

UK energy services overview

Incorporating the 10th annual
UK oilfield services industry review

March 2021



Building a better
working world

Contents

Overview

UK energy services industry – oilfield services sector



Key themes



1 Challenging market but the recovery cycle has begun

In 2020, oilfield services companies had to deal with the impact of both a global pandemic and a sharp oil price decline, at a time when many were still dealing with liquidity and balance sheet issues and struggling to deploy their assets in oversupply markets. Faced with a sharp decrease in their customer capex spend (c.30%), a significant part of their focus has been on cutting costs, increasing operational efficiencies and maximising operating leverage.

With capex spend expected to grow modestly in 2021, the oil price recovering and demand growing as the vaccine rollout programmes continue and the UK and other economies emerge from lockdowns, the stage is being set for a broader industry recovery in 2021 and beyond. Two months into the year, it is encouraging to see signs of this recovery emerging, with acceleration expected in H2 2021 and 2022 and beyond.

2 Focus on survival and getting fit for the future

The restructuring of the industry is unfolding and 2021 will continue to see significant cost reduction measures and rationalisation of capacity, through asset retirements, bankruptcies and consolidation. Challenging market conditions, debt and equity investors have forced greater capital discipline on operators and contractors. We expect this to continue in 2021, with companies focused on lowering their debt levels, reducing their asset intensity and remaining highly focused on returns and free cash flow generation.

3 Energy transition is more prevalent than ever

The pandemic has accelerated the allocation of capital towards sustainable companies and the energy transition of oilfield services companies. Environmental, social and governance (ESG) themes are increasingly at the forefront for shareholders and investors. This is shaping the investment strategies of the oil and gas majors declaring net zero ambition and of the oilfield services industry which are also starting to embrace energy transition. This is being achieved by either following their traditional oil and gas customers or by creating their own growth avenues, depending on their skills and expertise.

The UK presents many growth opportunities related to energy transition. With significant capital flowing into renewables, as the recent BP and Total bid for part of the UK Offshore Wind Package demonstrates, traditional oilfield services companies are already embracing this transition and growing their addressable markets beyond oil and gas. This will only accelerate in the years to come as opportunities in wind, CCUS and hydrogen continue to grow.

Beyond energy transition, oilfield services companies have a key role to play in supporting their customers' journey towards net zero emissions. In particular, methane emission reduction presents an emerging opportunity which UK companies are starting to seize, through developing technologies for leak detections, monitoring and measuring emissions to designing equipment and tools to forecast and remedy potential issues.

4 Digital transformation is accelerating

Globally, the adoption of digitalisation, big data and automation has increased pace in 2020 and this trend is set to continue. The benefits of digital are not only bringing internal benefits through the reduction of operating costs but also offering new revenue opportunities through bringing digital solutions to customers and digitalising the energy transition. While digital spend is accelerating, most companies have yet to reap the benefits from their digital initiatives. The UK energy sector, which is strong in the technical aspects of digital, still falls behind other sectors. A change in mindset and operational model is needed to ensure businesses work together to share ideas and combine expertise to deliver the transformational change that is needed.

What is certain is that, like in previous oil and gas cycles, digital technologies will drive the starting upcycle and allow the industry to reinvent itself and successfully transition from one of the worst downturns in history.

Introduction

Welcome to our UK Energy Services overview, incorporating our tenth annual review of the UK oilfield services (OFS) sector. This year marks a significant change, our previous reports focused on the oilfield services industry; however going forward our underlying EY analysis will be expanded to review the wider energy services sector. Energy transition themes have been fairly prominent in our commentary for the past couple of years, but the energy transition is gathering much greater momentum and it is important we recognise the opportunity that exists in the wider energy services sector.

The launch of last year's report was my penultimate public event before we were plunged into lockdown. At that event we were cautiously optimistic 2020 would be a stronger year for OFS. Our analysis recorded 2018 had seen the first increase in revenues for UK OFS in three years, and the general sentiment was that trend would continue with an opportunity to see some margin improvement in 2020. It's a salient lesson that no matter how well-informed you may be, unexpected events can radically derail projections. Within a matter of weeks at the beginning of 2020, we had the very public spat within 'OPEC plus' resulting in the abandonment of the supply-side discipline that had underpinned the oil price recovery

following the collapse in late 2014. That quickly led to a cliff edge reduction in price, culminating in the much reported negative WTI oil price in the mid-year, and indeed some instances of negative realised prices in the UKCS. Of course, the abandoning of supply-side discipline was accompanied by an unparalleled slump in demand because of the COVID-19 pandemic, which exacerbated the imbalance between supply and demand.

Almost precisely 12 months after the fateful 'OPEC plus' meeting there are reasons to be optimistic. The Brent oil price is trending towards US\$70 bbl; deferred maintenance from 2020 should largely take place in 2021; the Oil and Gas Authority (OGA) will expect to see developments sanctioned, more activity on plugging and abandonment (in light of the number of suspended wells); and there will be more emerging opportunities in relation to decarbonisation and the energy transition.

However, the oil price is susceptible to global confidence in the post-COVID-19 pandemic economic recovery, and to understanding what the long-term impact of the pandemic may be on certain sectors. For example, aviation accounts for around seven million barrels of daily oil demand and at the moment it looks like that demand may be extremely slow to recover.

Another factor is the speed of adoption of renewable energy and the impact of decarbonisation on existing oilfield operations. The hosting of the 2021 United Nations Climate Change Conference (COP26) in Glasgow is focusing the minds of both UK and Scottish Governments and there has been a plethora of papers issued by both governments in relation to pathways to net zero. The UK Government's approach is informed by the Climate Change Committee and its analysis, the Sixth Carbon Budget, recognises the significant role oil and gas will play in the energy mix as we move to net zero. In fact, the identified total demand for oil and gas between now and 2050 is very close to the total recoverable reserves from the UKCS, which means it ought to be possible, provided offshore production is decarbonised in line with industry targets, to gain the economic benefit of exploiting the UK's remaining fossil fuel resources, while moving as quickly as possible to renewable energy. Decarbonisation of offshore production requires government support but the benefits are the retention of security of supply, the preservation of the skilled offshore workforce and supply chain and the creation of a pathway for that OFS skill base, innovation and entrepreneurial spirit to be pivoted to green energy. I remain hopeful that the North Sea Transition Deal will deliver the support required.



Derek Leith
*EY Global Oil & Gas
Tax Leader*

“
... it is
important we
recognise the
opportunity
that exists
in the wider
energy
services
sector.”

Oil & Gas UK (OGUK)

2021 presents the UK oil and gas industry with an exciting opportunity to demonstrate its commitment to positive change as our world-class supply chain applies its expertise to deliver secure and affordable energy while driving lower carbon solutions.

As the voice of the UK energy supply chain, OGUK is championing the vital role the sector will play as the engine of technology and innovation in a diverse energy future. Achieving this goal is a huge challenge, when the pandemic and the collapse in commodity prices have majorly impacted some parts of the supply chain including the drilling community, but it's one I believe we can deliver.

Last year OGUK together with industry, governments and the OGA developed a three-stage framework to help protect industry, stimulate activity to aid our sector's recovery, and embrace new opportunities through an accelerated transition to net zero.

Amidst the challenges faced by energy services companies, many businesses have successfully developed innovative ways of working collaboratively to deliver value to both clients and their suppliers. Real practical solutions developed in 2020 include OGUK's Optimising UKCS Resources initiative which aims to provide suppliers with a consolidated view of future North Sea work plans; and driving improvements in invoice payment performance, underpinned by OGUK's Supply Chain Principles. We also re-energised our SME forum to support small to medium enterprises, a particularly fragile segment of our energy services community.

Our workforce has the talent, expertise and skills to strengthen the sector's resilience and unlock further activity on the UK Continental Shelf. The energy services companies they work for will be key to delivering the low carbon solutions of the future including CCUS, hydrogen and decarbonisation projects with huge potential for our expertise to be exported around the world.

A stable and supportive regulatory regime which aligns with governments' new green ambitions is important and it is vital that our sector's regulatory and licensing regime remains globally competitive and that sustained investment is encouraged within a net zero context. The UK Government's Energy White Paper highlights the critical role our industry plays in maintaining energy security in the UK and commits to the transformative North Sea Transition deal.

The deal will be essential to accelerating investment in the sector and creating employment opportunities in new technologies while reducing emissions from production.

For our supply chain, this means we can make the best use of our homegrown talent, protect consumer affordability and support energy communities to adapt and thrive to capture new opportunities ahead.



Katy Heidenreich
OGUK Supply Chain & Operations Director

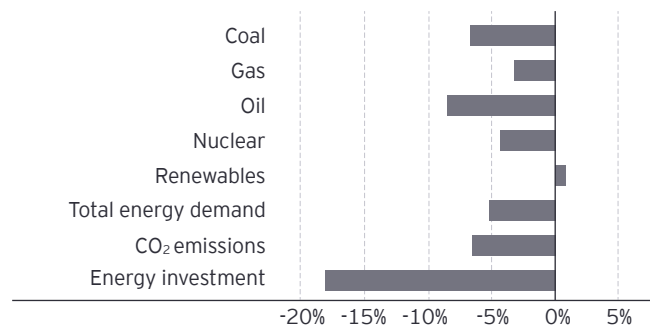
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Our workforce has the talent, expertise and skills to strengthen the sector's resilience ...

Global energy sector

Overview

The global energy sector has been severely affected in 2020 by both the impact of the COVID-19 pandemic on energy demand as well as the lower oil prices. This has resulted in a decline in demand across all energy sources as well as a significant reduction in investment (18%), compared with 2019.

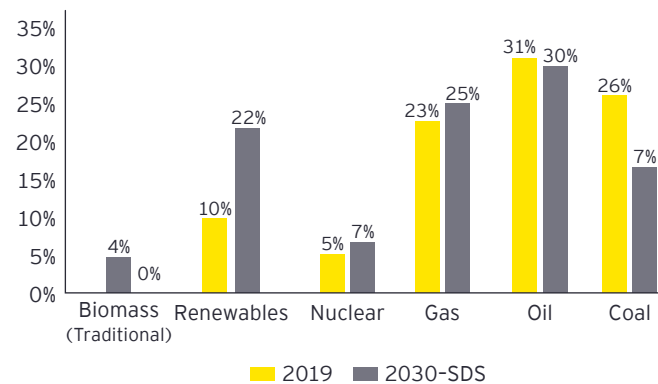
Figure 1: **Key 2020 estimated energy demand, CO₂ emissions and investment as compared with 2019**



Source: IAE

The International Energy Agency (IEA), in its World Energy Outlook, has presented a number of potential scenarios given the uncertainty over the duration of the pandemic and its long-term social and economic impacts. As the pandemic is still ongoing, it is too soon to determine if it will result in an acceleration of the speed of change to more sustainable energy sources but if there is a surge in clean energy policies and investment, the IEA estimates that by 2030, renewables will provide 22% of the global energy demand, up from 10% in 2019 but oil and gas will still remain key sources of energy (55% combined).

Figure 2: **Primary energy demand 2019 and 2030 under Sustainable Development Scenario (SDS)**

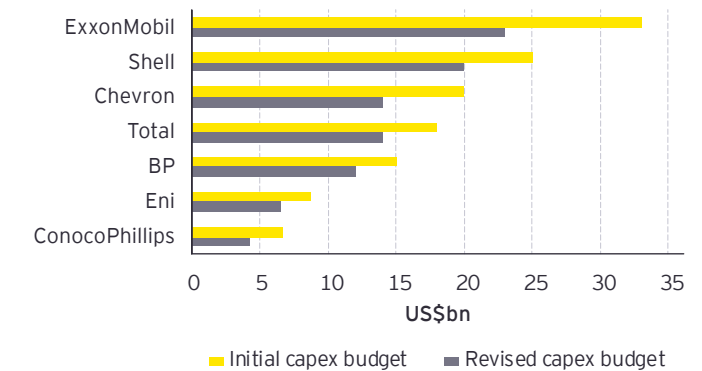


Source: IAE

Global upstream trends

The combined impact from the COVID-19 pandemic and the oil price decline in 2020 has resulted in c. 25% reduction in upstream investment through projects being either deferred or cancelled.

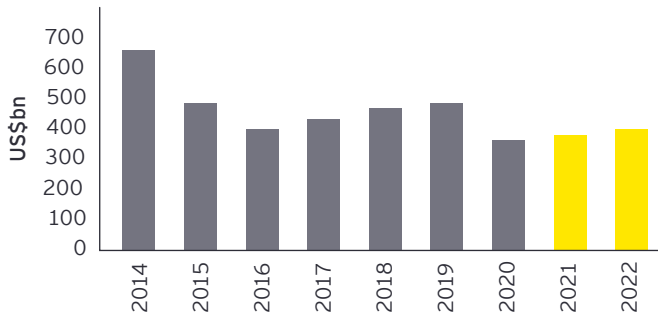
Figure 3: **Change in announced upstream spending for 2020 as compared initial guidance for selected oil and gas majors**



However, there are signs of investment rebound in 2021, supported by the combination of a more stable oil price through the second half of 2020 and the expectation of higher oil prices in 2021 (Middle East, Africa and the US are the regions with the largest forecast capex growth). Nevertheless, given the pandemic is still ongoing, companies are likely to have a cautious approach in 2021.

Global energy sector

Figure 4: **Global upstream capital expenditure**



Source: GlobalData

Many large oil and gas companies have made public announcements committing to reducing emissions and diversifying spending from upstream projects, such as BP's ambition to become a net zero company by 2050 and increasing the proportion it invests into non-oil and gas businesses. Although the commitments vary between companies, it does imply the share of investment towards low-emissions energy sources, such as low carbon fuels, will have to increase significantly in the near term to achieve these targets.

Up to 2020, investment by oil and gas companies into low emissions energy has been limited, varying between 1% and 5% of annual spend. The key projects invested in to date have been solar, onshore and offshore wind technology and there have been examples of strategic acquisitions into areas such as electricity distribution, EV charging and batteries.

Given investment is likely to continue to be constrained as a result of the pandemic and its impact on the global economy as well as the industry's greater focus on returns, companies will need to prioritise spending to those projects that forecast the best returns. Oil and gas projects will have to compete with clean technologies, although established technologies such as solar and wind may be favoured over newer technologies such as hydrogen or carbon capture, utilisation and storage (CCUS).

Global energy services trends

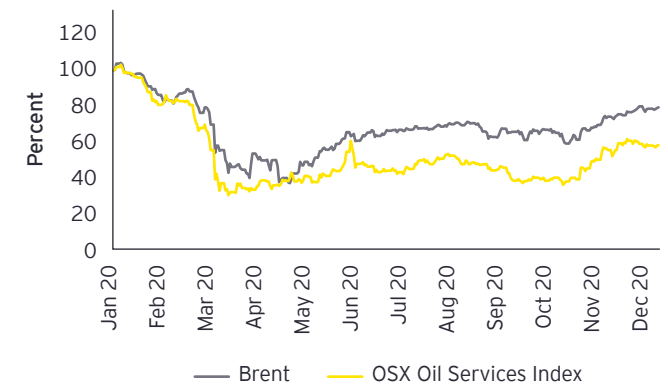
The reduction in upstream operations and investment in 2020 has severely impacted energy services companies, including traditional oilfield services (OFS) companies, which were already under pressure following the downturn in 2014. We have analysed the reported results of the largest c.50 listed global OFS companies and turnover has declined by 16% in 2020. This decrease in revenue has resulted in companies looking again at their cost structures, including reducing global workforces, mothballing or scrapping of equipment, downsizing of operational bases, disposal of non-core businesses and decreasing discretionary spend.

However, due to the high levels of debt in the sector and the more limited cost saving options now available following the cuts in response to the oil price decline in 2014, many companies have entered into financial restructuring to significantly deleverage their balance sheets.

OFS stocks traded at record lows during 2020, with March 2020 stock prices more than 90% lower than in

2014 and the average price in 2020 50% lower when compared with 2019. This demonstrates the continued concerns investors have about growth and returns in the sector.

Figure 5: **Brent and OFS sector performance (indexed to 1 January 2020)**



Still, by the end of 2020, there were signs of recovery both in the US and international energy services markets as a result of the COVID-19 vaccine rollout, economic stimulus actions across the globe and the oil price recovery, with oil prices starting to recover to pre pandemic levels by the start of 2021.

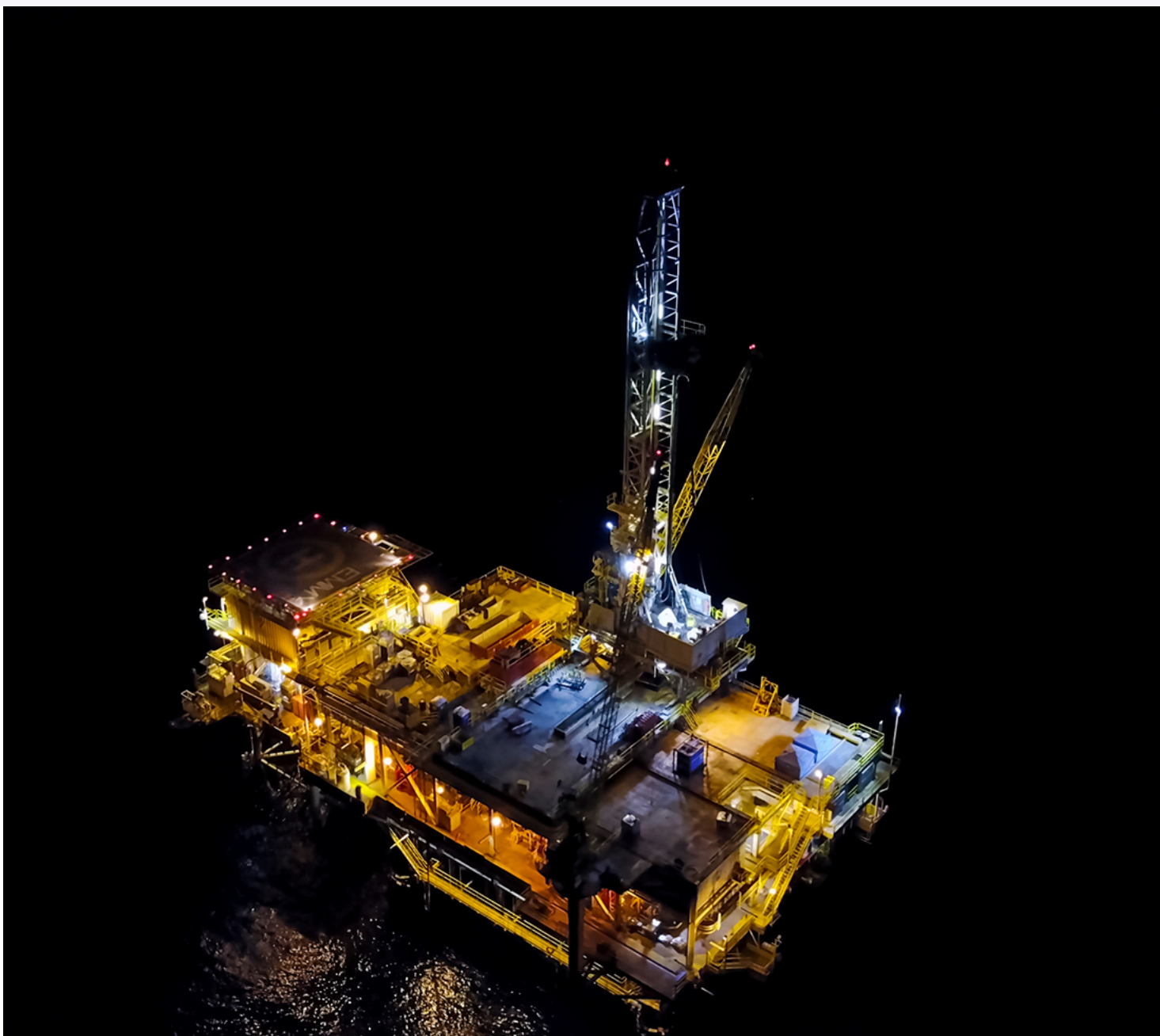
However, the road to recovery is expected to be long. Many companies will continue to focus on their costs and liquidity, to rationalise their portfolios and make strategic decisions on their services, products and geographic positioning. These decisions will trigger some market consolidation and a much needed rationalisation of the supply of many assets.

Global energy sector

The transition to cleaner energy technologies is accelerating and many traditional OFS companies will need to make existential changes to embrace these opportunities and achieve long-term growth. A number of OFS companies are already embracing the energy transition and looking to achieve growth by ensuring they have the products, technologies and skills to support the investment plans of the global oil and gas and clean energy companies. An example of this is Schlumberger's 2020 launch of New Energy to develop differentiated, ground-breaking technologies in multiple low and zero-carbon energy ventures including hydrogen, CCUS, lithium and geothermal.

Digital is also seen as critical to create a step change in operational efficiency and decision making, integrating data to assist in monitoring and optimising production, improving service levels and unlocking operational benefits, with adoption by customers accelerating.

In addition to using digital for internal purposes (e.g., increased efficiencies and reduced costs), many OFS companies have also started to introduce digital solutions to the market, transforming their traditional offerings, and are also entering into strategic alliances with their customers, as well as large and niche technology companies, to broaden their market positioning and best solve their customers' issues. This is a trend that we expect to accelerate and bring exciting opportunities to the sector.



Diversification, decarbonisation and digitalisation set to define the future of oilfield services

In many ways, last year was transformational for the oilfield services (OFS) sector. Global exploration and production (E&P) spend fell by a quarter, forcing OFS companies to adapt, reposition their portfolios in a shrinking market, and accelerate their digital journeys. The pandemic, which led to the unprecedented drop in global energy demand, has also forced us to confront the global threat of climate change, shifting investor behaviour and accelerating the reallocation of capital towards sustainable companies.

The sector's outlook appears more promising for 2021, already fuelled by higher oil prices (the Brent oil price is trending towards US\$70 bbl at the time of writing), the COVID-19 vaccine rollout, and consequent growth in global oil demand. But the industry is still in crisis. With too many companies and assets competing in a shrinking market, businesses carrying too much debt on their balance sheets, and fewer interested capital providers, this crisis is unlikely to pass for some time.

So, what might the sector's future hold to transition from this crisis?

Diversification is inevitable for upstream operators and contractors. Together with decarbonisation, diversification presents a great opportunity for OFS companies to:

- ▶ Expand their addressable markets
- ▶ Gain exposure to end markets – anticipated to experience structural growth
- ▶ Redefine investor perceptions.

I'm a strong believer that the industry must address head on the ESG aspects. That means investing in, developing, and using, all available technologies to meet these responsibilities and address investor and customer concerns. It's technology that will continue to unlock the industry. As Jeff Miller, CEO of Halliburton, puts it: "Digitalisation will define the next decade". This digital journey is unfolding across the industry at different speeds. For many, digitalisation delivered a meaningful, bottom-line, impact to their 2020 financial

results – by leveraging it to lower internal cost structures and improve efficiencies. Others are embracing it as a key differentiator, offering another revenue stream. Whether secured through partnerships, joint ventures or alliances, what's certain is that digitalisation is a growth opportunity for the sector and a solution to many of its challenges. Alongside diversification and decarbonisation, digital will also play a key role in bolstering industry morale following these challenging times, and in attracting much needed new talent.

The full breadth of the oilfield services sector has so much to offer. As companies reinvent themselves, it is time they also rearticulate their purpose – reminding people how they benefit all their stakeholders and society. While great challenges remain, those that embrace these challenges and seek to build long-term value, will help deliver sustainable returns, attract new capital, and build a brighter and more prosperous future for the industry and the world.



Celine Delacroix
*EY Global Energy
Services and
Equipment Leader*

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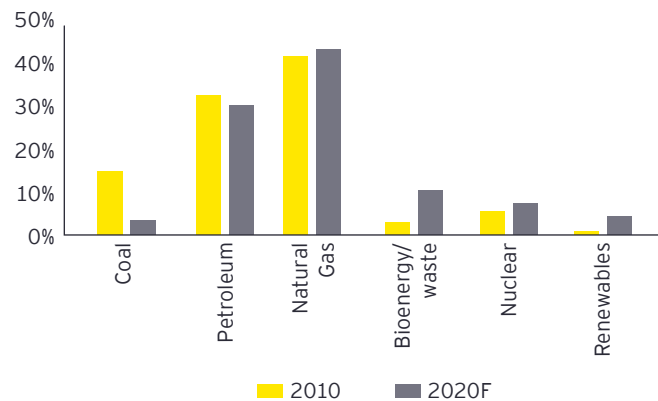
The full breadth of the oilfield services sector has so much to offer.

UK energy sector

Overview

Oil and gas remains critical to meeting the UK's energy needs (c.73% of 2020 forecast consumption), although the contribution to electricity power generation from renewable sources (wind, solar and hydro) is increasing.

Figure 6: UK primary energy consumption



Source: BEIS

Oil and gas is expected to remain an important part of the energy mix in future (e.g., to provide heating, transport, medicines and plastics). There are more than £35bn of oil and gas capital investment opportunities over the next 10 years, although it is unlikely all of these will be approved for development. The sector also has

an important part to play in the UK's goal of reaching net zero carbon emissions by 2050 and is already taking steps in relation to this.

The UK Government set out its 10-point plan for a green industrial revolution in November 2020. As part of this, it has agreed to provide £12bn of investment, which it expects to be supplemented by private investment of up to c.£36bn, in areas including:

- ▶ **Offshore wind** – 40GW produced by 2030
- ▶ **Hydrogen** – 5GW of low carbon hydrogen capacity by 2030
- ▶ **Nuclear** – advancing as a clean energy source
- ▶ **Carbon capture** – target to remove 10MT of carbon dioxide by 2030

There are a number of large offshore wind projects that UK OFS companies have already secured significant contracts to provide services on, such as:

- ▶ **Moray East** – due to be operational in 2022 and provide power for 0.9mn homes
- ▶ **Seagreen** – due to be operational by the end of 2022 and generate energy to power around 1mn homes
- ▶ **Dogger Bank** – due to be operational in 2026 and generate energy for around 6mn homes

There is no doubt that the UK energy landscape is changing but there is still uncertainty about the speed of change, due to the ongoing impact of the global pandemic.

UKCS oil and gas production

United Kingdom Continental Shelf (UKCS) production in 2019 was 618mn barrels, in line with 2018. This is 20% higher than 2014 due to a number of developments over the period commencing production, as well as improvements in production efficiency. Despite the challenges of the COVID-19 pandemic, production levels in 2020 have remained strong and a number of fields came on stream in 2020 including:

- ▶ **February 2020** – first oil from the Alligin field, tied back to the Glen Lyon FPSO
- ▶ **February 2020** – first gas from the Sillimanite field, through the recycled P140A platform topside
- ▶ **June 2020** – first gas from the Fram field, tied back to the Shearwater platform
- ▶ **November 2020** – first oil from the Vorlich field, produced via the nearby FPF-1 vessel in the Greater Stella Area

UK energy sector

However, even with strong production in 2020, overall it was 5% lower compared with 2019 as there was a significant increase in production in first half of 2019 from a number of large projects that was not repeated in 2020. 2021 is also likely to see a decrease in production due to a combination of lower levels of investment (given the lead time from development to first oil), project delays as a result of the COVID-19 pandemic and the smaller scale of developments given the maturity of the basin.

UKCS oil and gas investment

2019 capital investment was almost £5.5bn, in line with 2018 and 2017. However, as a result of reduced capital budgets in response to the pandemic and lower oil price, 2020 UKCS capital investment was 33% lower than 2019. A number of key projects were deferred, such as Nexen's Buzzard Phase 2 (deferred to 2021) and Neptune Energy's Seagull (ETAP topside strengthening and installation programme is now expected to commence

in early 2021). In addition, the shutdown of the Forties Pipeline System as part of the £500mn project to rejuvenate the pipeline that was expected in 2020 has now been rescheduled to May 2021.

It was also expected that there would be an increase in final investment decisions (FID) during the year, with up to ten projects to be approved. This did not occur and FID on a number of major projects has been pushed back to 2021 (e.g., Siccar Point Energy's Cambo development and Total's Glendronach development) or 2022 (e.g., Chrysaor's Talbot development).

Yet, despite these prevailing headwinds, there continued to be significant M&A activity, particularly on the exploration and production (E&P) side. Although we did not see the same level of activity in 2020 as 2019 when major E&P companies divested parts of their UKCS portfolios, there were a number of significant transactions including:

- ▶ **June 2020** – Ineos agreed to buy BP's global aromatics and acetyls business for US\$5bn (completed in January 2021).
- ▶ **October 2020** – Chrysaor and Premier Oil announced their merger, with the deal expected to complete in the first half of 2021. This will result in the merged entity being the largest producer on the UKCS.
- ▶ **January 2021** – Neo Energy has entered exclusive negotiations to purchase ExxonMobil's upstream assets in the central and northern North Sea, expected to complete during 2021, if successful.



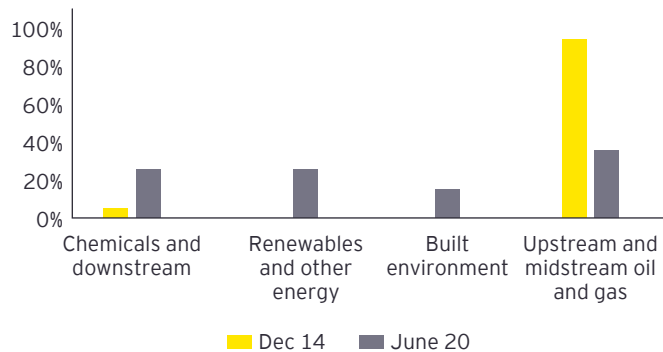
UK energy sector

There were also announcements of UK and Scottish government support for the sector, including the planned global underwater engineering hub in Aberdeen that could be launched in 2021 following UK Government support of £1.3m, and the North Sea transition deal which is expected to be agreed in the first half of 2021.

Energy transition

Many traditional UK OFS companies have already successfully diversified their offerings away from upstream oil and gas due to the cyclical nature of the industry and pressure on margins. This has enabled them to be more resilient during the pandemic.

Figure 7: **Wood revenue mix**



While oil and gas will remain key energy supply sources, OFS companies will have to consider their strategies and how best to secure the opportunities the energy transition offers, given the scale of investment forecast.

As noted above, in the UK Government's 10-point plan, the aim is for offshore wind production to quadruple by 2030. To ensure the UK can build a world-class supply chain to support developers and owners of large-scale UK offshore wind projects, sharing existing expertise and infrastructure will be key. Although the majority of turbine construction is overseas, UK companies have been providing blades, other components and services to the large offshore wind projects. These successes notwithstanding, there is more to be done to ensure the UK supply chain can secure a share of the growth opportunities by delivering skills and technologies to support these projects.

Another area where the UK is well positioned is CCUS. There are five large-scale projects in early stage development in the UK, including the Acorn project at the St Fergus gas terminal, which aims to store CO2 in reservoirs under the North Sea using existing infrastructure, with a final investment decision expected in 2022. Ensuring OFS companies take advantage of the opportunities to build a competitive edge will be key given the scale of opportunities both in the UK and globally.

Yet, the energy transition will not provide significant growth prospects for all traditional OFS companies and the opportunities will differ depending on a company's product and service offerings. There are sectors which can be easily aligned to renewable projects (such as vessels for windfarm projects) but for some, the larger opportunities may lie outside clean energy and be in

other sectors such as industrials, nuclear (where there is a need for equipment that can operate under high pressure or high temperature) or defence/aeronautical where products/skills are transferrable.

Considerable growth opportunities exist in energy transition or sector diversification for traditional OFS companies. Unfortunately, those slow to adapt and continue to rely purely on upstream activities are unlikely to survive in the long-term.

Financing

Throughout the pandemic, companies have benefitted from support from government, lenders and other financial stakeholders, which has provided protection for many against the economic challenges brought on by the pandemic and oil price fall. As a result, corporate insolvencies in 2020 have been below typical levels seen even in normal economic conditions.

However, unless there are further extensions, repayment of the financial support put in place during the pandemic is likely to commence during 2021, just as businesses experience the working capital stretches typically seen as market downturns ease and companies strive for growth. These challenges, when coupled with the uncertain shape of the sector's recovery from the pandemic, the lasting challenges from the previous oil price decline and the increased focus on ESG risks, are likely to result in lenders increasingly taking a more conservative approach to lending to existing and new customers.

The UK sector

Following the modest growth in 2018 and 2019, we had entered 2020 hoping the momentum behind the recovery would continue to build. However, the continued legacy from the downturn in 2014, with OFS companies facing significant cost and margin pressures and many remaining over-leveraged, left limited room for manoeuvre when the COVID-19 pandemic and the oil price decline hit in early 2020. Further cost savings are likely to require more significant structural reform (e.g., in back office or procurement) or consolidation and the need to preserve cash has impeded the ability to invest in new services/product, cleantech and digital.

Yet, not to underestimate these immediate challenges, the UK remains a great location to build a world-leading energy services business and sector. Oil and gas will continue to be a critical part of the energy mix both in the UK and globally and, as well as providing traditional services and products, UK companies can lead the way in helping their customers implement digital, reduce carbon emissions and develop carbon capture and hydrogen technologies. Offshore wind goes from strength to strength and represents an opportunity for UK companies to develop offerings locally that can then be internationalised. And many of the competencies, skills and talent honed serving the offshore industries can be transferred into adjacent industrial sectors.

For traditional OFS businesses there is not a one size fits all strategy. For those seeking to lower their concentration in oil and gas, they face the challenge of developing capabilities and credibility in low carbon or other end markets. For those choosing to continue to focus on oil and gas, they face the challenge of articulating a compelling proposition to attract investors and talent to an industry perceived as exposed to increasingly severe downturns, generating low returns over the cycle and with significant ESG concerns. Clear messaging on the importance of oil and gas to the energy mix, the strength of exports, success in international markets and the contribution to developing and adopting new technologies all have an important role to play.



Stuart White
*Strategy &
Transactions Director,
Ernst & Young LLP*

“
... the UK remains a great location to build a world-leading energy services business and sector.”

UK energy services industry – oilfield services sector

Summary of results

This is EY's tenth annual review of the UK oilfield services (OFS) industry. As noted earlier in the report, due to the impact of energy transition on the sector, this is the final year that our analysis will be limited to OFS companies.

Figure 8: Summary of results 2014-19

<i>Currency: £mn</i>	2014	2015	2016	2017	2018	2019
Number of companies	1,113	1,118	1,130	1,126	1,137	1,141
Reservoirs	1,026	946	718	704	834	793
Wells	8,506	7,091	5,136	4,375	4,576	4,854
Facilities	11,499	10,226	8,928	8,239	8,752	9,229
Marine and Subsea	10,608	9,448	7,694	7,081	6,993	7,080
Support and Services	6,579	6,071	5,425	5,192	5,648	5,843
Turnover	38,216	33,782	27,900	25,592	26,802	27,798
<i>Growth trends – turnover</i>	5.8%	(11.6%)	(17.4%)	(8.3%)	4.7%	3.7%
EBITDA	4,025	3,321	2,455	1,716	1,517	1,918
<i>Reservoirs</i>	7.3%	4.5%	6.9%	0.4%	7.1%	13.6%
<i>Wells</i>	16.2%	17.9%	15.7%	14.4%	12.0%	14.8%
<i>Facilities</i>	5.0%	4.7%	3.9%	4.1%	4.5%	5.3%
<i>Marine and Subsea</i>	13.2%	10.6%	11.5%	7.2%	2.6%	3.4%
<i>Support and Services</i>	9.1%	8.8%	6.8%	4.6%	5.9%	6.1%
<i>EBITDA margin</i>	10.5%	9.8%	8.8%	6.7%	5.7%	6.9%
Tax on profits	633	364	268	259	97	143
Number of employees	123,078	124,527	111,479	103,248	102,954	109,262
Wages	6,542	6,687	5,786	5,298	5,675	5,770

The completeness of our data depends on the financial information disclosed in companies' annual accounts submitted at Companies House. Consequently, our analysis is likely to be understated as opposed to overstated. For example, not all companies disclose headcount information and companies that file abbreviated accounts (those typically with less than £6.5mn turnover) do not disclose the financial information included in the above table.



UK energy services industry – oilfield services sector

Key highlights

The growth in turnover achieved in 2018, the first year of growth since the downturn in 2014, continued into 2019 and EBITDA margin also improved, albeit only by 1.2 ppt. There were signs of increased activity in a number of sectors, both in the UK and internationally, but margins were still under pressure due to the continued competitive landscape and the delivery of projects secured during the downturn at lower rates.

The key trends by supply chain category are as follows:

- ▶ **Reservoirs'** turnover declined by 5% in 2019 owing to a number of companies exiting certain markets or product lines due to difficult trading conditions. However, EBITDA margin improved by 6.5 ppt due to strict cost control and the exit from low margin/loss making businesses. We would expect all sectors to be negatively impacted by the COVID-19 pandemic and the oil price decline in 2020, with Reservoirs likely to be one of the most adversely impacted, both at a turnover and EBITDA level (the divisional results for the nine months to September 2020 for the listed parents of the top five companies in this segment declined 31% against the same period in 2019). It is unlikely that there will be a return to 2019 activity levels in 2021 as it will take time for seismic demand to revert back to pre-COVID-19 pandemic levels and exploration budgets have been curtailed. There are signs that North Sea activity is increasing and the expected M&A transactions in the North Sea could trigger growth as these players look to develop their portfolio through more 4D acquisition and high quality seismic data.
- ▶ The **Wells** segment experienced turnover growth of 6% between 2018 and 2019, due to higher levels of drilling activity and increased demand for oil and gas equipment, parts and services, both in the UK and globally. EBITDA margin also improved by 2.7 ppt due to a change in the mix of sales, the stage of completion on contracts allowing a higher level of profits to be recognised and increased drilling activity (with a relatively fixed cost base). We would expect 2020 results for companies in the Wells supply chain to be significantly lower than 2019 due to the contraction in the market, with limited scope for significant cost reductions due to the extent of cost cutting exercises implemented in prior years. By the end of 2020, there were signs of activity levels stabilising but the risks of continued drilling project delays, contract renegotiations and contract terminations and cancellations seen up to 2018 may still impact 2021, depending on the speed of the recovery.
- ▶ Turnover for **Facilities** grew by 5% between 2018 and 2019, driven by acquisitions and contract renewals. EBITDA margin also improved by 0.8 ppt due to successful project close outs and close control of operational costs. We would expect 2020 results to continue to be affected by fierce competition and the impact of the COVID-19 pandemic, although there will be a level of protection from the number of long-term contracts that are in place (the divisional results for the half year to June 2020 for the listed parents declined 20% (adjusted) against the same period in 2019). To ensure companies are more resilient against future oil price volatility, we would expect to see an increase in the number of companies looking to diversify into renewables and low carbon to allow them to secure these growth opportunities as the energy transition evolves.
- ▶ **Marine and Subsea** grew by 1% in 2019, the first year of growth since 2014. This was due to an upturn in activity, primarily in overseas locations. EBITDA margin also improved by 0.8 ppt but is still significantly lower than that achieved between 2014 and 2017 owing to projects awarded during the downturn at significantly lower margins now being executed and higher costs to execute due to project complexity. We would expect companies in the Marine and Subsea supply chain segment to have been severely impacted in 2020 as it is still in a precarious position following the last downturn due to low margins, lack of cash and investment and in some case, high levels of debt. The delays and deferrals of projects, as well as the delays to FIDs, will be felt in 2021 and beyond given the lead times from FID to development.
- ▶ **Support and Services** turnover grew by 3% in 2019 as a result of securing international market growth and new contract awards, including at a decommissioning centre in Dundee. EBITDA margin remained at 6% despite the revenue growth due to continued pressure on rates, particularly in the sea/air transport subsector. As the majority of the top five companies do not have listed parents, there is no financial information available in relation to 2020 trends. However, we expect these companies to follow the overall global listed trends, with companies being impacted both at a turnover and EBITDA level in 2020.

UK energy services industry – oilfield services sector

Geographic analysis of turnover

Figure 9: Analysis of turnover between UK and exports

Currency: £mn	2014	2015	2016	2017	2018	2019
UK	23,379	20,357	16,554	15,503	14,893	15,007
Exports	14,838	13,425	11,346	10,089	11,910	12,791
Turnover	38,216	33,782	27,900	25,592	26,802	27,798
Exports as percentage of turnover	39%	40%	41%	39%	44%	46%

- ▶ UK companies operate globally in Europe, the Americas, Africa, the Middle East and Asia-Pacific reflecting the internationalisation of the UK OFS sector and the demand for the specialist skills the companies in our analysis provide in the global arena.
- ▶ Exports levels vary across the supply chain, depending on the ease by which products and services can be utilised on a global basis. Reservoirs has historically been the most active in overseas markets but Wells and Marine and Subsea are now achieving similar levels of exports due to an increase in international projects and growth opportunities. Support and Services has the lowest level of exports in percentage terms as the nature of the services provided results in these companies being more reliant on UKCS activity, although it has increased in both 2018 and 2019 due to the growth in the level of the recruitment subsector's international activity.

- ▶ Exports consistently averaged around 40% of total activity between 2014 and 2017 but increased by £1.8bn (18%) in 2018 and a further £0.9bn (7%) in 2019. This was driven by (i) Marine and Subsea through growth in overseas subsea projects, a number of which were completed in 2019, (ii) Facilities as companies looked to expand their geographic footprint to dilute their reliance on the UKCS given the maturity of the basin and (iii) Wells due to a number of companies focusing on overseas markets for growth opportunities, for example through establishing manufacturing facilities in overseas locations.
- ▶ It is positive to see that UK OFS companies are continuing to embrace overseas opportunities, given the continued competition for capital and the UKCS being a higher cost basin, especially given the operating cost savings achieved since 2014. There are still opportunities in the UK but with the changing energy landscape, companies will need to determine if their growth strategy is to diversify into clean energy projects at home and/or internationally, overseas oil and gas projects or complementary sectors depending on their service and product offerings.

Figure 10: 2019 UK and export turnover by supply chain category

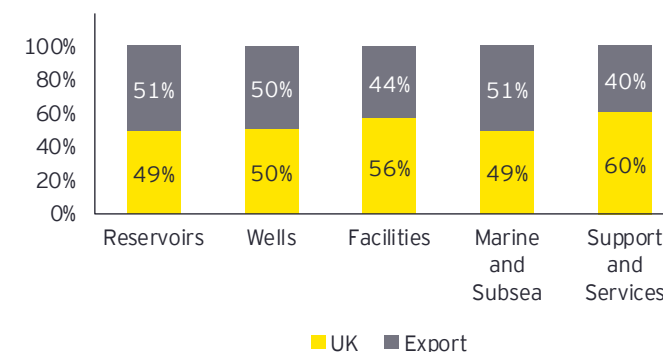
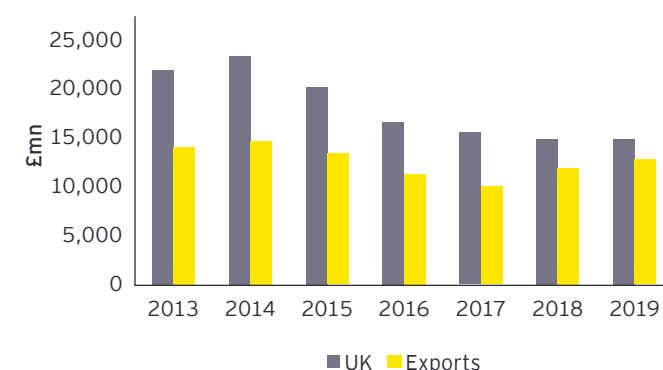


Figure 11: UK and export turnover 2013-2019 category



UK energy services industry – oilfield services sector



Reservoirs

Figure 12: UK upstream oil and gas supply chain subsectors



Summary of results

In 2019, the Reservoirs supply chain comprised 3% of the total UK upstream oil and gas supply chain turnover.

Figure 13: Summary of results 2014-19

Currency: £mn	2014	2015	2016	2017	2018	2019
Number of companies	53	56	56	56	56	56
UK turnover	455	395	325	313	487	389
Export turnover	571	551	392	391	347	404
Total turnover	1,026	946	718	704	834	793
Growth trends – turnover	(8.0%)	(7.8%)	(24.1%)	(1.9%)	18.3%	(4.8%)
EBITDA	75	42	50	3	59	108
EBITDA margin	7.3%	4.5%	6.9%	0.4%	7.1%	13.6%
Tax on profits	9	(3)	5	9	(1)	11
Number of employees	4,058	4,396	3,781	3,698	4,319	4,157
Wages	249	252	192	184	209	193

Key highlights of the Reservoirs supply chain category

- ▶ The large seismic acquisition vessel owning companies are mostly based in Norway. The UK companies in our analysis are not typically vessel owners and but are mostly involved in either data processing, data interpretation, multi-client library data, other consultancy services or providing specialised seismic equipment.
- ▶ While there was revenue growth in 2018 for the first time since 2014, 2019 proved to be more challenging, with revenue decline of 5%. Revenue for the seismic data acquisition and processing contractors subsector declined by 17% in 2019 as a result of several companies changing strategy and exiting certain markets/product lines due to difficult trading conditions. Although there was revenue growth in the remaining subsectors due to improving market conditions and increased rates, this was not of sufficient scale to offset the decline noted above.
- ▶ Apart from 2018, where there was a decline in oversea multi-client sales (e.g., Africa) and a reduction in activity in Europe, export turnover as a percentage of total turnover has historically been the highest amongst all supply chain categories. This is driven by the specialist nature of the services and the ease to which they can be transferred and utilised on a global basis. Although UK revenue declined by 25% in 2019, export turnover increased by 14% as a result of an increase in data monitoring projects in Europe and overseas.
- ▶ EBITDA margin improved by 6.5 ppt between 2018 and 2019, with margin growth in each of the subsectors to varying degrees. The largest growth was achieved by the seismic data acquisition and processing contractors subsector despite the revenue decline in the year. This was due to exiting low-margin or loss-making businesses, structural changes and cost control to improve margins. In addition, foreign exchange gains have also had a positive impact on EBITDA margin in 2019.

Reservoirs

Key trends in Reservoirs

Global

Reservoirs has been one of the segments most affected by the COVID-19 pandemic, with many companies defaulting on their loan agreements and/or having to restructure their debt, as a result of the decline in global activity. Seismic spending is typically most severely impacted by any capex reductions, which averaged 26% in 2020 for the oil majors.

Figure 14: **Change in announced upstream spending for 2020 as compared initial guidance for selected oil and gas majors**

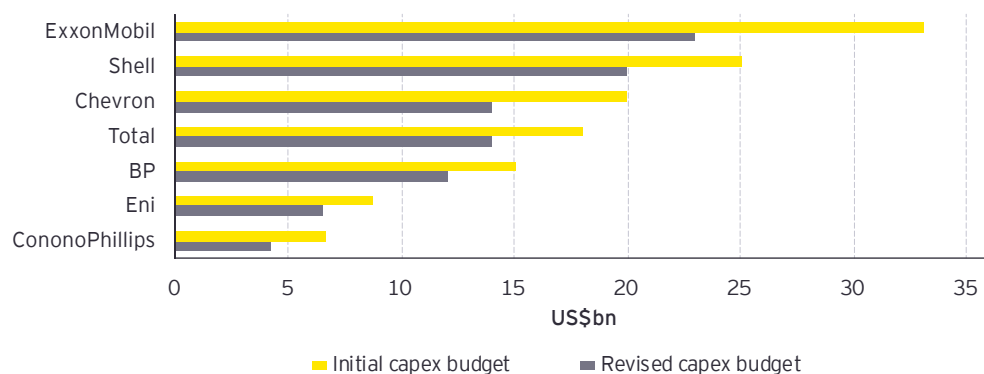


Figure 15: **Listed Reservoir companies results for the period from January 2020 to September 2020 (9m2020) versus the period from January 2019 to September 2019 (9m2019)**

Currency: US\$m	9m2020	9m2019	Variance	Variance (%)
Turnover	5,529	7,992	(2,463)	(30.8%)
EBITDA	1,338	2,425	(1,087)	(44.8%)
EBITDA margin	24.2%	30.3%	(6.1)	n/a
Backlog*	1,139	1,486	(347)	(23.3%)

* Where disclosed

Where available, we have analysed the divisional results of the listed parents of the top five companies in the Reservoir supply chain category. Turnover was 31% lower in 9m2020 as compared with 9m2019 as the widespread disruptions in the oil market and the revised lower 2020 investment plans amongst energy companies have significantly reduced demand for seismic services in each of the first three quarters of 2020.

EBITDA margin was also negatively impacted, with 9m2020 6 ppt lower than 9m2019. Although many companies have implemented cost reduction programmes, these were not sufficient to offset the turnover decline given the fixed nature of elements of the cost base. However, there was some stabilisation in 3Q20 as large independents and NOCs started to resume activity. This is reflected in backlog that was only 23% lower at Sep2020 compared with Sep2019.

While the majority of the turnover decline in 9m2020 may relate to postponements to 2021 and beyond to allow energy companies to protect cash flow given the disruption in the oil market due to the COVID-19 pandemic, it does appear that it will take time for seismic demand to revert back to pre-COVID-19 pandemic levels. A combination of a more stable oil price through the second half of 2020 and an expectation of higher oil prices in 2021, may result in increasing activity levels throughout 2021.

Seismic companies have also been diversifying towards markets outside of traditional oil and gas, such as offshore wind, CCUS, geothermal and environmental geoscience. As the existing asset base and capabilities are versatile and can service these markets, they offer growth opportunities as climate change adaptation across the globe leads to increased spending on renewable and green technologies.

Reservoirs

UK

The impact of the COVID-19 pandemic on operations and activity levels and the decline in capex budgets and operational expenditure in response to this has affected all segments of the UK OFS supply chain in 2020. Although UK exploration drilling activity rebounded in 2019, after annual decreases between 2013 and 2018, there was a sharp decline in 2020 with only seven exploration wells drilled, three of which were sidetracks of existing wells with the intention of acquiring new geological data.

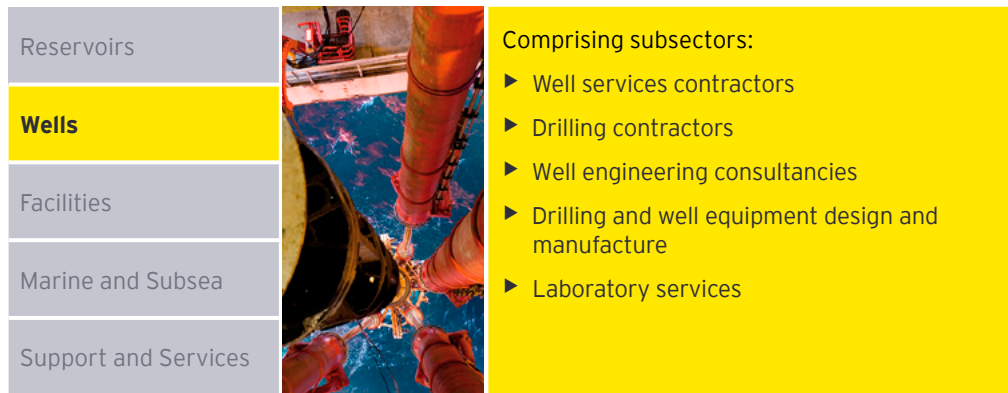
The Oil and Gas Authority (OGA) also confirmed there was to be no new offshore licensing round in 2020 after implementing a 'temporary pause', with awards from the 32nd licencing round announced in September 2020 mainly allocating acreage close to companies' existing production facilities so they can try to top up reserves. The OGA advised the pause was to allow operators time to fulfil earlier obligations and encourage them to acquire data and carry out studies in preparation for the next round. However, any increase in turnover resulting from this will not be sufficient to offset the impact of the COVID-19 pandemic.

We would expect reservoirs to be one of the most adversely impacted segments in 2020, both at a turnover and EBITDA level, as companies deferred capex projects and looked to conserve cash. It is unlikely that there will be a return to 2019 activity levels in 2021 given the continued impact of the COVID-19 pandemic globally. There are signs that activity levels are increasing and the expected M&A transactions in the North Sea could trigger growth as these players look to develop their portfolio through more 4D acquisition and high quality seismic data.



Wells

Figure 16: UK upstream oil and gas supply chain subsectors



Summary of results

In 2019, the Wells supply chain comprised 17% of the total UK upstream oil and gas supply chain turnover.

Figure 17: Summary of results 2014-19

Currency: £mn	2014	2015	2016	2017	2018	2019
Number of companies	163	165	165	164	164	165
UK turnover	4,513	3,848	2,697	2,300	2,278	2,431
Export turnover	3,993	3,244	2,438	2,075	2,297	2,423
Total turnover	8,506	7,091	5,136	4,375	4,576	4,854
Growth trends – turnover	6.5%	(16.6%)	(27.6%)	(14.8%)	4.6%	6.1%
EBITDA	1,381	1,271	806	631	550	718
EBITDA margin	16.2%	17.9%	15.7%	14.4%	12.0%	14.8%
Tax on profits	218	131	75	48	35	43
Number of employees	21,296	19,863	16,618	14,877	15,973	15,834
Wages	1,300	1,249	1,018	920	1,013	971

Key highlights of the Wells supply chain category

- ▶ The UK companies in our analysis cover the full range of Wells activities, ranging from pure rig or ship owners/lessors to manufacturers of drilling and completion equipment, as well as providing services in relation to the installation and operation of this equipment. Drilling contractors generate a large portion of turnover from the UK (over 60%) as they tend to use their UK entities to lease units in the UKCS, whereas the remaining Wells companies typically service both the UK and global markets.
- ▶ Revenue growth continued in 2019, following the first year of growth in 2018 since the oil price decline in 2014. Revenue growth was achieved by the drilling contractors subsector (9%) due to increased activity levels but contract rates were still competitive for a number of the companies and also by the drilling and well equipment design and manufacture subsector (11%) as increased drilling activity led to an upturn in demand for equipment, parts and services in the UK and overseas markets, such as Saudi Arabia.
- ▶ There was an upturn in both UK and export revenue, with the latter growing by 5% in 2019 compared with 2018. This is due to a number of companies focusing on overseas markets for growth opportunities, for example through establishing manufacturing facilities in overseas locations, developing key relationships with large international customers with the goal of becoming their global partner and expansion of their global workforce, with Asia and the Middle East being key targets.
- ▶ EBITDA margin also improved in 2019, with an increase of 2.7 ppt compared with 2018. This was driven by the upturn in drilling contractor subsector revenue as the cost base has a large fixed element although, as noted above, day rates were still under pressure, and an improvement in EBITDA margin in the well services contractor subsector as a result of change in mix (higher third party and overseas sales that attract higher margins) and the stage of completion on contracts, allowing a higher level of profits to be recognised.

Key trends in Wells

Global

Any oil price declines typically result in a reduction in drilling activity and excess supply, with a knock-on effect on day rates. As can be seen from Figure 18, the number of active rigs halved between January 2020 and July 2020, with the US and Canada being more adversely impacted than the International rig volume. Although there has been a small recovery in 4Q20, there are still nearly 1,000 less active rigs at December 2020 compared with 2019, meaning a large number have been stacked or scrapped.

Figure 18: **Worldwide rig count for January 2017 to December 2020**

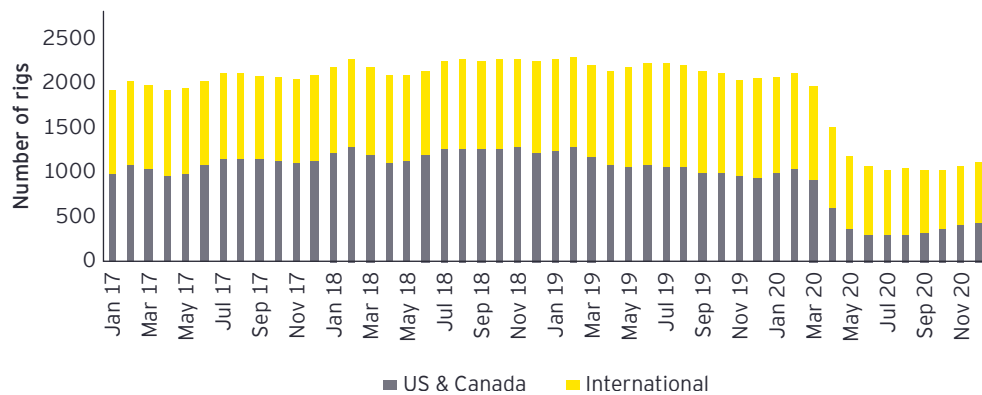


Figure 19: **Listed Wells companies results for the period from January 2020 to September 2020 (9m2020) versus the period from January 2019 to September 2019 (9m2019) 2020**

Currency: US\$mn	9m2020	9m2019	Variance	Variance (%)
Turnover	16,938	20,895	(3,958)	(18.9%)
EBITDA	1,506	1,923	(417)	(21.7%)
EBITDA margin	8.9%	9.2%	(0.3)	n/a
Backlog*	10,860	13,943	(3,083)	(22.1%)

* Where disclosed

We have analysed the divisional results of the listed parents of the top five companies in the Wells supply chain category. There has been a 19% decline in turnover due to the significant contraction in the US, Canadian and International rig count from April 2020 onwards, activity disruptions in the Gulf of Mexico due to a more active hurricane season and the disruption caused by the COVID-19 pandemic on drilling activities, which resulted in deferred or suspended programmes in several of the international markets.

Despite the revenue decline, 9m2019 EBITDA margin only reduced by 0.3 ppt. This was due to companies aggressively and proactively downsizing and implementing cost reduction measures, such as decreasing global facility footprints, workforce and support services, which they were able to do promptly given cost reductions exercises in recent years. There has also been a significant decline in backlog at September 2020 (22% lower than September 2019), in line with the impact of the demand contraction.

As a result of the downturn in 2020, a number of companies have undergone financial restructurings to significantly deleverage their balance sheets and disposed of non-core underperforming businesses. In addition, companies are seeing growth from diversification into renewables, such as wind turbine installation vessel projects and the deployment of the industry's first electric-powered fracturing operation in the Permian basin, which is expected to achieve pump rates of 30% to 40% higher than with conventional equipment.

By the end of 2020, there were signs that the pace of activity declines in the international markets was slowing, while activity levels in the US were stabilising and backlogs were showing signs of recovery. However, the risks of continued drilling project delays, contract renegotiations and contract terminations and cancellations seen up to 2018 may still impact 2021, depending on the speed of the recovery.

Wells

UK

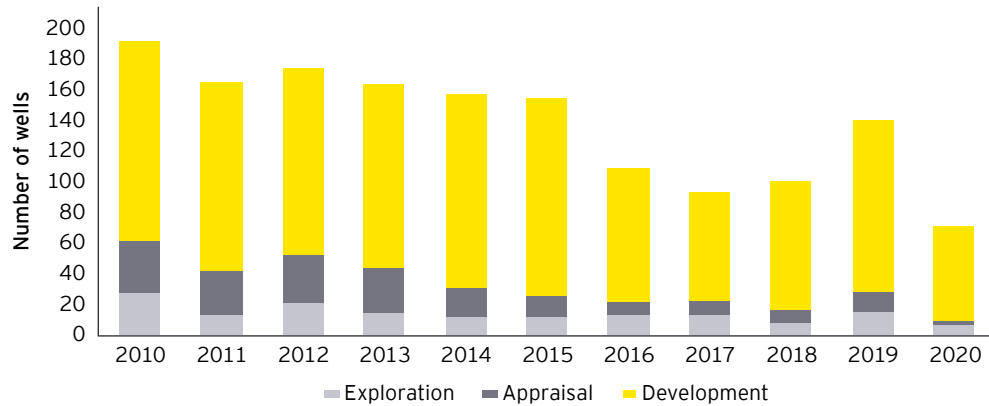
There was optimism at the start of 2020 on drilling activity levels in the UKCS. However, in 2020, only 7 exploration wells were drilled (primarily by Apache in the area around the Beryl field infrastructure), 2 appraisal wells and 62 development wells resulting in the lowest level of activity since the early 1970s. The commercial success rate (CRS) did improve in 2020 at 40% compared with 7% in 2019.

Drilling and rig contractors faced significant pressure as a result of the decline in demand, with a number of UK companies' US parents entering Chapter 11 bankruptcy proceedings or having to scrap or sell units to preserve cash reserves.

We would expect the 2020 results for the companies in the Wells supply chain to be significantly lower than 2019 as a result of the pressures the sector has faced during the year, coupled with the extent of cost reductions implemented in prior years resulting in companies already operating lean structures.

Yet, based on operators preliminary 2021 drilling plans, there are a significant number of opportunities for companies in the Wells segment. 17 companies expect to participate in exploration drilling in 2021 and this includes a number of potential high-impact exploration wells (those targeting more than 100 million boe). OGUK is also actively working with companies to create multi-operator and multi-well campaigns with the aim of creating a more cost effective model, given the margin pressures companies in the segment face.

Figure 20: **Drilling activity on the UKCS from 2010-2020**

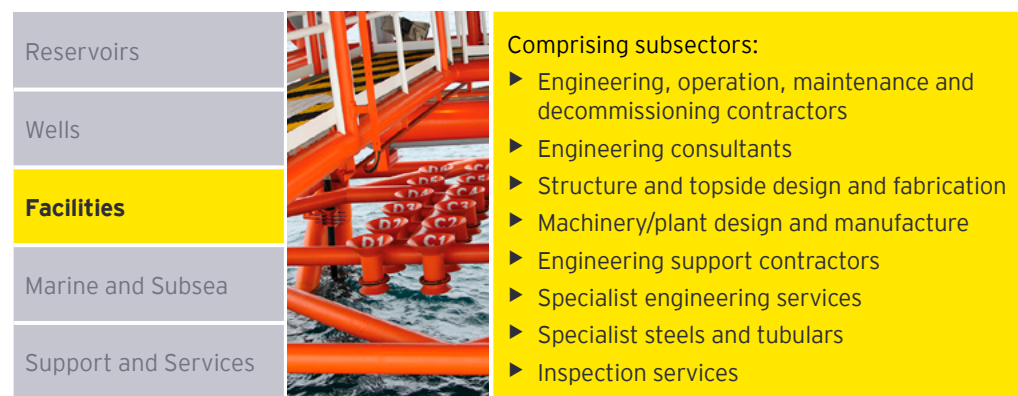


Source: OGA



Facilities

Figure 21: UK upstream oil and gas supply chain subsectors



Summary of results

In 2019, the Facilities supply chain comprised 33% of the total UK upstream oil and gas supply chain turnover.

Figure 22: Summary of results 2014-19

Currency: £mn	2014	2015	2016	2017	2018	2019
Number of companies	401	397	406	401	409	412
UK turnover	7,725	6,721	5,657	5,036	4,993	5,197
Export turnover	3,774	3,505	3,271	3,203	3,759	4,032
Total turnover	11,499	10,226	8,928	8,239	8,752	9,229
Growth trends – turnover	3.6%	(11.1%)	(12.7%)	(7.7%)	6.2%	5.4%
EBITDA	578	476	347	335	393	493
EBITDA margin	5.0%	4.7%	3.9%	4.1%	4.5%	5.3%
Tax on profits	102	53	29	85	50	34
Number of employees	53,491	54,012	49,748	46,900	45,588	49,577
Wages	2,715	2,761	2,506	2,391	2,452	2,602

Key highlights of the Facilities supply chain category

- ▶ Large construction works are typically carried out overseas, usually in lower cost geographies. The UK companies in our analysis are typically involved in either an engineering role, construction of topside equipment including modules, or the operations and maintenance of the facilities. Engineering, operation, maintenance and decommissioning (EOMD) contractors generate a large portion of turnover from both UKCS capital projects and long-term operations and maintenance contracts and, as such, only around 30% of turnover for this subsector is generated outside the UK. However, the machinery/plant design and manufacture subsector tends to service the global market and 70% of its 2019 turnover was from exports.
- ▶ Turnover growth of 5% was achieved in 2019, following 6% growth in 2018. The improvement was driven by: the EOMD subsector (9% growth) primarily as a result of acquisitions and continued high levels of services provided under long-term contracts, with a number of contract renewals being awarded in the year; the engineering support contractors subsector (8% growth) owing to increased cross selling and bundling of offerings resulting in higher activity levels; and the specialist engineering services subsector (7% growth) due to services provided on new developments and as well as on ageing offshore topside equipment. This was offset by a decrease of 22% in the structure and topside design and fabrication subsector due to excess fabrication capacity and fierce competition, with a number of companies looking to change strategy and focus on sectors outside of oil and gas, such as renewables.
- ▶ Export revenue as a percentage of total revenue has been increasing year-on-year, reaching 44% in 2019. Although a large portion of revenue is generated from UKCS capital and maintenance projects, many companies have been looking to expand their geographic footprint to dilute their reliance on the UKCS, given the maturity of the basin.

EBITDA margin for Facilities is one of the lowest out of all the supply chain categories, primarily due to the low-margin multi-year duty holder contracts that many players operate under. There has been minor year-on-year EBITDA margin improvement since 2017, with a 0.8 ppt improvement in 2019 primarily due to successful project close outs and close control of operational costs.

Facilities

Key trends in Facilities

Global

Figure 23: **Listed Facilities companies results for the period from January 2020 to June 2020 (1H2020) versus the period from January 2019 to June 2019 (1H2019)**

Currency: US\$m	1H2020	1H2019	Variance	Variance (%)
Turnover	13,539	13,512	27	0.2%
EBITDA	670	955	(285)	(29.8%)
EBITDA margin	5.0%	7.1%	(2.1)	n/a
Backlog*	8,973	12,022	(3,049)	(25.4%)

* Where disclosed

We have analysed the divisional results for the listed parents of the top five companies in the Facilities supply chain category – as a number of the companies do not publish results for 9m2020, we have compared the results for the first six months for each of 2019 and 2020.

Although turnover for 1H2020 is in line with 1H2019, this includes a full half year impact of WorleyParsons' acquisition of the Energy, Chemical and Resources division of Jacob Engineering Group Inc as compared with two months in 1H2019. If we exclude WorleyParsons from the analysis, turnover has decreased by 20% due to the impact of project sanctioning delays, termination of contracts, reduced operator spending plans and a tighter commercial environment. A number of the companies have partly offset the decline in activity in the oil and gas market by diversifying operations into other markets, such as chemicals and renewables.

EBITDA margin was also adversely affected by the turnover decline, reducing by 2 ppt between 1H2019 and 1H2020. As a result of the contraction in the market, the companies looked to reduce controllable overheads to try to protect margin. For example, Wood is aiming to deliver cost savings in 2020 of US\$200mn, of which US\$70mn was delivered in 1H2020. An element of the cost savings implemented by the companies are structural in nature and will positively impact 2021 and beyond.

Backlog has also been impacted by the effect of the COVID-19 pandemic on operations and maintenance contracts (e.g., postponement of the site shutdown season in the US and site access restrictions) and resulting delays in project awards. There are signs of improvement and a large volume of tenders in the pipeline that are expected to be awarded by the end of 2021, given it is assumed capital discipline by operators will continue in 2021. Many companies are also looking to continue their growth in renewables and low carbon sectors to ensure they are more resilient against oil price volatility and can secure these growth opportunities as the energy transition evolves.

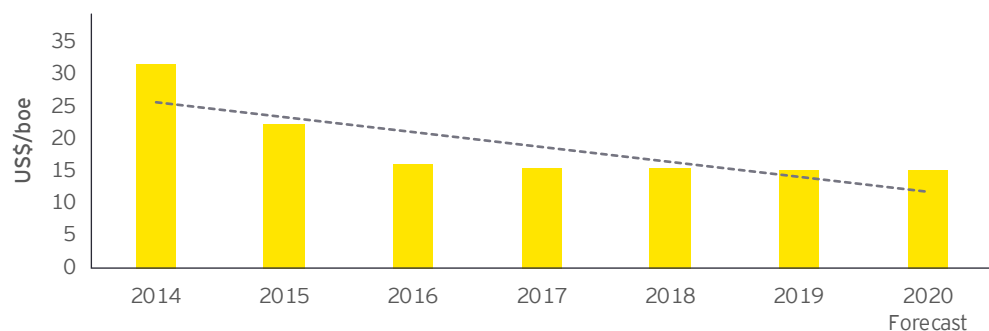


Facilities

UK

Given the UKCS is a mature basin, Facilities spend is mainly operating cost driven, with a focus on production and the maintenance required on ageing infrastructure.

Figure 24: UKCS unit operating costs 2014-20



Across the UKCS overall, unit operating costs have decreased by more than 50% between 2014 and 2019 and are forecast to remain at these levels in 2020. This has been achieved through cost reduction and efficiency initiatives implemented, with OGUK noting that companies achieved 20% more production in 2019 at a 30% lower cost compared with 2014.

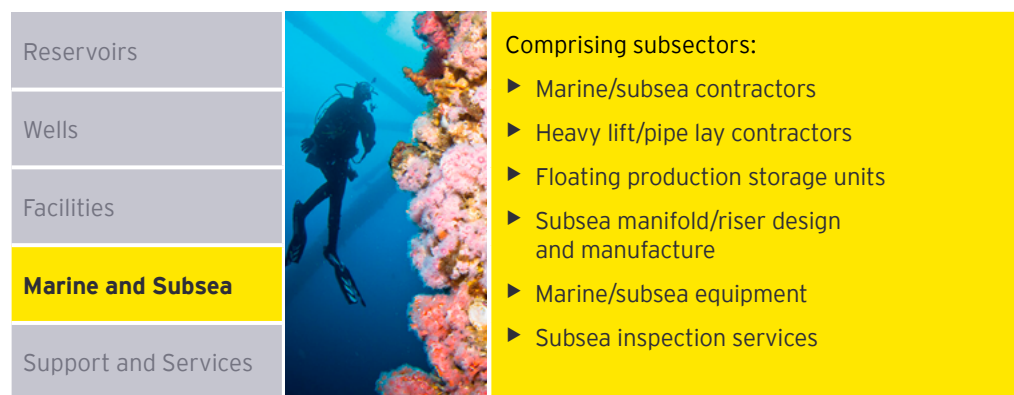
We would expect 2020 results for the companies in the Facilities supply chain segment to continue to be affected by the fierce competition and the impact of the COVID-19 pandemic, although there will be a level of protection from the number of long-term contracts that are in place.



Facilities companies are facing increased pressure to find efficiencies from greater digitalisation, new ways of working and new contract models between the operators and the supply chain. We are also seeing some companies embrace diversification into clean energy to ensure resilience in the future, such as Global Energy Group's partnership with Rosetti Marino to enable them to deliver large-scale renewable energy and net zero projects around the UK, and this is a trend that we expect to continue in 2021.

Marine and Subsea

Figure 25: UK upstream oil and gas supply chain subsectors



Summary of results

In 2019, the Marine and Subsea supply chain comprised 26% of the total UK upstream oil and gas supply chain turnover.

Figure 26: Summary of results 2014-19

Currency: £mn	2014	2015	2016	2017	2018	2019
Number of companies	178	180	181	183	184	184
UK turnover	6,301	5,213	3,915	4,150	3,766	3,487
Export turnover	4,307	4,235	3,778	2,931	3,228	3,593
Total turnover	10,608	9,448	7,694	7,081	6,993	7,080
Growth trends – turnover	10.4%	(10.9%)	(18.6%)	(8.0%)	(1.2%)	1.2%
EBITDA	1,396	997	884	507	181	241
EBITDA margin	13.2%	10.6%	11.5%	7.2%	2.6%	3.4%
Tax on profits	208	117	112	84	(13)	18
Number of employees	25,314	24,906	22,296	19,631	18,827	19,145
Wages	1,283	1,335	1,094	901	1,079	1,059

Key highlights of the Marine and Subsea supply chain category

- ▶ The UK companies in our analysis cover the full range of marine and subsea activities and include a large number of fully integrated subsea contractors and suppliers of subsea products, as well as more niche providers of specialised equipment and services. The majority of subsectors within the marine/subsea supply chain segment (excluding the floating production storage units subsector that is exclusively based in the UK) have high levels of exports due to the highly technical and specialised nature of the products and services supplied.
- ▶ Marine and Subsea turnover grew in 2019, the first time since 2014. This was driven by the marine/subsea equipment subsector (17% growth) due to an upturn of orders and successful conversion of these orders during 2019, with a number of companies noting that order backlog was returning to historical levels (pre 2014 oil price decline). This was partially offset by the marine/subsea contractors subsector (9% decline) due to a decrease in revenue from renewables projects with the completion of a project to install jackets and topsides, and from heavy lift projects due to completion of a project to remove topsides as part of the dismantlement of a UKCS platform.
- ▶ Export revenue growth continued in 2019, with an 11% increase compared with 2018. This was driven by the increase in overseas subsea projects, with a number of large international projects completing during 2019. Although activity levels in Africa reduced in 2019 due to the completion of projects in the region, this was offset by higher activity in other international locations, such as the Caspian.
- ▶ While EBITDA margin improved by 0.8 ppt between 2018 and 2019, it still continues to be at levels significantly lower than achieved between 2014 and 2017. This has primarily been driven by the marine/subsea equipment subsector, which has generated losses in both 2018 and 2019 due to delivering projects awarded during the downturn at significantly lower margins, higher than expected costs to execute due to the complexity of the contracts, lower number of successful project close outs in the year, continued pricing pressure, a warranty provision in relation to commercial claims and the limited scope for any further significant cost base reductions given the level of cuts in prior years.

Marine and Subsea

Key trends in Marine and Subsea

Global

Figure 27: **Listed Marine and Subsea companies results for the period from January 2020 to September 2020 (9m2020) versus the period from January 2019 to September 2019 (9m2019)**

Currency: US\$m	9m2020	9m2019	Variance	Variance (%)
Turnover	27,449	31,388	(3,938)	(12.5%)
EBITDA	2,074	3,315	(1,241)	(37.4%)
EBITDA margin	7.6%	10.6%	(3.0)	n/a
Backlog*	42,982	41,050	1,932	4.7%

* Where disclosed

We have analysed the divisional results of the listed parents of the top five companies in the Marine and Subsea supply chain category. All of the companies experienced a decline in turnover to varying degrees between 9m2019 and 9m2020, reflecting reduced activity levels, project cancellations or rephasing as a result of the COVID-19 pandemic.

EBITDA margin was also impacted, decreasing by 3 ppt between 9m2019 and 9m2020. Although companies in this sector undertook significant cost reduction exercises in relation to workforce, operational fleet size and overheads (e.g., Subsea 7 projecting annualise cash cost savings of US\$400mn by the end of 2021), this could only partially offset the decline in revenue, the additional costs incurred in operating the business under the COVID-19 pandemic conditions and the execution of more competitively priced backlogs.

Despite the decrease in turnover, backlog increased by 4.7% between September 2019 and September 2020. This has primarily been driven by an increase in backlog for renewables and heavy lifting projects, such as the Seagreen and Dogger Bank Offshore Wind Farm projects in the UK.

Although the outlook is still challenging and the impact of any further waves of the COVID-19 pandemic difficult to predict, there were signs of increasing activity in certain markets, such as the Gulf of Mexico, towards the end of 2020 and rephasing of 2020 projects into 2021. Tendering activity was also showing signs of improvement, particularly in Norway following the introduction of fiscal incentives and in the renewables sector, although this continues to be very competitive.



Marine and Subsea

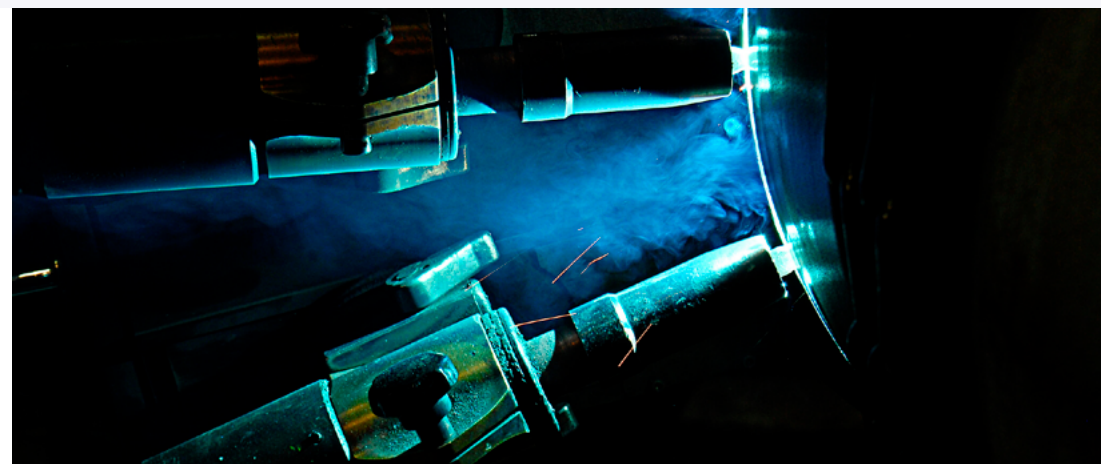
UK

The UK subsea sector started 2020 optimistically following the challenges faced since the downturn in 2014. However, the impact of the COVID-19 pandemic meant that a number of projects were deferred or delayed, such as Nexen's Buzzard Phase 2 (deferred to 2021) and Neptune Energy's Seagull (ETAP topside strengthening and installation programme is now expected to commence in early 2021 and first oil has been pushed back 12-15 months to late 2022).

In addition, a number of projects that were expected to reach final investment decision (FID) in 2020 have also been delayed, as shown in Figure 28.

Figure 28: **Selected UKCS projects where final investment decision (FID) was expected in 2020**

Project	Operator	FID now expected	Concept
Cambo	Siccar Point Energy	2021	FPSO
Talbot	Chrysaor	2022	Multi-well tie back to Judy
Montrose Infill	Repsol Sinopec	2021	Four well , subsea tieback to Montrose
Glendronach	Total	2021	One well tieback to Laggan-Tormore infrastructure
Tolmount East	Premier Oil	2021	Tied back via subsea pipeline to Tolmount facilities

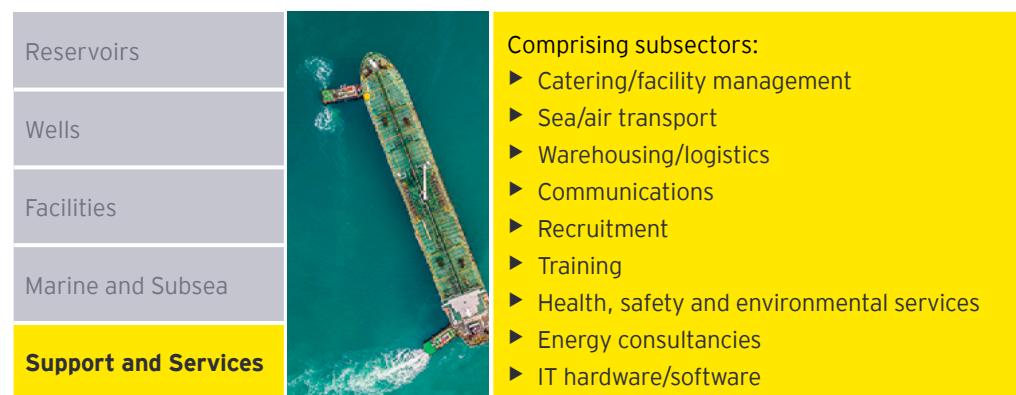


We would expect companies in the Marine and Subsea supply chain segment to have been severely impacted in 2020. It is still in a precarious position following the last downturn due to low margins, lack of cash and investment and in some case, high levels of debt. The delays and deferrals of projects, as well as the delays to FIDs, will be felt in 2021 and beyond given the lead times from FID to development.

However, green technologies such as hydrogen, CCUS and offshore wind (including the ScotWind process, which involves prospective offshore renewables developers bidding for seabed acreage in Scottish waters) could offer potential growth opportunities, given they all require subsea capabilities for installation and management. As well as the blue economy (sustainable use of ocean resources for economic growth), companies are looking to diversify into sectors such as defence, marine science and aquaculture. Companies will need to consider embracing these opportunities and decreasing their reliance on the oil and gas sector in order to achieve long-term growth.

Support and Services

Figure 29: UK upstream oil and gas supply chain subsectors



Summary of results

In 2019, the Support and Services supply chain comprised 21% of the total UK upstream oil and gas supply chain turnover.

Figure 30: Summary of results 2014-19

Currency: £mn	2014	2015	2016	2017	2018	2019
Number of companies	318	320	322	322	324	324
UK turnover	4,386	4,180	3,959	3,704	3,368	3,504
Export turnover	2,192	1,891	1,466	1,488	2,279	2,339
Total turnover	6,579	6,071	5,425	5,192	5,648	5,843
Growth trends – turnover	4.0%	(7.7%)	(10.6%)	(4.3%)	8.8%	3.4%
EBITDA	597	535	368	241	334	357
EBITDA margin	9.1%	8.8%	6.8%	4.6%	5.9%	6.1%
Tax on profits	96	65	48	34	25	36
Number of employees	18,919	21,350	19,036	18,142	18,247	20,549
Wages	994	1,091	977	901	922	945

Key highlights of the Support and Services supply chain category

- ▶ The Support and Services supply chain segment excludes companies involved indirectly in the UK upstream oil and gas supply chain (e.g., hospitality and infrastructure) and those that do not specifically disclose financial performance from oil and gas (e.g., legal, insurance, accountancy and banking organisations). Due to the nature of the services supplied, a large number of the subsectors within this segment are more reliant on activity in the UKCS than export markets, with customers typically tending to use local companies to provide a large majority of their support services.
- ▶ Turnover increased by 3% in 2019, with the majority of subsectors achieving growth to varying degrees. The key drivers of the growth were:
 - ▶ The largest subsector, recruitment, achieved 3% growth (highest in £ terms), due to the positive impact of a merger of two of the companies, which allowed it to increase its global reach and secure growth from market opportunities in 2019
 - ▶ The warehousing/logistics subsector achieved 7% growth due to an increase in direct fuel sales following contract awards (note: there is minimal markup on these sales) and a higher level of quayside cargo tonnage being handled
 - ▶ 8% growth for the health, safety and environmental services subsector due to several new contract awards and the commencement of services at the decommissioning centre in Dundee
- ▶ The increase in export turnover in 2018, which continued at this level in 2019, has been driven by the recruitment subsector due to the expansion of international activities in areas, such as Kazakhstan, Russia, USA and the Middle East. The levels of export turnover for the remaining subsectors has not changed significantly between 2018 and 2019.
- ▶ EBITDA margin has remained at 6% in 2019, with minimal changes in the largest subsectors, such as recruitment and warehousing/logistics, despite the revenue growth due to continued pressure on rates and minimal markup on fuel sales. The sea/air transport subsector continues to incur losses due to the decline in activity (less flights due to rota changes) and the impact of the competitive nature of tenders/contract extensions on rates.

Support and Services

Key trends in Support and Services

Unlike the other supply chain categories, the top five companies do not have listed parent companies. Even for those companies within our analysis that do have listed parents, the support and services divisional results are typically reported as part of another division (geographic or business unit) and, as such, we are unable to analyse divisional trends for support and services subsectors on a standalone basis. In general, our analysis has historically shown these companies will typically follow the trends of the global listed OFS companies.

For the largest subsectors within support and services, the key trends in the market we see are as follows:

Recruitment

Global recruitment revenue growth of 4.8% was forecast for 2020 as companies continued to outsource their recruitment processes to decrease operating costs and to ensure an efficient process. However, due to COVID-19 pandemic related shutdowns and an increasing number of headcount reductions, a decline of 12.2% is now expected. As economies start to recover, assuming a successful global vaccine rollout, gradual growth is forecast in 2021 onwards.

Despite the contraction of activity in 2020, UK OFS companies could potentially face shortage of skills in the future resulting from a large number of personnel approaching retirement, redundancy exercises resulting in personnel exiting the sector permanently, the lack of young workforce entering the field, the need for more digital skills and a persistent shortage of women in the industry.

In particular, the new technologies, such as big data, artificial intelligence, analytics and blockchain, all require new skills compared with the traditional senior oil and gas professionals and future recruitment will have to factor in the skills and technological awareness of candidates to ensure the sector can fully embrace digital and move forward with it. As such, recruitment companies that ensure their pool of candidates have the necessary digital skill sets could be well placed when there is an upturn in activity to assist companies that have a gap in this area.

Sea/air transport

Even prior to the impact of the COVID-19 pandemic in 2020, the offshore helicopter market has faced excess capacity and extreme pricing pressures for a number of years, due to the combination of over ordering in peak oil and gas years and the fact that helicopters can be mothballed and rolled out for use, in line with the industry's cycles over several decades. This has resulted in a number of operators ceasing to trade, companies exiting the helicopter business, the largest three global offshore rotorcraft operators all going through Chapter 11 proceedings since 2016 and consolidation, such as the merger of Bristow and Era that was completed in June 2020.

There do appear to be signs of recovery in key geographies, such as Guyana, which is resuming or expanding oil and gas work. Offshore rig counts have also improved in a number of locations, including Latin America, the Middle East, Europe and Africa. In addition, annual growth of 17% is forecast for the global offshore wind helicopter market through to 2030 given helicopters have become a key part of the supply chain for the construction and maintenance phases, with more than 450 projects expected to be completed.

In the UK, activity levels that had already been impacted in prior years by rota changes that decreased the number of personnel and flights, dropped by more than 30% in April 2020 compared with the prior year. Still, by the end of 2020, there were positive signs with flight activity returning to pre-COVID-19 pandemic levels. Due to the contraction in the market in 2020, tenders have become increasingly competitive leading to some operators stating that unsustainable pricing could impact future investment in technology and safety improvements.

Given demand in the UKCS is unlikely to increase significantly in the short term and competitive pricing is likely to continue, UK sea/air transport companies will need to look to diversify to secure opportunities in the growing renewables market both in the UK and globally. An example of this is CHC's recent contract award to provide services to three offshore wind farm developments, two in Scotland and one in England.

UK energy services industry – oilfield services sector

Results by subsector



Figure 31: Analysis of Reservoirs turnover and EBITDA margin by subsector

Currency: £mn	2014	2015	2016	2017	2018	2019
Seismic data acquisition and processing contractors	554	578	477	470	537	460
Geosciences consultancies	181	150	63	80	122	138
Data interpretation consultancies	187	131	103	92	103	126
Seismic instrumentation	104	88	74	62	72	70
Turnover	1,026	946	718	704	834	793
Seismic data acquisition and processing contractors	2.3%	3.8%	9.1%	(0.3%)	9.3%	17.7%
Geosciences consultancies	14.5%	6.4%	5.4%	(0.4%)	5.4%	9.2%
Data interpretation consultancies	12.1%	7.8%	1.7%	7.1%	5.1%	5.6%
Seismic instrumentation	12.7%	0.8%	1.6%	(2.8%)	(3.7%)	10.2%
EBITDA margin	7.3%	4.5%	6.9%	0.4%	7.1%	13.6%



Figure 32: Analysis of Wells turnover and EBITDA margin by subsector

Currency: £mn	2014	2015	2016	2017	2018	2019
Well services contractors	3,004	2,475	2,084	1,922	2,138	2,159
Drilling contractors	3,290	2,737	1,704	1,284	1,001	1,097
Well engineering consultancies	204	157	58	32	42	38
Drilling and well equipment design and manufacture	1,841	1,547	1,154	1,015	1,264	1,403
Laboratory services	167	175	135	123	130	157
Turnover	8,506	7,091	5,136	4,375	4,576	4,854
Well services contractors	11.7%	10.7%	8.2%	3.4%	3.9%	6.6%
Drilling contractors	15.7%	24.0%	27.5%	33.1%	27.5%	32.0%
Well engineering consultancies	16.0%	21.6%	19.5%	19.2%	14.3%	8.7%
Drilling and well equipment design and manufacture	24.3%	18.7%	11.4%	12.1%	13.3%	14.2%
Laboratory services	18.3%	14.7%	17.0%	9.6%	12.7%	15.0%
EBITDA margin	16.2%	17.9%	15.7%	14.4%	12.0%	14.8%

UK energy services industry – oilfield services sector



Figure 33: Analysis of Facilities turnover and EBITDA margin by subsector

Currency: £mn	2014	2015	2016	2017	2018	2019
Engineering, operation, maintenance and decommissioning contractors	4,992	4,476	3,973	3,445	3,614	3,922
Engineering consultants	322	249	194	169	173	147
Structure and topside design and fabrication	410	426	326	290	246	192
Machinery/plant design and manufacture	2,338	2,006	1,787	1,682	1,659	1,713
Engineering support contractors	1,333	1,332	1,105	1,151	1,340	1,442
Specialist engineering services	1,240	1,027	832	849	943	1,010
Specialist steels and tubulars	582	496	536	355	485	512
Inspection services	282	215	175	298	292	290
Turnover	11,499	10,226	8,928	8,239	8,752	9,229
<i>Engineering, operation, maintenance and decommissioning contractors</i>	(0.9%)	1.2%	3.3%	2.8%	3.5%	4.1%
<i>Engineering consultants</i>	3.7%	(5.9%)	(3.8%)	(10.8%)	(7.1%)	(6.3%)
<i>Structure and topside design and fabrication</i>	8.1%	1.2%	(3.4%)	1.6%	3.6%	7.3%
<i>Machinery/plant design and manufacture</i>	11.7%	9.3%	4.8%	5.5%	3.5%	4.2%
<i>Engineering support contractors</i>	7.6%	6.2%	6.2%	5.3%	6.6%	8.2%
<i>Specialist engineering services</i>	10.9%	11.5%	4.9%	3.4%	4.7%	6.2%
<i>Specialist steels and tubulars</i>	4.2%	3.1%	3.1%	6.2%	7.1%	5.5%
<i>Inspection services</i>	15.9%	13.9%	13.3%	16.1%	14.4%	15.7%
EBITDA margin	5.0%	4.7%	3.9%	4.1%	4.5%	5.3%

UK energy services industry – oilfield services sector

Results by subsector



Figure 34: Analysis of Marine and Subsea turnover and EBITDA margin by subsector

Currency: £mn	2014	2015	2016	2017	2018	2019
Marine/subsea contractors	6,138	5,231	4,273	4,357	3,947	3,595
Pipe lay/heavy lift contractors	56	25	10	4	-	-
Floating production storage units	344	372	327	301	307	321
Subsea manifold/riser design and manufacture	133	111	74	60	63	74
Marine/subsea equipment	3,718	3,497	2,830	2,193	2,494	2,923
Subsea inspection services	219	212	179	166	182	167
Turnover	10,608	9,448	7,694	7,081	6,993	7,080
Marine/subsea contractors	14.8%	12.4%	11.3%	10.2%	4.7%	8.2%
Pipe lay/heavy lift contractors	5.8%	7.8%	1.7%	(9.5%)	n/a	n/a
Floating production storage units	(8.4%)	(1.1%)	0.8%	(4.4%)	8.9%	9.6%
Subsea manifold/riser design and manufacture	15.9%	5.6%	(3.4%)	(9.1%)	(11.6%)	2.0%
Marine/subsea equipment	12.6%	9.6%	14.1%	3.4%	(1.3%)	(3.3%)
Subsea inspection services	9.8%	3.8%	1.3%	4.9%	5.4%	6.3%
EBITDA margin	13.2%	10.6%	11.5%	7.2%	2.6%	3.4%



Figure 35: Analysis of Support and Services turnover and EBITDA margin by subsector

Currency: £mn	2014	2015	2016	2017	2018	2019
Catering/facility management	242	251	216	202	198	206
Sea/air transport	729	848	769	694	686	674
Warehousing/logistics	947	764	684	776	877	936
Communications	127	106	81	75	70	81
Recruitment	2,871	2,503	2,309	2,035	2,349	2,424
Training	45	44	35	30	26	19
Health, safety and environmental services	673	731	618	621	596	642
Energy consultancies	602	508	410	399	432	418
IT hardware/software	343	315	305	360	413	442
Turnover	6,579	6,071	5,425	5,192	5,648	5,843
Catering/facility management	6.1%	8.3%	7.4%	5.3%	3.4%	3.8%
Sea/air transport	10.9%	5.5%	(0.1%)	(14.7%)	(5.8%)	(6.0%)
Warehousing/logistics	4.2%	5.0%	5.7%	4.2%	2.9%	3.5%
Communications	23.4%	21.9%	0.6%	9.9%	28.3%	25.9%
Recruitment	2.8%	2.6%	1.9%	1.9%	1.6%	1.9%
Training	14.3%	9.1%	2.6%	2.0%	1.2%	4.2%
Health, safety and environmental services	16.0%	20.5%	18.9%	14.3%	14.2%	14.6%
Energy consultancies	26.0%	24.7%	25.7%	25.1%	27.6%	29.2%
IT hardware/software	24.1%	19.1%	15.3%	17.6%	19.7%	16.5%
EBITDA margin	9.1%	8.8%	6.8%	4.6%	5.9%	6.1%

Methodology and key assumptions

The purpose of our analysis of the UK OFS sector has been to define, qualify and quantify a sector of significant importance for the UK North Sea and the UK economy and to provide insight both to the industry itself as well as to other relevant parties.

The financial data in this report is based on UK registered company's annual accounts filed at Companies House, which has been categorised into 2013, 2014, 2015, 2016, 2017, 2018 and 2019 for financial year ends within each of these calendar years. Where a company has not yet filed its 2019 annual accounts and it had turnover in excess of £41mn in 2018, we have included its results based on the following assumptions:

- ▶ For turnover, we have applied the relevant subsector turnover growth or decline rate to the company's 2018 revenue.
- ▶ For EBITDA, we have applied the 2018 EBITDA margin to 2019 turnover.
- ▶ For wages and employees, we have included 2018 values.

We applied the following criteria to each company to determine whether it should be included in the analysis:

- ▶ It is a UK registered company.
- ▶ At least 50% of its turnover is generated in the upstream oil and gas sector.
- ▶ It has filed 2019 accounts with Companies House (apart from the exception noted above).

As it is not possible to accurately extract the portion of financial information relating to the upstream oil and gas sector from each company's annual financial statements, we include the full results for any company included in the analysis. Although this will overstate the financial information for companies which are not 100% engaged in the sector, it excludes those companies that do not have the majority of their business in the sector. Overall, we believe this results in a fair reflection of the UK OFS sector.

We have assigned each company to a subsector based on its main activity, with the 32 subsectors derived from Oil & Gas UK's supply chain categorisation. Many companies do have activities across the supply chain but this is not accounted for in this analysis.

For export analysis, we analysed the geographic disclosure within the annual accounts of the largest 300 companies (by 2019 turnover). Where this did not result

in at least 80% coverage of the turnover in each of the 32 supply chain subsectors, additional companies were also analysed.

The export information based on annual accounts averaged approximately 75% of turnover in each of the financial years, with the remainder being extrapolated as noted below:

- ▶ Where a company only disclosed revenue at Europe level rather than at a UK level, the average split of UK and Europe revenue for the specific subsector was applied to calculate the UK only portion.
- ▶ If a company did not disclose geographic information or was excluded from the export analysis, the average split of UK and export revenue for the subsector, based on the information extracted from the annual accounts, was applied.

Tax on profits represents tax charged in the accounts filed at Companies House and does not represent tax paid. There are a number of differences between the effective tax rate and tax paid, including:

- ▶ Tax allowance
- ▶ Utilisation of tax losses from prior years
- ▶ Group relief
- ▶ Deferred tax

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