18 in November 2014)



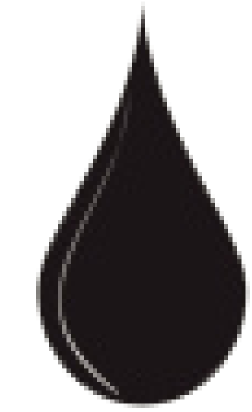
The year ended on a high as what is as close to market balance was finally achieved after a long hard year with a whole lot of turbulence. For the AHTS vessels while still a slow month activity-wise, the drop in number of vessels competing for the work had a positive impact on rates and allowed owners some breathing space. December was pretty much the only month of 2015 that rates were consistently above break even and utilization at a healthier level too – around 83% in comparisons to the average for the rest of the year which was just 64%. For the PSVs the steady activity felt on the spot due to the decrease in term vessels on hire, came to an abrupt halt this month. The slowdown from the declining number of rigs on contract coupled with weather difficulties saw the number of fixtures drop in December too. As with the AHTS vessels however, the number of vessels in layup kept the market in a relative balance. While rates still have some way to go to be consistently on the right side of breakeven, they were at their highest they had been over the whole of 2015.

A full run down on how the spot market progressed through 2015 can be seen later in this month's Navigator.

PROJECTS IN DOUBT AS OIL SINKS LOWER



Largest undeveloped fields on the Norwegian Continental Shelf



Brent crude is at time of writing teetering on the edge of falling sub-USD 30. Worse still, for what they are worth, the expectations for the average price of the barrel in 2016 has been consistently revised down. Carnegie's latest research pegging it at USD 45 for 2016, down from the previous prediction of USD 70.

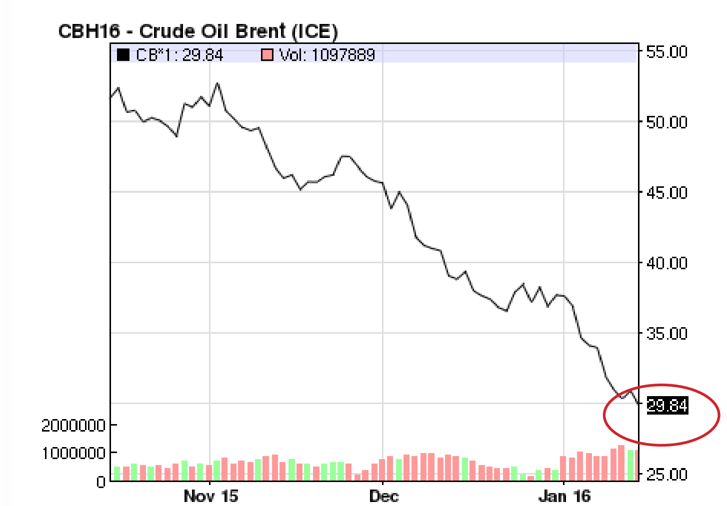
The impact on E&P spending will be acute, after suffering a 23% reduction in 2015, 2016 looks set to be another bumpy ride.

The biggest new fields in the Norwegian sector all have break even prices above this to a greater and lesser extent. But the extent of how much of a loss these fields would make if the oil price continues at these levels is significant. While some of the fields have already been sanctioned and construction plans are underway, several still have to reach that point and are highly unlikely to with such an unprofitable forecast. Premier Oil's 'Vette' field will not be considered while the oil price is anything below USD 50 stated the company last year. The future of Statoil's Barents Sea prospect Johan Castberg looked uncertain last year as investment decisions faced delay after delay. The latest news however would appear that Statoil will aim to submit a development plan for the field this year, albeit with reduced costs and a simplified solution.

Simplification has garnered a new shine in the offshore world. It has certainly replaced the terms 'bespoke' and 'state of the art' because it invariably equates to 'cheaper'. Statoil and partners have reached agreement on a development plan for 'Trestakk' which reports say have shaved 30% off initial costs. A final decision on the development will be taken later this year.

One of the region's most costly projects is Lundin's Alta/Gohta with a breakeven price of USD 75. Also located in the Barents Sea, Lundin is pressing ahead with the development despite profitability fears with a floating production development solution looking most likely at present.

But while oil companies are at their hardest trying to cut costs and survive in a lower oil price environment, one thing seems clear – it is simply not realistic to assume new activity will go ahead with an oil price at current levels.



Graph taken from Nasdaq.com 15 Jan 2015

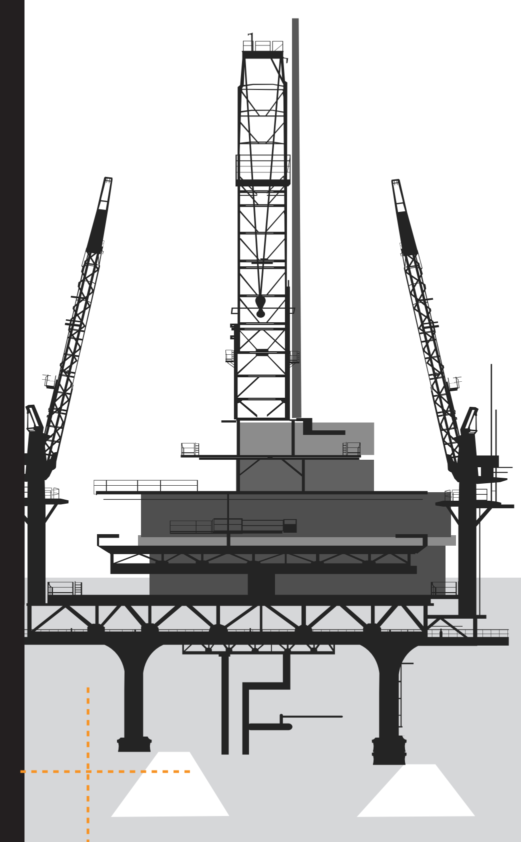
THE NEW CAT DS

With an eye to improved recovery of fields in what is a mature basin, back in 2011 Statoil announced a completely revised approach to securing its rig capacity for the Norwegian continental shelf.
At the time the concerns were the ability to secure the correct rig in what was a tight market filled with ageing rigs. So in cooperations with companies like Aker and NOV it designed several new types of rig, specifically targetted for Statoil's operations on the NCS. One of those sub catagories, was the Cat D rigs – now known to us as Songa Equinox, Endurance, Encourage and Enabler.
The four 6th generation semisubmersibles were built at Daewoo in South Korea, the first two (Equinox and Endurance) have arrived in Norwegian waters, Encourage is en route and Enabler will follow in the coming months. Songa and Daewoo are embroiled in lawsuits as a result of delays to the delivery of the units, the original delivery schedule was set at end 2014.
With several rig contract cancellations, including cancellations from Statoil itself, the arrival of four new rigs was welcome news for the industry. The four semis are therefore under the spotlight to get up and running quickly and smoothly. However Equinox and Endurance, which both started drilling operations on Statoil's Troll field in December last year have both suffered technical difficulties. Endurance has reportedly experienced BOP failure and Equinox other technical difficulties which may be attributable to the recent bad weather offshore.

BRAZILIAN WOES CONTINUE

The common question in the industry right now is always in essence, where can we send our boats to work?
What was once the bright light of the offshore industry, Brazils shine has faded after two years of scandal and downturn. But the fact remains the country holds vast resources of oil and gas that are relatively cheap to exract should the right planning and infrastructure be put in place. Therein lies the rub of course....
Sete Brasil, the company created to manage the build of 29 new rigs to go on hire to Petrorbas has steadily scaled down its ambitions since the scandals broke. The initial 29 had been slashed to 15 by late last year but latest reports suggest that has been cut further to just six units. The units to be delivered are those in the most advanced stages of build. The knock on effect of this is massive. Companies the world over had been contracted to supply goods and services for the construction of the rigs and will now endure significant ramifications as a result.
The Brazilian rig market has endured cuts just as the vessel market has. It is now estimated that the rig market has been scaled back to 2008 levels – a reduction of 33% from its peak. The current picture shows 48 rigs under contract in Brazilian waters, 19 drill-ships, two jackups and 26 semisub-mersibles. The current picture shows that this will remain roughly the case for the remainder of 2016.
Petrobras has initiated a second round of cost renegotiations, named 'Onda 2' - this time aimed directly at floating production and drilling rigs that were not included in the first round of talks. Fromt he first round 700 contracts were impacted with an estimated cost saving of 13% achieved.

UK SECTOR "BOOMING!"

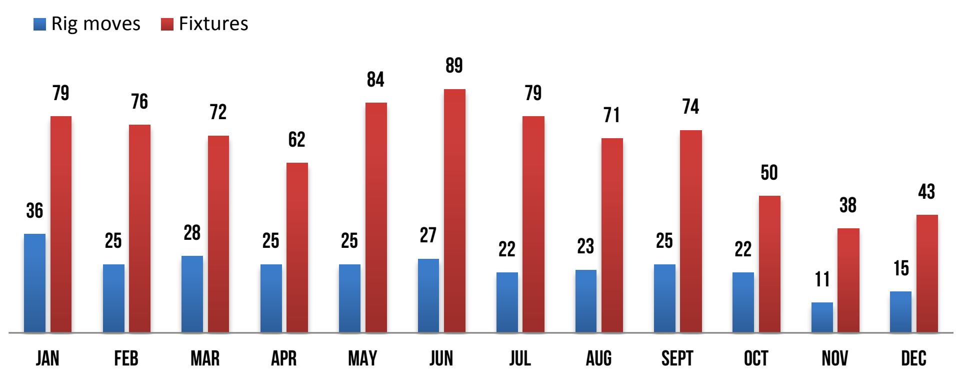


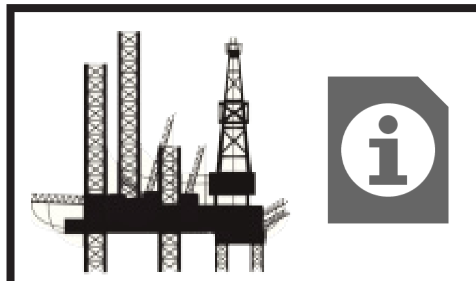
A Scottish member of parliament created offence this month by making the comment that there was no crisis in the North Sea, saying that the sector was 'booming'. The comments, which the MSP later apologised for came on the back of news that the UK sector managed to increase year on year production for the first time in 15 years. Now be careful here, thats not to say more was produced than ever before, or even more was produced than any of the years for the last 15, but for the first time the steady decline was reversed.
The future of the UK sector hangs in the balance. While on the one hand we have operators such as BP and Statoil pushing ahead with large and technically challenging fields which will secure activity in Aberdeen for decades to come (Claire in West of Shetland for BP and Mariner for Statoil) the next big project could be anyone's guess. The reason being that the number of exploration wells is declining rapidly. Only 14 out of the 25 expected exploration wells were drilled on the UK side in 2014 and this was expected to drop into single figures for 2015. Lack of confidence feeds into this, as pre-vious operators have had limited success when they have gone out and drilled, this puts pressure on any new exploration plans in the current low oil price environment. Its a difficult time to make costly mis-takes for most companies.

2015 spot roundup

It was a difficult year for most vessel owners trading vessels on the spot market with almost all succumbing to the inevitable layup decision by the time the year drew to a close. Westshore takes a look at how things progressed specifically.

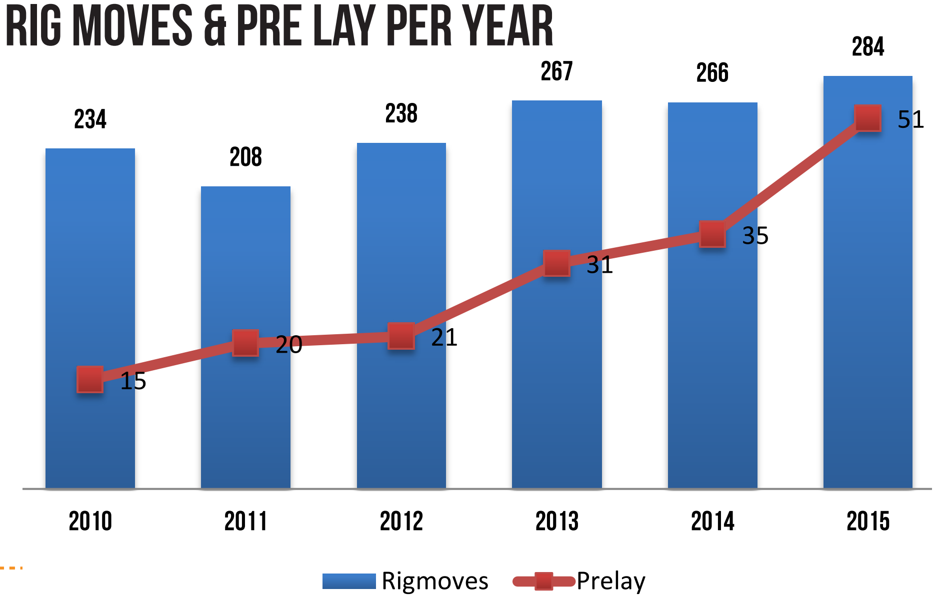
RIG MOVES & AHTS FIXTURES 2015





NORTH SEA STACKED RIGS
JAN 2016 - 34
JAN 2015 - 7

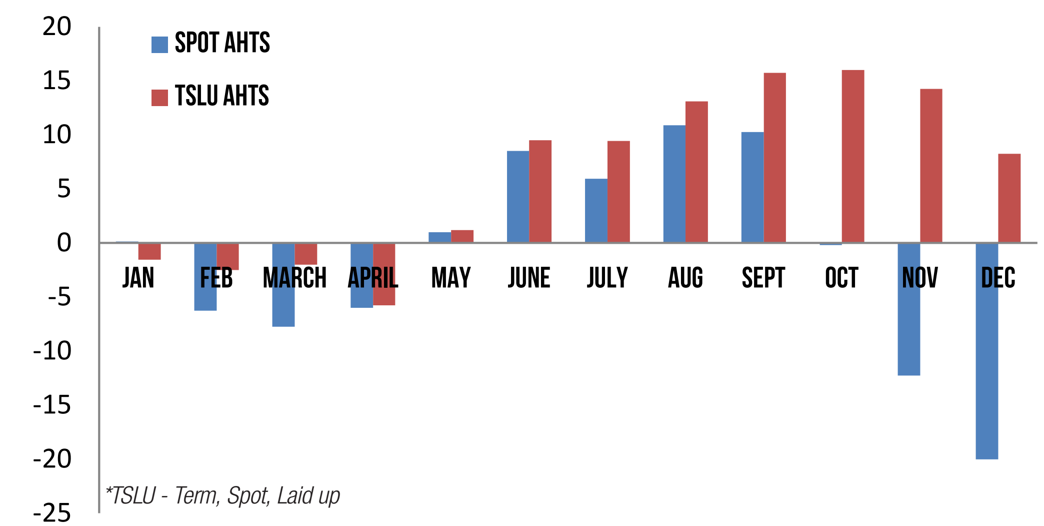
RIG MOVES & PRE LAY PER YEAR

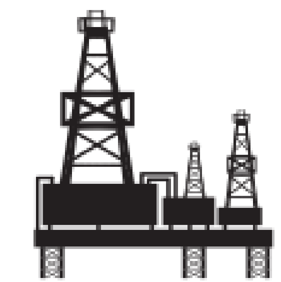


AHTS VESSELS

As the year went on the number of drilling rigs going into layup began to have a cumulative effect on the AHTS work on the spot market. While initially rigs being moved to location for layup provided a temporary demand, as the number of rigs declined steadily the amount of work (and therefore fixtures concluding) slowed. The last two months of the year showed a very low number of rigs being moved compared to what has been seen over previous years. Correspondingly the number of fixtures concluding dropped significantly too. This was felt acutely as days went by with very little action in the market. The number of rig moves done each year has steadily gone up over the last few years and 2015 was no exception. Although this was partly as a result of high activity in January 2015 – which came as several rig moves had been put on hold due to weather from the month before that.

NUMBER OF VESSELS TRADING COMPARED TO 2014



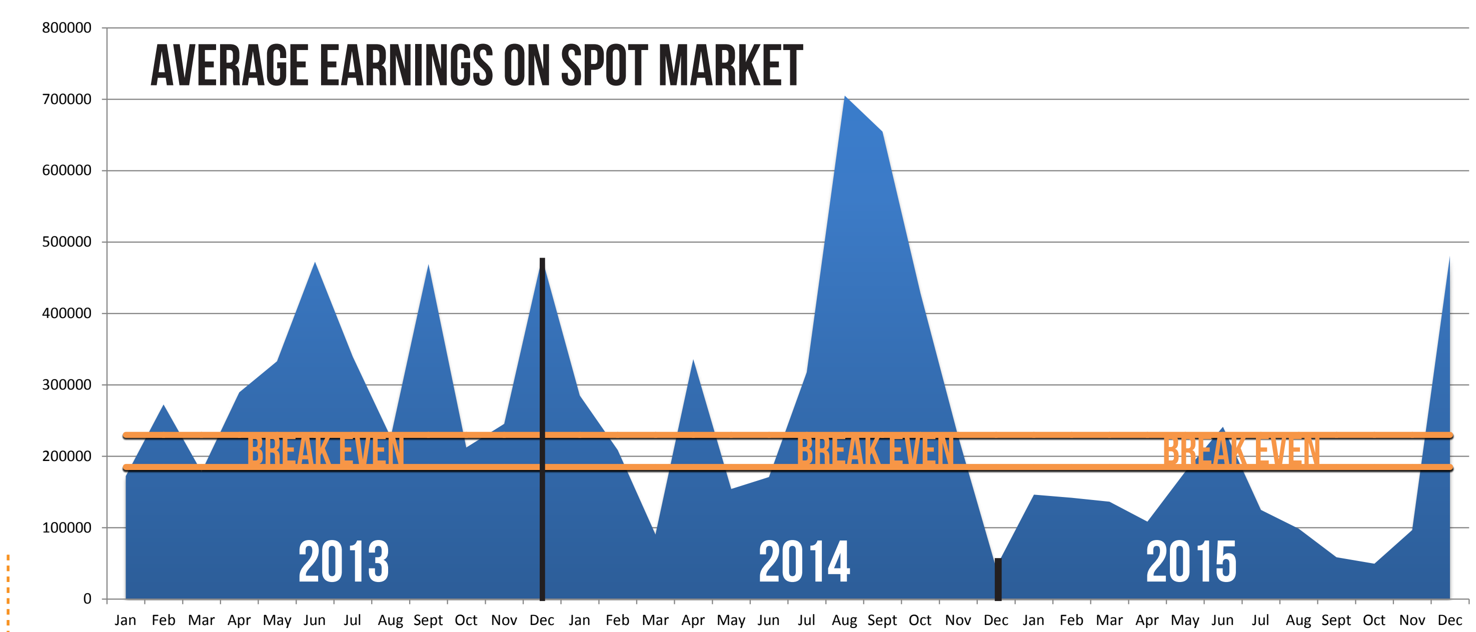


The incidences of pre-lay being conducted for rigs shows a continuing increase with 2015 showing perhaps the biggest hike to date. This demonstrates the increasing confidence the industry has in conducting rig moves using this method – as not just an efficient way of operating but also that it can provide significant cost savings, something that is of course of high interest in the current climate.

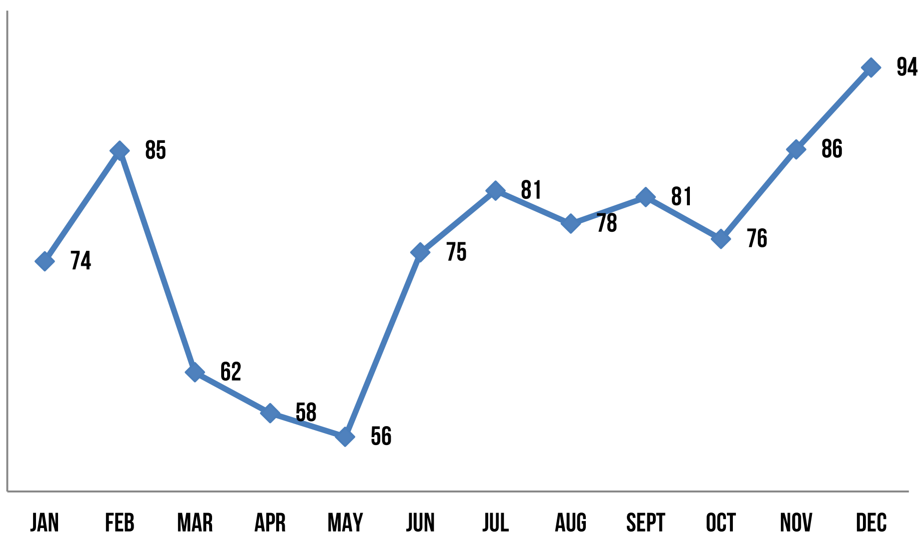
THE SUPPLY OF VESSELS IN 2015 COMPARED TO THE PREVIOUS YEAR.

At the start of the year there were fewer vessels trading the spot market and in the total pool of spot, term and laid up tonnage but as vessels started to come off term contracts both at home and abroad and began getting laid up in the North Sea, the numbers swelled. By October the layups had started to have an effect and by December the number of vessels trading the spot market compared to December 2014 was about 20 fewer.

Rate wise the last two month's drop in number of vessels trading the spot market resulted in a balance of sorts being restored. It meant rates climbed, albeit not to the highs of what has been seen in previous years but critically to levels above break even. Something that the rest of 2015 had been woefully lacking.



PSV SPOT UTILISATION 2015

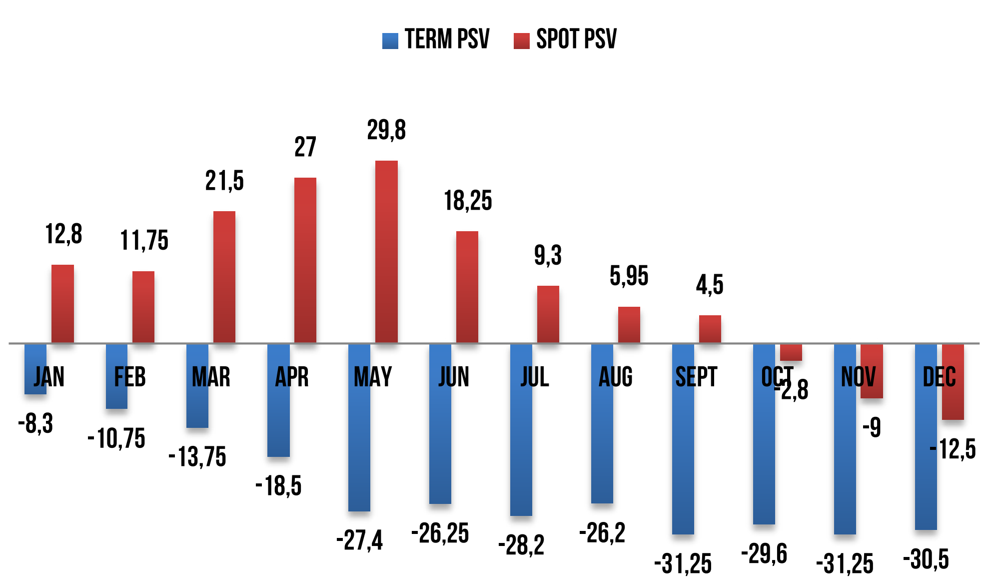


PSV ON TERM CHARTER IN NORTH SEA

DEC 2015 - 136

DEC 2014 - 167

NUMBER OF VESSELS TRADING COMPARED TO 2014

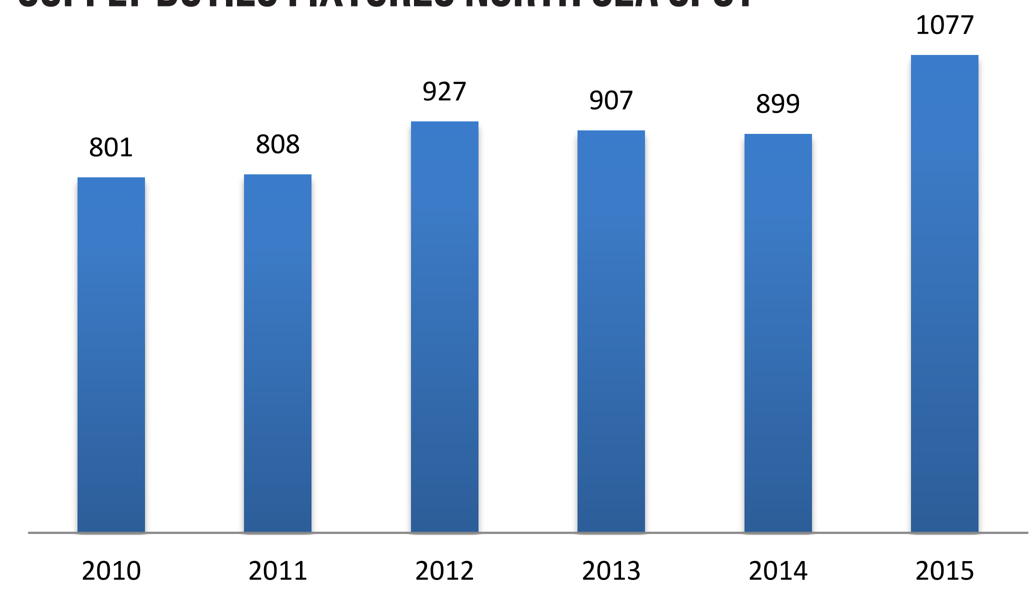


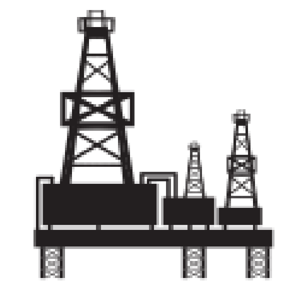
PSV VESSELS

The spring months really bit hard for the PSVs and precipitated the surge of vessels one by one heading into layup. Though figures vary, depending on the size and nature of the vessel, as many as 70 PSVs are now in layup in the North Sea. The majority of those headed out of the market in the second half of the year and mostly in the last quarter. As with the AHTS vessels the exodus of vessels from the spot market brought us as close to a market balance as we could have hoped for as the year concluded.

The decrease in vessels came at just the right time. Because while the PSVs had enjoyed a busier spot market all year in comparison to the AHTS market – mainly due to the big reduction in number of vessels on term contracts, so the operators sought to fulfil cargo and supply work from the spot market, this came to a halt at the end of the year. At this point the demand slow-down hit the PSVs too and we can see the number of fixtures concluding for PSVs was down on 2014 for the first time in 2015 – December 2015 had 19% fewer supply fixtures than December 2014.

SUPPLY DUTIES FIXTURES NORTH SEA SPOT

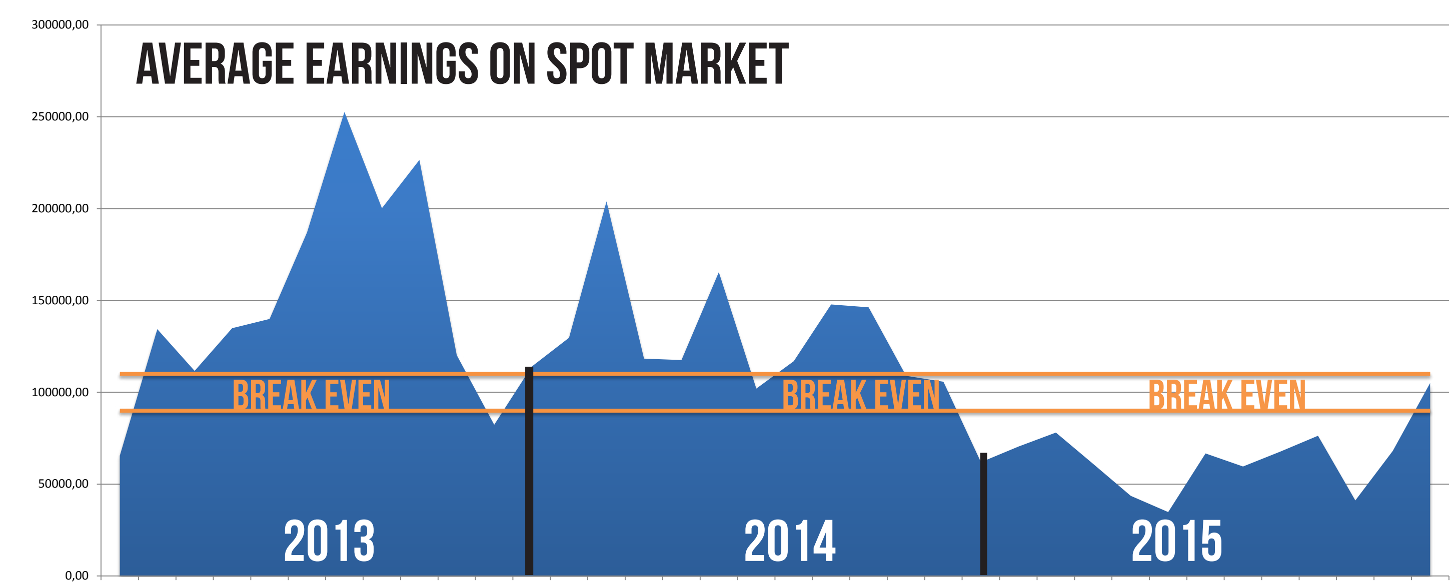




The average earnings picture for PSVs is also pretty bleak. The tail end of the year picking up as this elusive market balance seems to return but while the AHTS rates reached more acceptable levels (from owners perspective at least) the PSV rates failed to impress and still languish below break even.

Few predicted 2015 would turn out to be as bad as it did, records reached for number of vessels in layup, all time lows in rates etc.

In Market Forecast we take a look at what 2016 has on the cards...



2016 - BRACE YOURSELF

2015 was tough and we are all more than ready for some respite. But will 2016 be the year we see some light at the end of the tunnel?
Not unless something drastic happens...

The number of rigs actually on contract and out drilling has a major impact on demand for supply vessels, primarily AHTS vessels but PSVs too to an extent. Over the course of 2015 rig contract cancellations became an unfortunate feature of North Sea drilling, but taking a look at what's on the cards for 2016 at the moment it very much looks like a further decrease in rigs is almost a certainty. The forecast for wells to be drilled this year is similarly dire.

The Norwegian Sector

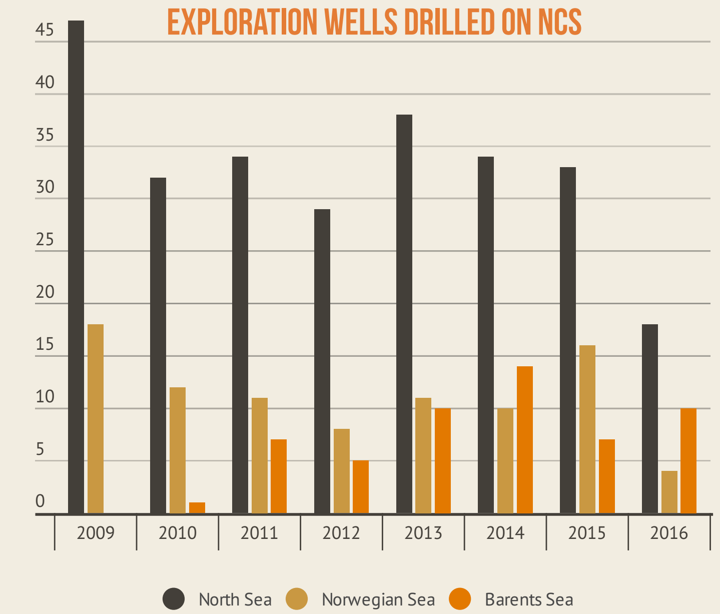
The picture in Norway from a rig perspective shows perhaps the most promise, compared to other sectors of the North Sea at least. It would appear that the bulk of the damage has been done. If no options are declared on rigs currently on contract and no new contracts are awarded, by the end of 2016 there will be just under 20% fewer rigs on hire. However Lundin is currently out for a semisubmersible to cover work in the Barents Sea from May which will boost numbers. On the other hand Island Innovator will finish the firm period of its contract with Lundin in March, although options remain out to 2018, recent press announcement over job redundancies suggest no options will be declared.

The best case scenario for the Norwegian sector, where Lundin's Barents tender is awarded and a rig goes on hire in May plus all other options for this year on rigs currently working in Norway are declared would leave Norway around status quo. That is to say there would be about the same number of rigs drilling at the end of the year as there is the start of the year. In short, best case scenario is things staying as bad as they are now.

The Norwegian Petroleum Directorate just issued its latest forecasts on, amongst other things, the number of wells expected to be drilled in 2016. That number is 32, that's a 42% decrease on the number of wells drilled in 2015. I'll just leave that there..

42% less exploration wells to be drilled in 2016 than in 2015

Norwegian Petroleum Directorate

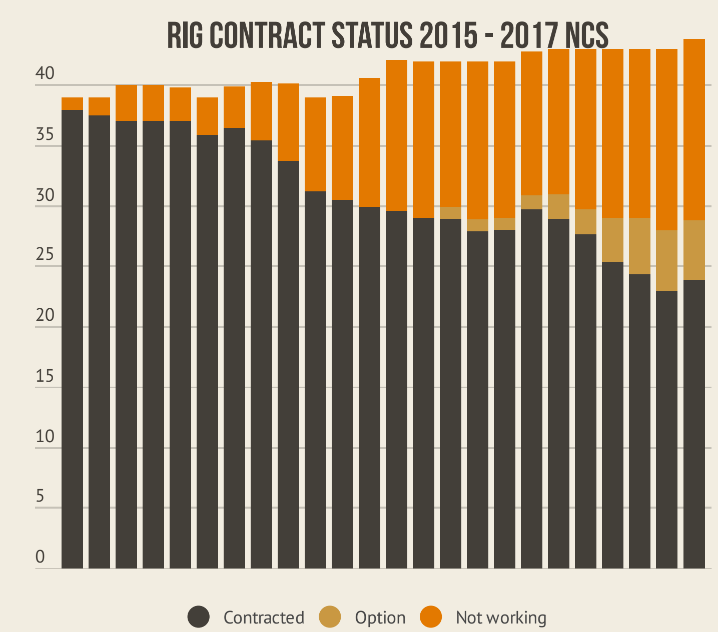


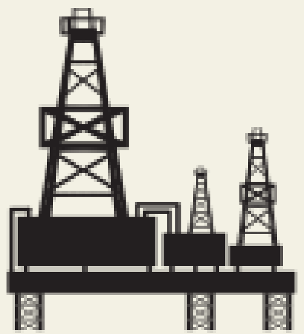
+0.75%

Change in number of rigs working in the Norwegian sector if all options are taken and contracts awarded

-19.5%

Change if no options are taken and no contracts awarded





The UK Sector

The prognosis for the UK sector is significantly worse. Worst case scenario where no new contracts are awarded and no options are taken up takes us to a further 44% drop in number of rigs on hire. Best case scenario where options are declared and tenders are awarded takes us to just under 20% reduction in number of rigs working. Looking at the contracts in more detail this will affect jackups particularly, although there are a handful of semis that could come off contract and wind up in layup. These include John Shaw (TAQA/IOG), Ocean Valiant (Premier) and Paragon MSS1 (previously Noble TVL) (Nexen). The second and third quarters may produce some increased activity as a number of rigs have work in place that will take them out of layup and into operation briefly. These include Stena Spey (EnQuest), and West Phoenix (Total). There is also two new arrivals expected by the end of the year namely Noble Lloyd Noble, set to work on Statoil's Mariner field and for which Statoil UK entered the market for a term PSV at the start of this year. Also Hercules Highlander which will go on to Maersk Oil for work at the Culzean field. Demand wise there are a number of interesting tenders out for rigs in 2016. Not least ConocoPhillips, out for a semi starting June for 120 days. Maersk Oil out for a semi for work near Janice and Perenco for a jackup for six months. In terms of exploration wells the declining number of drilling activity has sparked serious concerns for the UK sector. In 2014 only 14 exploration wells were drilled, this dropped to single figures in 2015 and a further reduction could well be on the cards for this year.

> Demand wise there are a number of interesting tenders out for rigs in 2016..... ConocoPhillips, out for a semi starting June for 120 days. Maersk Oil out for a semi for work near Janice and Perenco for a jackup for six months.
>
> Westshore Shipbrokers

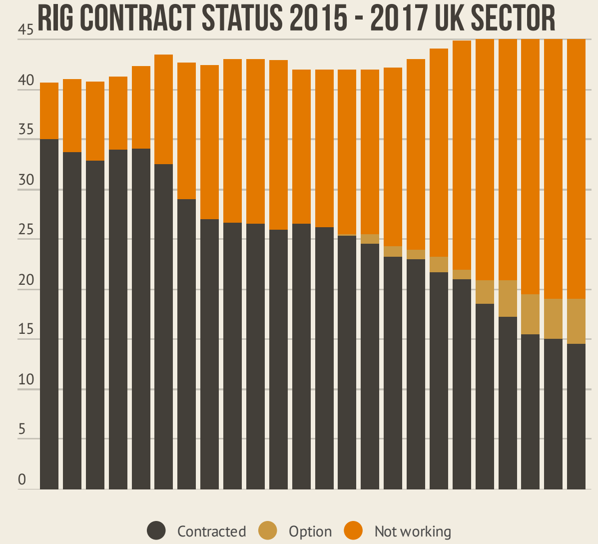
-19.3%

Change in number of rigs working in UK waters if all options are declared and contracts awarded

-44.3%

Change if no options are taken and no contracts awarded

RIG CONTRACT STATUS 2015 - 2017 UK SECTOR



Other Parts of North Sea

Looking at the situation in other areas of the North Sea the activity is set to pretty much uniformly go down. Some interesting prospects happening off the coast of Ireland potentially this year as Providence may seek a rig for work again this year. But again several rigs are due to finish contract this year, this concerns solely jackups as there are no semis or drillships working outside UK or Norwegian waters this year. Our worst case scenario would see a 66% reduction in number of rigs on hire and best case is 25.6% reduction. Though the forecast is dire in this respect I think the situation can be suitably summed up in the words of an industry colleague who this month said to me "history has proven that humans tend to be equally ignorant in seeing the potential upturns as we are when it comes to ignore the potential downturns". Fingers crossed folks.

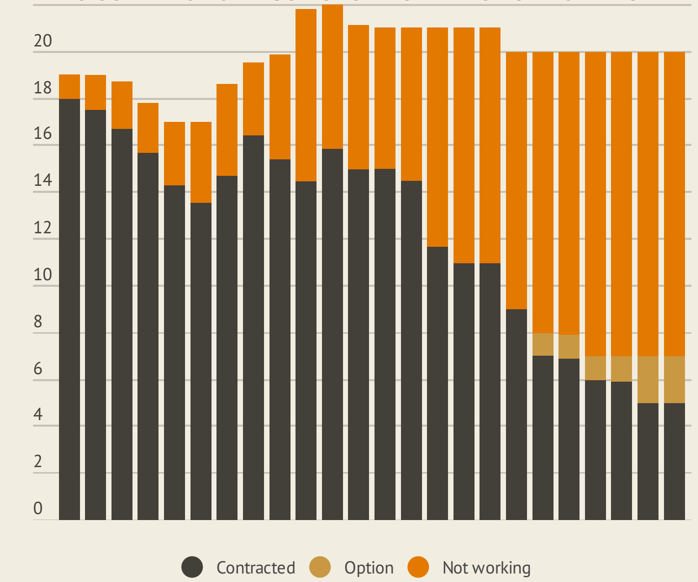
-25.6%

Change in number of rigs working in rest of North Sea if all options are declared and contracts awarded

-66.6%

Change if no options are taken and no contracts awarded

RIG CONTRACT STATUS 2015 - 2017 REST OF NORTH SEA



> HISTORY HAS PROVEN THAT HUMANS TEND TO BE EQUALLY IGNORANT IN SEEING THE POTENTIAL UPTURNS AS WE ARE WHEN IT COMES TO IGNORE THE POTENTIAL DOWNTURNS".

NEW YEAR, MORE DETERMINED THAN EVER

While oil and gas predictions get steadily more depressing for 2016, that's far from the case for the offshore wind sector.

Two of the major players in the UK have publicly stated their optimism for this year is significant and they believe it comes on the back of similar sentiment from the UK government. Amber Rudd, the UK's Energy Secretary came under fire last year as she announced cuts to the governmental subsidies for onshore wind projects. The fear was of course that this would shortly be extended to the offshore wind farms that still heavily depend on subsidies for them to go ahead. Ms Rudd has however stated that so long as offshore wind projects continue to focus on bringing costs down the subsidies would remain in place. Moreover a further offshore wind auction could come within the next decade, again subject to cost reductions. At an industry function in November she said "The costs of contracts for offshore wind came down by at least 20% in the last two years, but it is still too expensive. We will not support offshore wind at any cost – further support will be strictly conditional on the cost reductions we have seen already accelerating. The industry tells us they can meet the challenge, and we will hold them to it. If they don't, there will be no subsidy."

In terms of time scale DONG's UK Chairman has said that any withdrawal of government subsidies before 2023 were 'not realistic'. Comments from industry and government over the continued support, though far from guaranteeing that the subsidies will definitely continue, have resulted in a climate of increased confidence and crucially positive decisions with regards to new projects and further investment. DONG Energy also has said that it plans to invest a further GBP 6bn in the UK by 2020, convinced that the government is serious about backing offshore wind. The Danish energy firm is involved in several projects of interest this year and next in UK waters. These include Burbo Bank Extension which will begin this year and has a capacity of 258MW. Race Bank, also a 2016 project and will generate 580MW of power. The mega-projects at Hornsea are currently 100% owned by DONG and have start dates of 2018 and beyond (the projects being broken up into multiple phases). Hornsea represents some of the biggest and most ambitious offshore wind projects in the future with a current planned capacity of 4200MW.

> DONG ENERGY ALSO HAS SAID THAT IT PLANS TO INVEST A FURTHER GBP 6BN IN THE UK BY 2020

Swedish wind company Vattenfall says it too is 'optimistic' about 2016 as it finally beats off opposition to its wind farm on the northeast coast of Scotland from billionaire Donald Trump. Located a stones through from the site of Statoil's planned Hywind floating turbine park, Vattenfall faced strong opposition to its offshore windfarm going ahead from the presidential hopeful who declared it to be an eye sore. Donald Trump owns a golf course on the land overlooking the wind farm site and viewed its construction as being a problem for the golf course.

The British Supreme court has however ruled that the project can go ahead and the decision will allow Vattenfall to use the site as an area to test differing types of turbine to test cost-effectiveness.

The industry is still in its infancy however, in terms of it absorbing all or a lot even of our excess offshore tonnage at the moment remains unrealistic. As technicalities as well as costs continue to be progressed there remains plenty of room for development, and opportunity however.

DONG ENERGY IN 2016

Burbo Bank Extension - 258MW
Race Bank - 580 MW
Hornsea (2018 onwards) - 4200MW

SECRETARY FOR ENERGY AND CLIMATE CHANGE AMBER RUDD

> *We will not support offshore wind at any cost – further support will be strictly conditional on the cost reductions*

SEVEN ATLANTIC IN KRISTIANSAND

This month the world's most advanced diving vessel the Seven Atlantic, owned and operated by Subsea 7 was in town undergoing some maintenance work and Westshore got the opertunity to come aboard the vessel. Alex and Jørgen and myself toured the vessel and got to see where the divers lived during the up to 28 days they are confined to the saturation chambers. The tour included trying on one of the 25kg diving helmets which are used when the vessel is in operation but are somewhat less comfortable to wear when not underwater! Special thanks to Billy Duncan, one of the vessel's divers, for the informative tour.