THE NAVIGATOR

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THE MONTHLY REPORT FROM WESTSHORE SHIPBROKERS AS

WESTSHORE
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02 HEADLINE NEWS

STRIKE CONSEQUENCES?

There is no doubt that people like to pull the old strike card during the summer months, with a number of different organizations having needed to resolve to strikes in order to have their demands met. It is now time for the Oil and Gas sector to be affected after the two unions “Industri Energi” and “SAFE” pulled out more than 700 workers on the 24th of June. The negotiations between the unions and the National Association for Oil Companies (OLF) have been ongoing since with little forward progress, and the possibilities of an escalation of the strike loom large. The next deadline for current negotiations is the last weekend of June. The root of the problem lies with OLF cutting the workers’ pension rights to early retirement at 62. The current pension rights provide for retirement at the age of 65, however workers can retire at 62 with a discounted pension. In addition the unions have requested a 14 day paid paternity leave.

So far the strike is affecting installations at Skarv, Heidrun, Oseberg field central and the Floatel Superior. Skarv does not start production until fall 2012, but the strike will affect production start. The land based plant at Tjeldbergodden in Nordmøre is closed due to the lack of oil and gas deliveries from Heidrun. Statoil have since the initial reactions closed production at Oseberg South and East and the platforms Huldra, Brage, Veslefrikk A, Veslefrikk C and Oseberg C which are connected to the Oseberg field central. Parts of production at the Sture terminal and the Mongstad plant have also been affected.

Initially the estimate by OLF was that the strike would cost companies and the Norwegian people approximately NOK 150 million per day, since the increased closures this has been increased to NOK 180 million per day. The unions have claimed that the extended closure of three fields is a move by Statoil to force the government to step in and force an imposed settlement of the strike. This is because the government is expected to intervene in matters that have major health or societal consequences. Estimates of the strike effects are 11% of Norway’s 1.6 million barrels a day and 4% of its gas production. Increased measures by the unions will undoubtedly impact these figures further. So far the government response has been that the strike is perfectly legal and that it is the responsibility of the parties involved to sort out the situation.

So what are the consequences of this strike to the offshore supply market? The obvious effect is a slowdown to the offshore market, with these platforms closed there will be spare capacity within the oil company’s term fleet and therefore potentially less spot moves to fill in the blanks. This effect will not be immediate, however if the strike continues this may be a consequence. If the strike escalates further installations and fields could be affected with potential developments delayed which would certainly see the entire market suffer a down period. However a further escalation in the strike will likely force government involvement, something the unions do not want to happen. The strike was not escalated at the end of the month. On a smaller note this situation is decreasing the supply of oil which has a direct correlation on the price of oil having already partly contributed to a very slight upward tick which will see bunkering prices to increase slightly.

A WORD WITH WESTSHORE

Lars Heimdal
Shipbroker

“I expect the activity levels to increase on both sides of the North Sea shortly, with rig moves expected in the second week of July”

03 MORE NEWS

INVESTMENT FIGURES FOR THE OIL AND GAS INDUSTRY Q2 2012

The central statistics bureau (SSB) in Norway recently released their investment figures for the Norwegian oil and gas industry in 2013, showing promising levels for next year. According to estimates the investment for 2013 including pipeline transport will reach NOK 194.3 billion, while the total for 2012 has remained at the same level as estimates in Q1 with NOK 186.6 billion. The total investment for Q1 2012 was NOK 38.5 billion, for the current estimate to be reached NOK 148.1 billion must be invested in the final three quarters. So far the drilling activity in the beginning of Q2 has not indicated a major increase in activity there is therefore reason to believe that some of the investment planned for 2012 will be pushed to 2013. If these estimates hold true there will be extensive increases from previous totals. In 2010 a total of NOK 125.4 billion was invested while 2011 saw NOK 146.3 billion injected into the industry.

Exploration investments for 2013 have been estimated at NOK 35.4 billion, this is NOK 5.6 billion more than the corresponding figures for 2012. The average over the period 2009 to 2011 has been NOK 26.9 billion. Investment for new field development is estimated at NOK 61 billion in 2013, with the largest developments coming from Goliat, Eldfisk II and Edvard Grieg projects. In 2011 this figure was NOK 37.5 billion having increased from a major low in 2010 of NOK 30.3 billion. Meanwhile investment in existing infrastructure is at NOK 93.5 billion for 2013, this is NOK 5.9 billion higher than estimates made at the same time last year for 2012 and is close to a 20% increase from 2011. The largest investments will be made in the fields Troll, Ekofisk, Oseberg and Åsgard.

License holders on the NCS plan to invest NOK 93.6 billion for the drilling of production and exploration wells in 2013. This estimate is approximately 37.5% more than actual drilling costs in 2011. These figures are in line with our expectations of a good year in 2013, and clearly demonstrate that relative to the last few years the investment is expected to increase. However it is prudent to note that although rig capacity is expected to increase in 2013, some of the planned wells can be delayed. The figures show that there will be an increased demand for offshore support vessels in 2013, with an increase in field development from 2012. In total the investment is expected to increase by 4% from 2012 and more than 25% from 2011 according to Statistics Norway.

OPERATOR NEWS

-Mitsui & Co has purchased assets from BP for its interests in the Alba and Britannia fields in the UK for a total of USD 280 million. This sale follows BPs move to divest from the Jonah and Pinedale upstream operations in Wyoming to LINN Energy for USD 1.025 billion. The move demonstrates BPs desire to refocus their strategy on new development projects, as it currently has a large investment program with four field development projects in the UK and two in Norway.

-Cairn has made yet another move for investment in the North Sea this month, although nothing has been confirmed they have made a bid for Nautical Petroleum for USD 645 million. This follows their acquisition of Agora Oil for USD 450 million completed in May this year. This marks yet another move to diversify their portfolio and spread the risk attached to their Greenland projects. Cairn has sold a further 3.5% share of their interest in their former subsidiary Cairn India to Vedanta Resources for approximately GBP 231 million leaving them with an 18.3% ownership in the business.

-Earlier this month Lundin Petroleum announced final approval for its plan to develop and operate the Edvard Grieg field from the Norwegian parliament. The project is expected be up and running by late 2015 and during its peak produce approximately 100,000 barrels per day. The cost is expected to be USD 4 billion and the platform will be designed for a capacity of 160,000 barrels per day. The Swedish company has just confirmed a USD 2.5 billion revolving credit facility which will likely be used to partly fund the development along with investment in the Brynhild and other projects.

-There is a potential reshuffle of the consortium created to operate the Shtokman gas field in the Russia Barents Sea. The agreement between Gazprom, Total and Statoil signed in 2007 has taken too long to materialize, and reports suggest that Shell might be brought in as a partner in the project.

04 NEWBUILDING NEWS

NEWBUILD DELIVERIES
NEXT SIX MONTHS

July 2012
Skandi Aukra (STX PSV 09)
C-Viking (UT755 LCD)

August 2012
Ocean Response (VS 485 MKII)
Blue Prosper (PX 121)

September 2012
Island Contender (UT 776 CDG)
Østensjø TBN (ST 920)
Viking Princess (VS 489 LNG)
Far Skimmer (STX PSV 08 CD)

October 2012
Vestland Mira (Havyard 832 L)
STX Leader (STX PSV 09 CD)
Far Solitaire (UT 754 WP)

November 2012
Olympic Taurus (MT 6015)

December 2012
Havila Charisma (Havyard 833 L)
Rem Leader (VS 499 LNG)
Vestland Insula (VS 485 MK III)

Delivered recently
Island Crusader (UT 776 CDG)
Viking Fighter (STX PSV 08CD)
FD Incomparable (UT 755L)
Olympic Orion (MT 6015)
Vestland Mistral (VS 485)
Evita (VS 485 MKII)
Torsborg (Havyard 832)
Far Scotsman (STX PSV 08 CD)

ANNOUNCEMENTS THIS MONTH

-Statoil has entered into agreements with Troms Offshore, Farstad Shipping, Simon Møkster and Atlantic Offshore for seven PSV term contracts for newbuildings.

-Farstad has confirmed two newbuilds to be built at STX Langsten and Vung Tau in Vietnam. The design will be PSV 07 with a total length of 94.5 meters, breadth of 21.0 meters and maximum deadweight of 5,600 tons. The contract value is approximately NOK 700 million for both vessels with an expected delivery to take place during 2nd and 3rd quarter of 2014. The vessels will go on 6 year contracts plus options to Statoil upon delivery.

-Troms Offshore will also build a vessel with the PSV 07 design to be built at STX Aukra with a scheduled delivery shortly after year end 2013. The ship is prepared for winterized operations including the class notations ICE C and DEICE. This design will be one of the largest PSVs in the market. The vessel will go on a 3 year contract plus options to Statoil.

-Simon Møkster has chosen to build a PSV with the UT 776 WP design with the new wave piercing innovation. The vessel will be built in Spain at the Astilleros Gondan shipyard and will be delivered during the summer of 2014. The ship will be built with NOFO 2009, ICE -1C, De-Ice and Rescue class and will go on charter to Statoil for three years plus options.

-Atlantic Offshore will build two VS 485 MK III L at Kleven Verft to service their two six year plus options contracts to Statoil commencing in 2014. The total contract value is NOK 700 million.

-Augusta Offshore will build an Anchor Handler with Italian shipbuilder Rosetti Marino. The vessel with the UT 712 CD design is due for delivery in mid-2014.
-Eidesvik has agreed on a contract with Kleven Maritime to build a large subsea vessel with a scheduled delivery of Q2 2014. The contract value is approximately NOK 1 billion. The vessel will be 145 meters long and a beam of 31 meters with two cranes of 400t and 100t and a load capacity of 13,500 T. The vessel is designed with Salt Ship design and Kleven and is termed the SALT 301 OCV and will be able to perform operations in arctic waters.

-Simon Møkster has confirmed the order of a vessel designed for ROV work, survey, diving and light construction work. The vessel is designed by Multi Maritime AS and is called MM85 MSV. The vessel will be built at Simek shipyard for delivery May 2014. The contract value is approximately NOK 340 million.

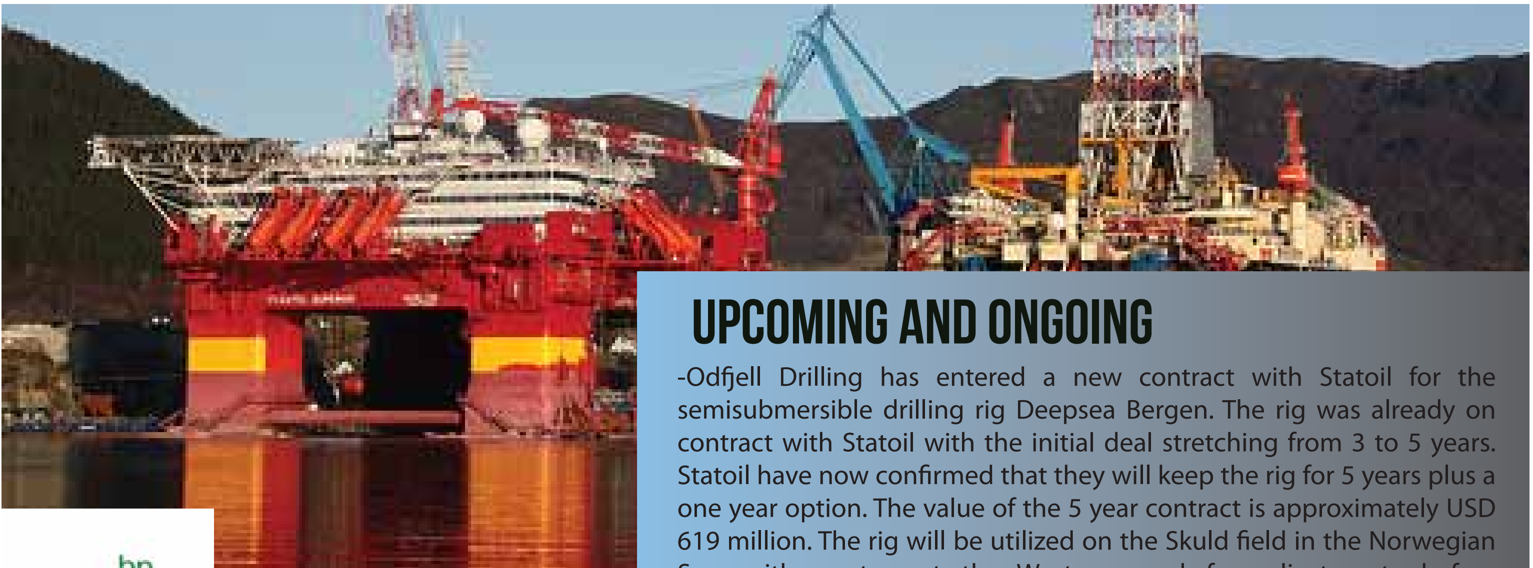
-Bergen group has awarded a NOK 1 billion contract with North Sea Shipping AS for an offshore construction vessel to be delivered second quarter 2014. The design of the vessel is ST 261 and has a length of 142 meters with a beam of 27 meters. The ship will be equipped with DP3 and have a crane with lifting capacity of 400 tons.

-Solstad and Ocean Installer (HitecVision) have ordered a subsea vessel. The design OSCV 06 has been designed by STX and Solstad with a total project cost of NOK 1.5 billion and will be delivered in Q2 2014. Solstad will own 30% with an option to increase its ownership to 50%. The vessel will go on a 5 year contract with Ocean Installer from time of delivery. The vessel will be 156.7 meters long, 27 meters wide and have two offshore cranes at 400t and 100t that can both operate at 3000 meters depths.

-Olympic Shipping has ordered a subsea support and construction vessel from Kleven Maritime: The vessel is a MT 6022 MKII design and will be 115 meters long and 22 meters wide. The vessel will have a 250t crane. The value of the contract is approximately NOK 600 million and includes an option for a second vessel. Delivery is expected Q3 2014.

-GC Rieber Shipping has ordered a SX 121 from Ulstein Verft with an option for one more vessel. The newbuilding will be delivered first quarter 2014 and has a contract value of approximately NOK 800 million. The vessel is designed to operate in harsh water within the SURF market and has a length of 130 meters and a width of 25 meters. She will have a 250t crane.

05 DRILLING & PRODUCTION



BP Statistical Review of World Energy

Each year BP gives us a summary of the happenings in the global energy markets around the world in the preceding year. This year the main events of 2011 were the "Arabian Spring" which led to the corresponding fall out of Libyan supply and the major humanitarian disaster in Japan which led to the nuclear incident. During 2011 oil prices exceeded an average of more than USD 100 per barrel, with a peak in April following the loss of Libyan supplies. This offset was met by a record production in Saudi Arabia. The US recorded the largest non-OPEC production increase for the third consecutive year.

World primary energy consumption grew by 2.5% in 2011, this despite a 0.8% fall in consumption by the OECD countries for the third time in four years. In total consumption increased 0.6 million barrels of day to reach 88 million barrels a day. This can be attributed to the growth in Non OECD countries of 5.3%, in other words increased energy consumption continues to shift from the OECD to emerging economies.

The global oil production increased by 1.1 million barrels a day, with Saudi Arabia, UAE and Qatar reaching record levels. We saw increases in the US, Canada, Russia and Columbia which offset the continuing decline in the UK and Norway. Interestingly enough the US had the largest increase among non-OPEC producers, much due to the strong growth of onshore production of shale liquids. The US output has now reached the highest level since 1998.

UPCOMING AND ONGOING

-Odfjell Drilling has entered a new contract with Statoil for the semisubmersible drilling rig Deepsea Bergen. The rig was already on contract with Statoil with the initial deal stretching from 3 to 5 years. Statoil have now confirmed that they will keep the rig for 5 years plus a one year option. The value of the 5 year contract is approximately USD 619 million. The rig will be utilized on the Skuld field in the Norwegian Sea, with a stop at the Westcon yard for adjustments before commencing the new project.

-Fred Olsen Energy subsidiary Dolphin Drilling Ltd. has entered into a new contract with BP Exploration for the drilling rig Byford Dolphin. The rig was previously on contract to the same charterer and how now been confirmed for three years with options for a three year period. The estimated contract value is approximately USD 378 million.

-Standard Drilling has entered into an agreement with the Malaysian company UMW Oil and Gas for the sale of two of their jackup drilling rigs for USD 426 million. The agreement is for the purchase of the first rig currently under construction and an option for the purchase of a second rig under construction which must be called by end September 2012. The sale of the rig will provide a profit of USD 8.5 million with another USD 7.8 million should the option be called.

-Statoil has commenced drilling on a second well with the COSL Pioneer at its Brugdan prospect in the Faroe Islands. Operations are expected to take approximately four to five months.

-Statoil has entered into a contract with Maersk Drilling for the charter of a new Jackup for the Dagny field. The rig will have the CJ70 design and be the third rig of this design by Maersk on the Norwegian Continental Shelf. The rig is expected to cost approximately NOK 3.9 billion and is to be delivered in 2015. The two other rigs of same design are currently under construction and both have contracts valued at NOK 3.3 billion and NOK 2.5 billion with Total and Det Norske. They have an expected delivery in 2014. With these three rigs Maersk will be operating a total of nine rigs on the NCS as from the start of 2015.

-North Atlantic Drilling has received a letter of intent from ExxonMobil for the harsh environment semi-submersible drilling unit West Alpha. The extension has a firm period of two years with an estimated revenue value of USD 410 million. Commencement of operations under the contract extension is expected in the third quarter of 2014, in direct continuation of the next assignment for West Alpha on the Balder field. Consequently, West Alpha has secured firm contracts that will keep the rig employed until Q3 2016.

06 IN AND OUT

PLATFORM SUPPLY VESSEL NEWBUILDS

Vessel	Design	Manager	ENTRY	From
Skandi Aukra	STX 09	PSV Invest II AS	Start – July	Newbuild – Norway
C-Viking	UT 755 LCD	Edison Chouest	Mid – July	Newbuild – Norway

PLATFORM SUPPLY VESSELS - IN

Vessel	Design	Manager	ENTRY	From
Toisa Invincible	VS 483	Toisa	Start – July	Allseas
Brage Supplier	STX 09 CD	Møkster	Start – July	Allseas
Ocean Pride	Havyard 832 L	Atlantic	Start – July	Allseas
Edda Freya	SK60/09DL	Østensjø	Start – July	Allseas
Normand Arctic	PSV 12 LNG	Solstad Shipping	Start – July	Statoil
Far Star	UT 745	Farstad	Mid – July	Statoil
VOS Prominence	Vujik Kenton	Vroon	Mid – July	Senergy
Island Crusader	UT 776 CDG	Island Offshore	End – July	Conoco Phillips Norway
Island Captain	UT 776 CD	Island Offshore	End – July	Halliburton
Bourbon Sapphire	PX 105	Bourbon	End – July	In House
Bourbon Front	PX 105	Bourbon	End – July	Allseas
Rem Provider	UT 755 LC	Rem	End – July	Heerema
Troms Artemis	VS 485 CD	Troms Offshore	End – July	Statoil
Dina Supplier	UT 755 LC	Myklebusthaug	End – July	MOUK
Rem Supporter	STX 06 CD	Rem	Start – August	ADTI

PLATFORM SUPPLY VESSELS - OUT

Vessel	Design	Manager	EXIT	To
Rem Supplier	UT 755 LN	Rem	Mid – July	Perenco
Stril Polar	STX 09 LCD	Møkster	Start – July	Wintershall
Edda Freya	SK60/09 DL	Østensjø	Start – July	Statoil
Skandi Aukra	STX 09	PSV Invest II AS	Start – July	Shell
Olympic Princess	MT 6000	Olympic	End – July	Chevron
Viking Prince	VS 489	Eidesvik	Start – August	Lundin

ANCHOR HANDLERS - IN

Vessel	Design	Manager	ENTRY	From
Stril Commander	Havyard 842	Møkster	Start – July	Statoil
Maersk Assister	A - Class	MSS	End – July	CTC

ANCHOR HANDLERS - OUT

Vessel	Design	Manager	EXIT	To
Maersk Assister	A - Class	MSS	Start – July	CTC
Stril Challenger	Havyard 842	Møkster	Mid – July	Eni
Stril Commander	Havyard 842	Møkster	End – July	Shell UK
Balder Viking	KMAR 808	Viking Supply Ships	Start – August	TGS Nopec
Maersk Launcher	A - Class	MSS	Start – August	Petrobras – Brazil
Magne Viking	VS 4622 CD	Viking Supply Ships	Start – Sept	Chevron Canada

07 MARKET FORECAST

ARE THERE TOO MANY PLATFORM SUPPLY VESSELS? OR JUST TOO MANY ANCHOR HANDLERS ON THE SPOT MARKET?

There has been a lot of noise surrounding the large delivery schedule in the platform supply market. The common opinion is that the orderbook is too large and that Anchor Handlers are underrepresented in the orderbook. Interestingly enough in the current market over the last few months this dynamic has been reversed with an oversupply of anchor handlers on the spot market, while we have seen stronger utilization levels in the platform supply market. This is especially interesting since we have seen more than twenty new PSVs enter the market since the turn of the year.

The belief as to why the summer markets where expected to be so strong is the increased rig numbers in the North Sea, with the logical thought that this would lead to increased activity. Looking at the figures after the first half of 2012 this has held true in all months apart from May, which saw only 13 rig moves performed by spot vessels. Monthly average rates have consistently beat out the last two preceding years until May and June. The major issue that has then arised is the lack of drilling in Greenland which has offset the slight increase in activity in the North Sea. This has led to more available spot vessels on the anchor handling side, approximately ten vessels. The great expectations were further instigated by owners bringing vessels home. However our expectation is that July and August should see a further increase given certain delayed projects and other rigs entering the North Sea waters. There will be no big party for AHTS vessel owners this summer, as mentioned we should see solid rates though, however with more projects coming online next year and the potential for drilling (likely 2014) in Greenland we can expect a better summer next year.

The PSV market which has been predicted to be weak given the numerous deliveries has so far held up well, the increased activity in the North Sea has in turn provided work for a majority of vessels coming from the yards. There has been a consistent stream of work for the platform supply vessels maintaining a utilization of over 85% throughout the year, with the softening of the market only coming in tandem with a depressed AHTS market. We have seen higher rates in this market relative to the last two years. If the Anchor Handlers had held up their side of the bargain we would have seen even higher utilization levels and rates in the PSV market despite the major increase in numbers. It is no secret that PSV rates are highly interlinked to the AHTS market, and this has been even more evident so far this year. High utilization rates in the AHTS market have led to higher utilization rates in the PSV market. However with more Anchor Handler on the spot market and a slow summer market it seems owners have been quicker to offer their vessels for supply requirements in quiet periods. So far this year there has been a 25% increase from last year on AHTS taking supply work. Below is an overview of rates and utilization levels for all sizes so far this year for both types of vessels, we can clearly see a correlated market.

	Jan	Feb	Mar	Apr	May	Jun
PSV						
2012 (%)	85,3	85,6	92,4	88,7	85,6	88,4
2012 (£)	7521.24	7868.23	18097.67	19286.64	11030.03	15936.6
AHTS						
2012 (%)	72,3	61,4	80,3	78,8	67,2	70,2
2012 (£)	13819.72	14702.45	34853.74	37854.31	15270.98	15969.73

The major question is how much more supply the market can handle before the equilibrium completely tips over, clearly the increased supply from AHTS is enough to slightly depress the market. However there is a different dynamic at work when the AHTS enter the supply market. Short term I believe the market can hold, it is important to note that the first wave of vessels have entered the market successfully however we expect another 15 vessels to arrive in the second half of 2012. Over the next two months there are four vessels expected to enter, two of which will definitely not operate in the North Sea spot market. In addition three of the eight delivered recently have not yet had a chance to impact the spot market. The culmination of some of the extended Allseas contracts will also lead to vessels returning to the spot market. Despite this I believe that with a slightly stronger AHTS market and thereby maintaining focus on rig roles we can expect the continued supply to be absorbed, at least over the next two to three months when there is little being delivered. The PSV market left on its own is solid, the utilization rates and increased supply activity demonstrate that, however once an increase in supply from the AHTS market enters the rates obviously fall.

The question still arises as to whether the market can handle the PSVs entering the market going forward?

08 MARKET FORECAST

In 2013 and 2014 we expect at least another 40 vessels to be delivered. Some of these vessels to be delivered already have contracts in place or are slated to be move to other areas. The major investment going into the market now will reap more activity in the years to come, so will the growing market activity continue to absorb the onslaught of deliveries? I can say that I am less bearish than what I have previously been, seeing how the market has responded to what should be dubbed the year of PSVs. However there is no doubt that there are many too PSVs coming and that in all likelihood we will see periods of depressed utilization and rates.

The term market is slow during the summer months but there are a number of requirements currently circulating in the market and we can expect increased activity come the end of the summer. This will certainly be necessary to maintain the solid utilization we have seen in 2012. West Africa has been constant recently and the area will be an important factor for demand going forward with continued action expected in this area for slightly older tonnage from the North Sea market. There are currently some West African term requirements floating around in the market. Earlier in the month Statoil entered the market and fixed seven long term contracts for newbuilds to be delivered in 2014. Statoil coming in to fix newbuilds for contracts instead of utilizing existing vessels demonstrates their desire to maintain the supply of PSVs and not strip the market of any spot supply. The large order certainly shows that there is a need for more vessels. The contract durations are from three to six years with options and charter rates in the range from NOK 165,000 to NOK 185,000 per day. Statoil currently have approximately 34 platform supply vessels on long term charter and with an increasing rig fleet over the next years further vessels will be required.

There are a number of other factors that must happen in order for the market to succeed during this high scale delivery period. In 2011 the Greenland drilling campaign took five PSVs for an extended period, while there were also a number of lengthy spot contracts fixed during their campaign which lasted from 14 to 28 days. The potential start-up of drilling in 2013/2014 will certainly assist in absorbing some of the new tonnage entering the market. The activity from this region will make a major impact on the overall supply going forward, and a wide scale development is necessary in order to bring about an equilibrium in the supply and demand of PSVs. Allseas have been active in 2012, however not to the extent of 2011 when they early in the year scooped up 10 vessels for longer periods. Initially Allseas picked up five vessels in 2012 and later a handful in the beginning of the summer which saw lengthy extensions and are only coming free now. The pipehaul contracts from Allseas are an important factor for the PSV market, and will only continue to absorb more tonnage in the years to come with a number of projects in the pipeline. Brazil has unfortunately not been an aiding factor in absorbing PSV's this year with very little activity coming from the area relative to the last two preceding years. However there are a number of PSV requirements from Petrobras and other IOCs currently on the market for start-up later this year and next that will lead to some tonnage moving trading grounds. Finally the North Sea market should also be able to absorb incoming vessels something it has already has proven. Given more rigs and developments underway and investment at high levels over the coming years we can see this growth continuing.

Owners have been focusing their ordering on PSVs despite the already excessive orderbook. There is a big difference in cost between ordering an AHTS and a PSV and given a tough financing environment one could predict that this is the reason for the current ordering schedule so far this year. However this statement doesn't hold true when we see the subsea orderbook for 2012 continually rising. So far this year there have been contracted a total of 17 PSVs suitable for the North Sea with seven of these for Statoil, while we have seen two AHTS orders. Going forward it would be better for the market if we saw some consolidations rather than further continued ordering. However with this dynamic going forward we can at least avoid the current issue with Anchor Handlers taking a large number of supply requirements. The conclusion is that certain projects and regions must come on line next year and further growth in active areas in order to maintain the solid utilization levels seen in the PSV segment. Throughout the rest of 2012 I believe the market will continue to absorb newbuilds nicely provided that the AHTS market stays out of the supply domain. The next two years sees many vessels delivered and we will be hard pressed to maintain the solid fundamentals. It depends on those regions discussed and their ability to remove supply tonnage from the North Sea in order to maintain the equilibrium. Forget the year of the dragon, this is the year of the PSV and so far I believe it has held up well.

Subsea activity on the rise!

The subsea market has seen a flurry of orders the last six months with 14 vessels having been ordered by North Sea operators at Norwegian yards. Subsea vessels can fall into four different categories, which are 1) ROV/DSV/Multi-Purpose vessels, 2) Inspection Repair and Maintenance Vessels, 3) Light construction vessels which tend to have cranes with up to 250 t capacity and 4) Large Construction vessels with larger cranes. The vessels ordered lately have been everything from the MM 85 MSV which is designed for ROV work, survey, diving and light construction work to the SALT 301 OCV a large construction vessel. The table below provides an overview of all the vessels ordered in this latest spree.

Order Date	Client	Yard	Design	Delivery	Cost (mNOK)	Crane	Length (Meters)
08.02.2012	Volstad	Bergen Fosen	ST 259 CD	Q3 2013	800		125
10.02.2012	Forland	Havyard	Havyard 857	Q3 2013	600		110
19.03.2012	DOF Subsea	STX Norway	OSCV	Q2 2013	660	250t	121
16.03.2012	Island Offshore	STX Brevik	UT 737 CD	Q1 2014	500+	125t	96
02.04.2012	Volstad	Bergen Fosen	ST 259 CD	Q4 2013	750		125
13.04.2012	Siem Offshore	STX Brattvaag	OSCV 11	Q3 2013	600	250t	121
13.04.2012	Siem Offshore	STX Brattvaag	OSCV 11	Q3 2014	600	250t	121
23.04.2012	Rem Offshore	Kleven	MT 6022	Q2 2013	550	250t	108
01.06.2012	Rieber Shipping	Ulstein	SX 121	Q1 2014	800	250t	130
01.06.2012	Møkster	Simek	MM 85 MSV	Q2 2014	340	60t	85
02.06.2012	Eidesvik Offshore	Kleven	SALT 301 OCV	Q2 2014	1100	400t	145
06.06.2012	North Sea Shipping	Bergen BMV	ST 261	Q2 2014	1000	400t	142
14.06.2012	Solstad Shipping	STX	OSCV 06L	Q4 2014	1500	400t	156.7
15.06.2012	Olympic Shipping	Kleven	MT 6022 MKII	Q3 2013	600		115

Much of this ordering has been on the back of expectations of a strong market going forward and the need to replace older tonnage. It is expected that there will be growth from subsea field s in Norway while the UK will remain steady. According to Rystad Energy both the areas combined are expected to see spending on subsea equipment, installation and services reach NOK 80 billion in 2017 up from last year's NOK 38 billion. Currently the number of subsea trees coming on stream in 2012 is 60 to 80 while with increased investment the average of will reach 100 trees yearly from 2012 to 2018. The majority of growth going forward will be driven by Greenfield projects, in addition more than half of the existing infrastructure is over 10 years old. The fundamentals of this industry are positive, while the industry in general is moving towards the subsea sector.

A vital point when looking at all this ordering is to look at the existing fleet which has seen solid growth since 2007, however relative to the Anchor Handler and PSV market the growth has been much less. Since 2000 the fleet of subsea vessels over 125 meters including newbuilds has trebled, while the AHTS fleet has grown six times and the PSV fleet four. This can partly be attributed to the fact that these specialized vessels are difficult for financial investors to build on speculation. Another interesting point is that a majority of the vessels larger than 125 meters built before 2006 are from the 70's and 80's. The total number of vessels built before 1980 equals the number of newbuilds to be delivered from 2012 to 2015. Obviously the capacity of these vessels will be substantially different, however the areas are further offshore, more remote and the waters are deeper partially offsetting this difference. There hasn't been excessive growth in the subsea fleet, and there are many indications that the industry needs new tonnage.

In summary it seems that although all these subsea vessels were ordered in the same time frame, the vessels are quite different in nature and are in reality different animals with the delivery schedules spread out. There is substantial growth within the industry, and a need for replacement of older tonnage including those vessels less than 125 meters built more 30 years ago. All the recent companies that have made orders are familiar with the industry and have experience in the sector, as the barriers to entry are fairly high. There is very little that denotes that the many orders will have a negative impact, as consensus in general has been that subsea vessels are overbooked already and additional new tonnage will be welcomed with open arms by operators. Some of the orders have options and it will be interesting to see whether the initial orders are able to secure work which would free up equity through higher leverage and increase confidence to confirm a second vessel. Although these orders seem logical, there is no doubt that the larger vessels are high risk high reward projects. Some of these vessels are very expensive, with estimates of daily running costs of at least NOK 500,000. In respect to the offshore support industry the more orders in this segment the better as it absorbs some of the shipyard capacity that otherwise would be available to build AHTS and PSVs. In that respect let's hope those options are called!

THE LAST WORD

REPORT WRITTEN BY

Offshore Analyst
Jon Inge Buli

Westshore's quiz results

Well it seems the oracle Atle Holgersen deemed that utilization would be approximately 65% on the 28th of June, in the beginning of the day our meter read 64% while the close had 73%. I think a round of applause is in order, and as I hadn't already sent out the champagne I we added a bottle of red wine. The hired analyst guns were unable to remove Atle from his throne and it looks like he will remain Westshore's reigning quiz champion given that the quiz is taking a well-deserved extended vacation.

Westshore's summer party!

Congratulations to Lars Moeller of NordCapital for winning the Euro prediction game! A new national jersey will be coming your way shortly.

June Market Recap:

As expected June has been slightly stronger with periods of good activity, however a consistent flow has not been prevalent. In the middle of the month we saw a flurry of activity bring utilization rates close to mid-80's levels. This has in turn allowed for a strong PSV market with utilization holding in the high-90's region for a good period. In terms of spot fixtures for rig moves we have seen the highest activity so far this year with 22 rig moves in June up from 14 in May and almost twice as much as last year in the same period. This has in turn allowed for a strong PSV market with utilization holding in the high-90's region for a good period. However given the lack of continuity and the heavily mentioned lack of drilling in Greenland the average rates have not seen a major increase, although periods within the month have seen solid rates. The total number of AHTS in the market is now the same as last year with 62 vessels, however a total of 44 vessels are operating on the spot market. Average rates for June for the largest AHTS have increased from approximately GBP 15,800 per day to GBP 16,950 per day with rates during the middle of the month in the North Sea reaching GBP 25,000 per day. It shows the fairly down up down month June has been.

The PSV market has seen a solid flow of work during the month with the total number of fixtures equal to last month's tally a substantial increase from earlier years. The average rates for all PSV sizes in the North Sea increased from approximately GBP 11,000 per day to close to 16,000 per day. The market has been closely correlated to the AHTS market with PSV utilization very dependent on rig move activity. At the close of the month we have reached levels above 90%, with an average utilization of the period of 88.4%. Another five newbuilds were delivered to the market and have so far been absorbed nicely, however a number of vessels are expected back from their Allseas contracts in the beginning of July with another three vessels that have already been delivered will join the market shortly.

A thanks for the pictures of the Evita and Olympic Orion which have been taken by Peder Otto Dypvik.