

Review of the UK oilfield services industry

January 2020



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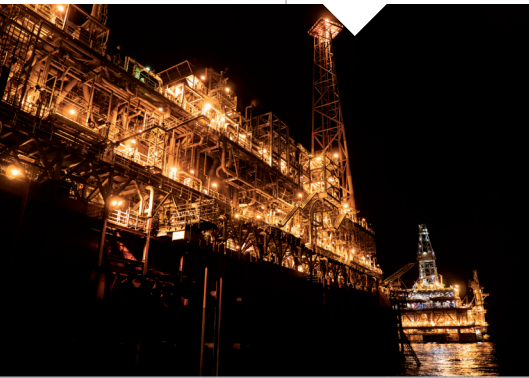
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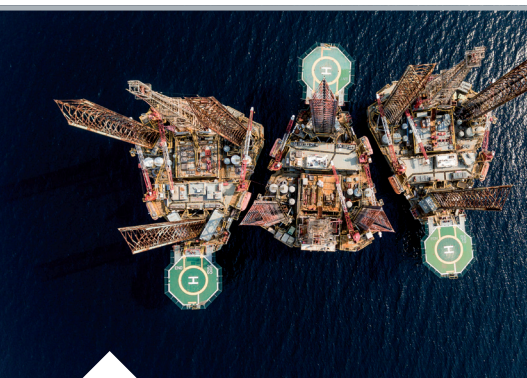
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Welcome to EY's ninth annual review of the UK oilfield services (OFS) industry. We review the 2018 trading performance of UK registered companies in the hugely diverse oilfield services marketplace and discuss the impact the changing oil market has had, and is expected to have, on their performance in the UK and internationally in 2019 and beyond.

Top four themes



1

Recovery has started but will be slow; margins remain under pressure

Overall turnover for the UK OFS sector returned to growth in 2018, albeit at a modest 2.3%. Early last year we were 'cautiously optimistic' about the market in 2019 and 2020, on the back of an expected global increase in capex of c.8% (2018 to 2019). Instead, capex growth was only 2%-3% in 2019 and the expectation is of a similar growth rate this year. A bright spot for the UK is that this lower growth is mostly driven by a slowdown in activity in North America, which means that capex growth in Europe and the UK is likely to exceed these global levels.

Margins are still significantly lower than before the downturn but appear to have stabilised. While companies are focusing heavily on improving their margins (rather than chasing market share and revenue growth), we expect that margins will remain under pressure for the near term. Greater market fragmentation and competition also support this view.



2

The market is becoming smaller and consolidation has not happened

Optimised lower costs by oil and gas producers means lower revenue opportunity for oilfield services companies. Together with the effect of technologies on costs, this means that the market for oilfield services companies is continuing to get smaller.

Interestingly and contrary to our expectations, our analysis shows that the number of companies operating in the sector in the UK has grown during the downturn (+2%). Despite the industry moving towards more integrated projects with less interfaces and several contractors being under significant financial constraints, consolidation has been incredibly slow. Instead, companies have chosen to enter into alliances or joint ventures or have spun-off non-core businesses. New players have also emerged, successfully addressing certain niche opportunities in the market, which demonstrates the entrepreneurialism of the sector, the attractiveness of the UK for new business opportunities and the potential remaining in the industry.



3

There is a lot more to do

The road to growth and higher returns is going to be long and for many, difficult and uncertain. Leverage in the sector is still high. Digitalisation, automation and big data are promising big rewards and yet are only being slowly adopted by the market. Cost savings have been made but there are still many inefficiencies and synergies to go after. During 2018, the number of people employed in the UK sector was broadly the same as in 2017. More striking, it took twice the number of employees to generate a million pounds of EBITDA in 2018 versus 2014, although the picture is somewhat muddled by contractor numbers, which are not reported. The market is changing fundamentally and the industry needs to embrace new technologies and models in order to survive. In the UK North Sea, where private equity now owns a significant share of the reserves, this pressure to reduce costs and to increase competitiveness is only going to be more acute.



4

Energy transition pressures to continue

Investors, banks, employees and communities are pressuring the oil and gas sector to transition to greener energies. With its heavy technology content, its wealth of talent and experience in renewables, the oilfield services industry can play a key role in solving some of the sustainability challenges the world faces. Many companies already have a significant focus on the renewables market, are developing into broader energy and industrial service providers with less focus on purely oil and gas and have started to create international opportunities for themselves which will support their recovery. There is space for more to be done and the UK should be well placed to capture the benefits of this transition.

Introduction



Prevailing headwinds

There has been plenty of commentary on the oil and gas sector since the downturn in crude prices in 2014, and the emergence and significant influence of US unconventional production in causing the medium term oil price to be contained within a fairly narrow range. While the E&P companies have largely adjusted to this new reality, the oilfield service sector (OFS) has been under unremitting pressure on pricing. Overcapacity in parts of the supply chain has meant that companies are, in some instances, still chasing prices down where competition is most fierce, and for almost all sub-sectors margin improvement has proved elusive.

Continuing uncertainty on commodity price, digital disruption, energy transition, mixed messages from investors, and climate change activism all combine to ensure that the OFS sector is still struggling to recover from the impact of the oil price slump. In particular, the upstream sector is exercising strict capital discipline, and a great deal of caution as it tries to navigate forecast demand for energy against a backdrop of sluggish global growth and unprecedented political activism. Importantly, the flow of capital into unconventional in the US has faltered, and therefore removed the main engine that has driven global oil and gas growth for the last decade. The uncomfortable truth is that capital investment in oil and gas, outside of unconventional, remains almost 40% below pre 2014 levels; and now unconventional capex spending is also stalled.

Globally the OFS sector has gone through a tumultuous time, with weak returns, and low investor confidence causing share prices to decline. While there is a gradual recovery resulting in some increases in turnover, and backlog, margins are stubbornly depressed.

Regrettably, the situation in the UKCS shows a strong correlation to the global market. Our 9th UK OFS report discloses modest growth in turnover (2%) but minimal growth in margin. Of course, averages can be misleading, and our report also highlights that certain subsectors are performing better than others, and within any subsector there is good and bad performance.

Against this backdrop and continuing headwinds, the UK OFS sector needs to continue to innovate and digitalise, integrate service offerings, exploit niche opportunities, and take advantage of diversification as part of the energy transition. However, it also needs to work with its E&P customers to develop a radically different narrative around the positive contribution that the sector can make to the energy transition, and reinvent itself as a progressive, inclusive, well governed, socially and environmentally responsible industry. Ignoring these issues presents an existential threat.

Derek Leith
EY Global Oil & Gas Tax Leader



Viewpoint

In retrospect 2018 could be considered a turn-around year for the UKCS, with increases in investment, production and an uptick in drilling activity on the horizon. However what this clear analysis from E&Y shows, is that whilst operators had turned the corner, this recovery is taking its time to reach OFS companies operating in the UK and they are still dealing with the consequences.

Whilst the report highlights a very slight upturn (2%) in revenues, this varied significantly by supply chain segment and for most 2018 would be considered flat YoY. What is particularly concerning is that despite this improvement EBITDA margin continued to decline. This is a very clear marker of the continued stress being felt across the OFS supply chain in the UK as pressure on cash flow grows.

Exports has offered some respite, with a 14% growth YoY, however this presents another challenge as companies have to justify internal investment in their UK business when investment in overseas markets may appear to offer more attractive opportunities. OGUK's supply chain segment analysis has suggested that the low levels of return on capital employed (ROCE) in the UK are now a major concern for OFS organisations competing globally for corporate capital.

From discussions across all supply chain segments it is clear many OFS companies have painfully adapted to the market position but they are now looking forward and considering their longer term strategy. Should they continue to wait for the core market to return or are alternative plays required such as targeting exports, developing offerings for the energy transition or expanding decommissioning services? With limited cash reserves and growing pressures, results in 2019/2020 will likely be key for OFS companies to make some significant and long term choices.

After the turbulence of the recent past for the UK oilfield service industry, it's understandable to want some stability.

However, whilst we have seen sustained period with limited oil price fluctuations, what seems almost certain is that a new period of change lies ahead: advances in technology continue to disrupt the industry and the Government's legally-binding commitment to net zero emissions – as well as the evolving public opinion – is on all our minds.

Despite this, or perhaps because of this, the upcoming opportunities for the supply chain are enormous. OFS companies have already proved that they can adapt, can improve, and be resilient. The record of delivery established by these companies when working in the North Sea continues to be something that can be drawn upon when looking to diversify – either into new international markets, or into the generation of alternative energy sources. Many companies are already diversifying into renewables which is really encouraging, but we believe that many more firms could benefit from doing so. The UK's supply chain is world-leading, possessing a wealth of skills and knowledge, giving it the potential to lead and make a difference in areas such as subsea, carbon capture and storage (CCS) and offshore floating wind.

In terms of exports, the potential in international markets is significant, and we know that the UK has the ability to capitalise upon these opportunities. We are urging more and more of the tier 2 and tier 3 companies to step into this space, working globally whilst being anchored in the UK and supported by organisations such as DIT and SDI. The Energy Exports Conference returns to Aberdeen on 17 and 18 June, offering companies the chance to meet project operators and contractors from around the world. It will provide an excellent platform for advice about how to make that next step and overcome any barriers companies are facing.

An example of significant export opportunity is, of course, decommissioning. This report highlights the continued potential for companies to target both domestic and selected international markets. Building on the UK's established strengths in areas such as project management, late life operations management and onshore dismantling will be key to making the most of the extensive decommissioning opportunities both here and around the world.

There will always be turbulence, disruption, change – and there will also be opportunities that arise as a result. We firmly believe that the UK's supply chain is world-class and can continue to innovate, thrive and survive – not just in UKCS but around the world.



Matt Abraham
Supply Chain Director
Oil & Gas UK



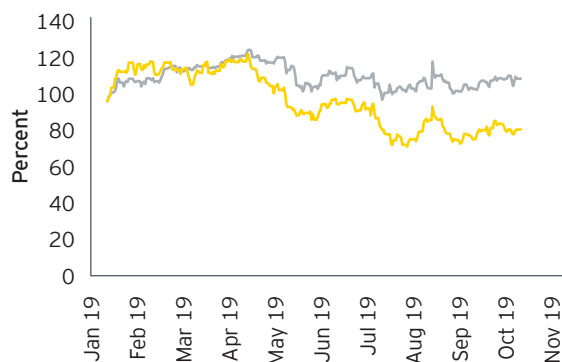
Stuart Payne
Director of HR & Supply Chain
Oil & Gas Authority

Overview

Global overview

The global OFS sector has been affected by five years of reduced upstream spend, lower commodity prices and margin erosion as companies competed to maintain activity during continued oversupply. As highlighted in the graph below, OFS stocks are still trading at or near record lows and are lagging behind the oil price recovery, demonstrating investors lack of enthusiasm about the sector and concerns about growth and returns versus other investment opportunities.

Figure 1: **Brent and OFS sector performance**



Yet, there were signs of recovery in 2019. We analysed the reported results of the 70 largest listed OFS companies globally, from 2014 to 2018 and forecast results (based on analyst expectations) for 2019 to 2021. The modest turnover recovery in 2019 of 1% is forecast to be followed by a c.5% turnover growth in both 2020 and 2021.

The OFS sector is continuing to right size its operations in response to the reduced upstream spending levels and moving its focus to returns and shareholder value creation, rather than market share gains and revenue growth. This is being achieved through a number of routes but we believe that more still needs to be done. We therefore expect companies to continue to reposition their portfolios, make strategic acquisitions or enter into alliances to collaborate on projects to increase their competitiveness.

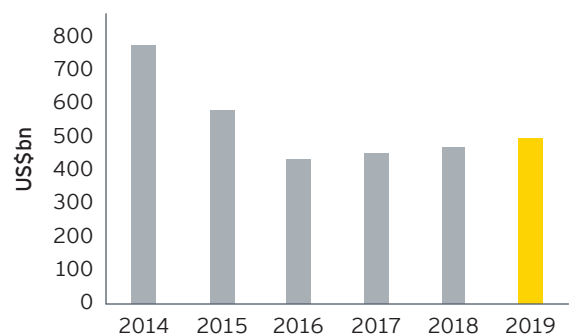
Consolidation, which has been subdued over the past few years, is also expected to grow as a way to broaden offerings, reduce the number of interfaces to customers, take costs out and ultimately improve offerings. Larger scale should also make the sector more attractive to investors, as many have been deterred by shrinking market capitalisations and the industry becoming even more 'small to mid market'.

Upstream capital expenditure

Some recent surveys are suggesting a 2%-3% increase in capex spending in 2020 versus 2019, mostly driven by non-North America and the majors and national oil companies.

To date, although there are no signs of a substantial investment rebound, there are some pockets of growth which should benefit the sector. Exploration appears to be recovering and the number of project sanctions is increasing. In 2019, oil and gas projects representing around US\$200 billion were sanctioned. According to Rystad, this could rise to US\$225 billion in 2020, driven primarily by gas projects. In addition, technological advancements could lead to new discoveries and more recoverable resources within existing developments.

Figure 2: **Global upstream capital expenditure**

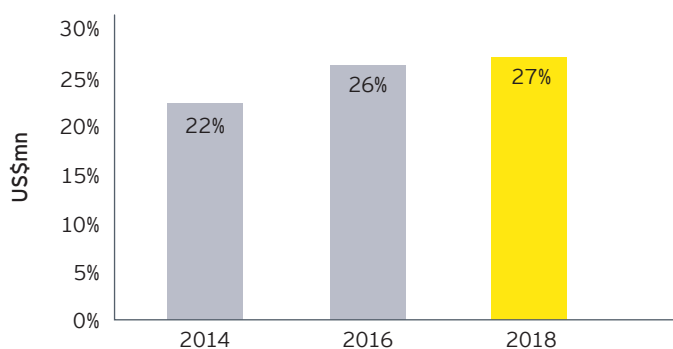


Energy transition

As more pressure is applied to contractors and their customers (the oil and gas producers) by investors, banks, employees and other stakeholders to transition towards greener energies, the industry is adapting to the transition, reducing its exposure to fossil fuels and growing its exposure to gas, green energies and renewables.

This is already being evidenced by the turnover for global OFS companies outside of upstream oil and gas activities, which was c.22% in 2014 and grew to c.27% in 2018.

Figure 3: **OFS companies turnover share from non-E&P activities**



Source: Rystad Energy ServiceCube

This trend is expected to accelerate over the next decade as OFS companies seek opportunities outside of their traditional oil and gas market in line with the changing energy demands.

Contractors could choose to follow existing customers as they pivot to other energy sectors, or determine which other industries require similar capabilities, where the OFS industry could deliver higher-value outcomes or lower cost of services to customers than current suppliers.

Smart strategic decisions will be vital. Companies will have to balance the risks and rewards of acting quickly to establish a market presence versus waiting to take advantage of lessons learned by first movers.

The reshaping of the oilfield services industry

The OFS sector is facing unprecedented disruption from technological revolution, energy transition and changes in customers' practices and landscape. This is occurring at a time when companies face immense pressure to enhance shareholder value and returns. Together, these are raising some important questions for OFS companies:

1. How can they adapt their capital allocation to the energy transition and portfolio optimisation strategies of their customers?
2. How can they get a larger piece of shrinking business opportunities, especially in the offshore sector?
3. How do they ensure they get an equitable share in efficiency savings likely to be enjoyed by their customer base?
4. How differently can they engage with their customers amid the latter's changing landscape and preferences?

The OFS sector needs a long-term strategy to wade through these challenging times. The time has never been more opportune than today to drive transformational changes in business models and ways of operating when after years of subdued activity levels, several indicators point towards an improving market outlook:

1. **Rise in rig activity, utilisation and day rates:** the international (outside North America) rig count registered the highest year-on-year increment of 11% in 2019 (until November 2019) since it began declining from 2015 onwards. This was led by a sharp rise of 21% in the offshore rig count, supported by a healthy growth of 9% in the onshore rig count. Offshore rig activity has been inching upwards translating into utilisation gains for rigs. Floaters utilisation bottomed in late 2018 and has since increased to c.70% driven by a combination of increased scrapping/stacking and fixture activity. Day rates have also increased by c.50% from the lows in late 2018 to over US\$200k/day, albeit still significantly below the peak levels of US\$600k/day in 2014.
2. **Increased volume of projects sanctioned:** in 2019, oil and gas projects representing around US\$200 billion of investments were sanctioned. According to Rystad Energy, as much as US\$225 billion worth of projects will be sanctioned, driven primarily by gas projects, and with US\$50 billion coming from onshore liquefied natural gas.

3. **Healthy project pipeline especially in the LNG space:** the LNG market is witnessing a supply boom of the scale that the industry has never witnessed before, with companies sanctioning 60+ MMTPA of projects in 2019. According to Wood Mackenzie, the industry is expected to invest US\$200+ billion between 2019 and 2025 on greenfield and brownfield LNG projects, bringing online another 180+ of MMTPA capacity.

In order to capitalise on the emerging opportunities and to win back investors' confidence, OFS companies will have to bring their house in order and create long-term sustainable business models. We see six trends reshaping their future:

1. Capital reduction and asset lightening, with companies decreasing capital intensity by shifting focus from building peak-demand capacity to meeting short and mid-cycle demand levels
2. A 'returns and growth' focused mindset, with companies shunning the mindset of chasing market share in favour of selecting work and clients that help them boost returns
3. More integrated offerings, with companies at the top end driving consolidation or entering into alliances and partnerships to increase their offerings
4. Technology-driven business models, with companies transforming themselves from selling just 'products' to selling advisory and analytics services that come with them, and therefore competing on areas other than price
5. Smaller, smarter and more flexible workforces, with companies focusing on finding the right balance between physical and digital labour, fixed and variable workforce
6. Energy diversification, with companies further diversifying into clean energy sources, renewables and other industry sectors

These trends will also influence future M&A transactions in a sector that is still considerably fragmented. Expanding product portfolio and geographic footprint as well as adding technologies to existing offerings will continue to be core themes driving M&A. Pursuit of asset-light business models and businesses that are returns-accretive will prompt companies to divest non-core, non-strategic assets. With digital technologies becoming a differentiator, OFS companies will seek technology partners to help support their ability to offer digital solutions to clients. Finally, companies will also explore inorganic growth to venture into alternative energy businesses.

While market conditions seem to be improving slowly, those companies able to seize the opportunities presented by energy transition and technological disruption will be the real winner in the reshaping of the oilfield services industry.



Celine Delacroix
EY Global Oilfield Services Leader

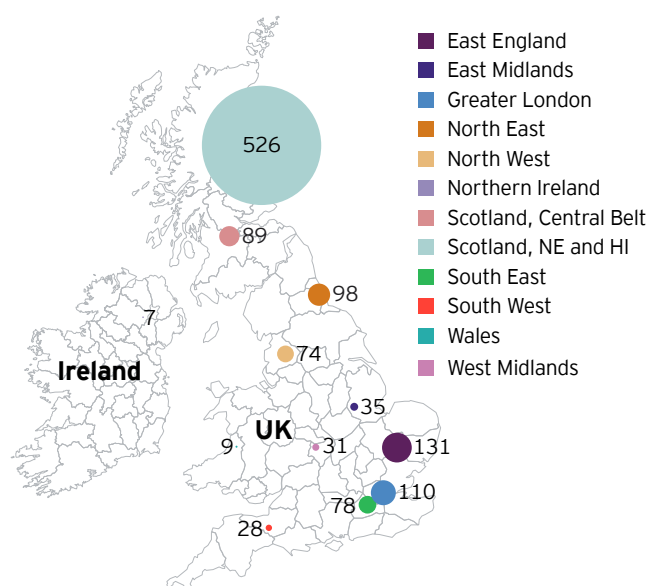


Andy Brogan
EY Global Oil & Gas Sector Leader

UK trends

The United Kingdom Continental Shelf (UKCS) is a proven hydrocarbon basin, supported by a well-established OFS industry. There are many leading OFS businesses located across the UK regions as shown below, which contributes to the UK being recognised as a world leader in the offshore OFS industry.

Figure 4: OFS companies by region



UKCS production

Production in 2018 was 619mn barrels, 4% higher than in 2017 and it has increased by 20% over the last five years. This was driven by major developments including Quad 204, Kraken and Catcher. Peak production from the fields that have commenced over the last five years is expected to account for c.50% of 2019 production and this demonstrates the importance of a pipeline of new opportunities to maintain production levels. New fields commencing production in 2019 included:

- ▶ **April 2019:** first oil from the Orlando field, which is tied back to the Ninian central platform.
- ▶ **May 2019:** first gas from the Culzean field, with gas exported via the CATS pipeline. At its peak, Culzean is expected to produce 5% of the total UK gas demand.
- ▶ **June 2019:** first oil from the Lancaster Early Production System, which is tied back to the Aoka Mizu FPSO.

- ▶ **August 2019:** first oil from the Mariner heavy oil field, following a number of delays. This is Equinor's first operated oil field in the UKCS and c.100 wells are expected to be drilled over the next 12-14 years.
- ▶ **December 2019:** first oil from the Barnacle field, which although located in the UKCS, is utilising infrastructure in the Norwegian North Sea.

There are a number of other developments underway including:

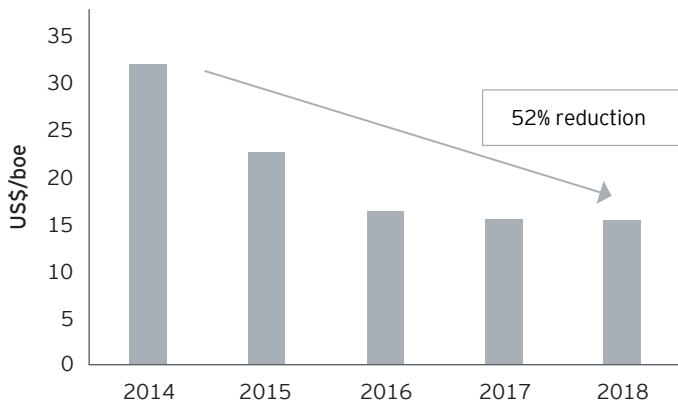
- ▶ **Shell's Penguins redevelopment,** required when Brent Charlie ceases production, will see an additional eight wells drilled and be tied back to a new FPSO vessel.
- ▶ **Nexen's Buzzard Phase two development,** a subsea development of the Buzzard northern area, that will be tied back to the existing Buzzard complex. First oil from the project is expected in the first quarter of 2021.
- ▶ **IOG's two phase plan for Blythe and the Vulcan Satellites,** with first gas planned for 2021.

Production is expected to be strong through to 2020 but the lack of new investment between 2015 and 2017 is expected to result in production declines between 2020 and 2022, given the typical lead time from development to first oil. As the UKCS is a mature basin, a large proportion of future new developments are expected to be smaller and linked to platforms and pipelines which are already in place, rather than through new infrastructure. However, as more fields cease production, the availability of the existing infrastructure may decline.

UKCS operating costs

2018 operating costs per barrel in the UKCS remained at 2017 levels of around US\$15/boe and are forecast to remain at this level in 2019. This is less than half of the 2014 operating cost per barrel (US\$32/boe) due to cost reductions by operators and the supply chain. In addition, the trend of improving production efficiency has continued and reached 75% in 2018, which was the highest level in a decade. This has been driven by improvement in several areas including reduction in shutdown overruns and a decline in export and well losses.

Figure 5: **Operating costs per barrel in the UKCS**



Within the UKCS, there is a range of operating costs by field due to the different environments in the basin and the age of the infrastructure. Yet only 7% of fields are expected to have unit operating costs exceeding US\$60/boe in 2019 as compared with 20% in 2014.

UKCS investment

2019 capital investment is forecast to be in line with 2018. However, there were at least 12 field approvals in 2019, continuing the trend in 2018 following three years of minimal activity.

There was a large volume of M&A activity in 2019 as major E&P companies looked to divest part of their UKCS portfolio including:

- ▶ **February 2019** – Marathon Oil's UK North Sea oil and gas fields were acquired by RockRose for US\$95m (completed in July 2019)
- ▶ **April 2019** – Chrysaor agreed to buy assets from ConocoPhillips in a US\$2.7bn deal
- ▶ **May 2019** – Ithaca Energy agreed to acquire Chevron North Sea Limited for US\$2bn
- ▶ **July 2019** – Total agreed to sell a number of assets acquired as part of its Maersk deal to Petrogas and Neo E&P for US\$635mn

In recent years, there have been examples of smaller, independent E&P companies being more efficient and extending field lives. Consequently, it is hoped the change of ownership should have a positive impact on the OFS supply chain.

In addition, Ineos announced in February 2019 it would invest £500 million in extending the life of the Forties Pipeline System (FPS) by at least 20 years. Although this will result in FPS being

shutdown for several weeks in 2020 to allow work to take place, a number of operators have delayed maintenance work planned for 2019 and scheduled it to be undertaken during the shutdown in 2020.

IR35 changes

In the oil and gas sector, many thousands of roles are supported by contractors. The contractual chain is often very complex and the challenges that arise from the upcoming IR35 changes include: determining who is actually the end user; reviewing contracts to ascertain what is actually in the contracts with regards to services; and giving consideration to what is in the contracts compared with what happens in reality with regards to for example, supervision, rights to substitution and provision of office space and equipment.

HMRC has advised it is still the intention the reform in relation to IR35 will take effect from April 2020 and should the end user determine that the contractor is within IR35, then the fee payer will be responsible for operating UK PAYE. As such, companies will be expected to have processes and procedure in place to assess their contractors.

Given the project driven nature of the business, the OFS supply chain will continue to have a demand for highly skilled independent contractors, to allow flexibility, mobility and to deal with the fluctuating demand. While the changes may result in some contractors that were previously outside IR35 now being within IR35 and as a result being liable to increased income taxes and national insurance liabilities, there will continue to be a significant number of contractors that are outside IR35 and will see no change.

Decommissioning

The global decommissioning market is expected to reach £67bn in the next decade and specialist decommissioning firms could give the UK a leading edge in this market. There are a number of actions that UK OFS companies should consider undertaking including:

- ▶ Focusing on maximising their share of the domestic market, building experience and filling capability gaps. There are more than 200 exploration and appraisal wells currently suspended that will need to be fully plugged and abandoned. In addition, cessation of production (COP) for at least 70 fields are expected to be submitted in the next five years
- ▶ Competing for decommissioning work in the Danish, Dutch and Norwegian sectors of the North Sea
- ▶ Targeting selected international markets, where the experience gained in the UKCS is relevant to the basin.

Energy transition

There are a number of projects underway in response to the change in attitudes towards oil and gas and the demand for cleaner energy. These include:

- ▶ A £1bn undersea energy cable to transmit renewable energy from the North of Scotland to the remainder of the UK
- ▶ Wood's project with Equinor to support its plans to power North Sea oil and gas platforms with offshore wind
- ▶ BP's study on the potential to power North Sea platforms in the Central North Sea and West of Shetland with green electricity A project aimed at converting North Sea platforms into hydrogen producers
- ▶ £12mn of funding from the European Union to support five three year Carbon Capture Usage and Storage (CCUS) projects

The UK has a target of reducing emissions by 80% of 1990 levels by 2050. The UK oil and gas sector has a part to play in this but from discussions with a number of companies throughout the OFS supply chain, there were very varied views on the current state including:

- ▶ Norway appears to more proactive than the UK, with companies receiving government support in relation to certain energy transition projects.
- ▶ Continued pricing pressure has resulted in minimal cash being available for R&D in relation to energy transition.
- ▶ Investment may be required to adapt equipment to allow it to be utilised in other sectors, such as renewables.
- ▶ Operators are typically not incentivising cleaner energy products with higher rates as compared to traditional products.
- ▶ Tenders are not requiring cleaner energy products or services.

Viewpoint

Viewpoint on the UK sector

Following three years of decreasing turnover, there was a welcome, albeit modest, return to growth in 2018, which we expect to continue into 2019 and 2020. Plenty of challenges remain, not least pricing, margins and returns, but there are also some positive tailwinds building, including investor appetite in the UKCS and an encouraging upturn in export activity.

Looking to the longer term, energy transition presents both a challenge and opportunity to the UK sector. Supporting customers to reduce carbon emissions from the production and use of oil and gas, helping develop carbon capture and hydrogen technologies, and expanding into alternative energy sources, such as wind, are all areas the UK is well placed to lead the world. Significant investment in infrastructure will also be required to facilitate the transition. Together with diversifying into adjacent industrial sectors, this can help the UK OFS sector mitigate environmental, social and governance (ESG) concerns and continue to attract investment and talent into the sector.

Smart strategic decisions will be vital: balancing investing for growth, whilst continuing to target cost reductions; identifying opportunities that offer sustainable long term higher returns and exiting lower margin activities; and assessing the risks and rewards of acting quickly versus waiting to take advantage of lessons learned by first movers.



Stuart White

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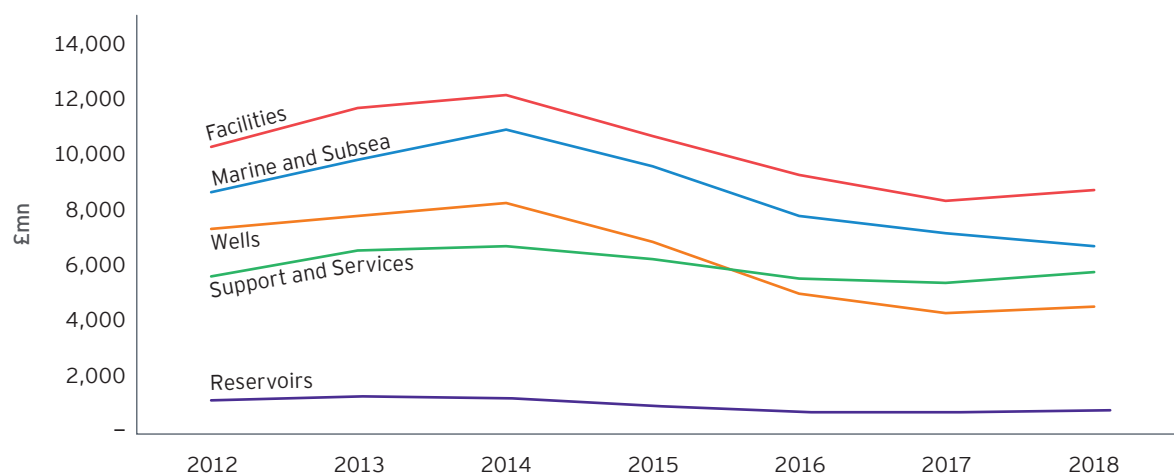
Summary of results

Figure 6: Summary of results 2012-18

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Number of companies	1,186	1,188	1,188	1,192	1,208	1,202	1,216
Reservoirs	1,189	1,335	1,259	994	748	767	856
Wells	7,315	7,758	8,240	6,855	4,971	4,284	4,496
Facilities	10,266	11,697	12,145	10,657	9,274	8,354	8,747
Marine and Subsea	8,623	9,829	10,911	9,575	7,821	7,142	6,664
Support and Services	5,612	6,556	6,697	6,208	5,564	5,345	5,723
Turnover	33,006	37,176	39,252	34,289	28,378	25,892	26,486
Growth trends – turnover	n/a	12.6%	5.6%	(12.6%)	(17.2%)	(8.8%)	2.3%
EBITDA	3,342	3,798	4,084	3,317	2,477	1,665	1,729
Reservoirs	13.1%	18.5%	8.4%	4.9%	5.2%	4.6%	9.0%
Wells	12.4%	12.8%	16.1%	17.9%	15.6%	14.5%	12.0%
Facilities	8.3%	7.8%	5.2%	4.8%	4.3%	3.1%	5.0%
Marine and Subsea	10.9%	10.7%	12.9%	10.1%	11.5%	7.1%	4.8%
Support and Services	8.6%	9.0%	9.0%	8.9%	6.5%	4.7%	6.2%
EBITDA margin	10.1%	10.2%	10.4%	9.7%	8.7%	6.4%	6.5%
Tax on profits	655	600	643	363	273	262	107
Number of employees	110,779	121,125	127,442	128,172	115,081	104,654	104,327
Wages	5,414	6,237	6,698	6,804	5,914	5,326	5,534

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.

Figure 7: 2012-18 revenue trends



Key highlights

For the first time since the downturn started, in 2018, the UK OFS sector experienced growth of 2% in turnover with a very small increase in margins. The market is recovering but slowly, with some signs of optimism across many of the subsectors, especially for those companies with broad geographic footprints, technological edges or who have successfully started to diversify.

EBITDA margin increased marginally in 2018 as pricing pressure continued and a large number of lower margin projects secured during the downturn were delivered.

The key trends by supply chain category are as follows:

- ▶ **Reservoirs** turnover increased by 12% in 2018 due to increased exploration activity. Higher contract pricing was achieved and a number of significant contracts were awarded. EBITDA margin increased by 4.4 ppt due to the impact of the substantial cost reductions in prior years. We would expect the 2019 results for the companies in this category to continue to show a recovery, driven by more 4D acquisition and demand for new seismic data. This is a market which has also restructured and consolidated and where competition is slightly less strong than in the past. The divisional results for the nine months to September 2019 for the listed parents of the top five companies in this segment showed gradual exploration market recovery in support of the development of new fields to counter production declines from existing fields, particularly in deepwater and ultra-deepwater reserves.
- ▶ The **Wells** segment experienced turnover growth of 5% between 2017 and 2018, due to improving oil and gas prices resulting in higher levels of drilling activity and increased demand for oil and gas equipment, parts and services. However, EBITDA margin decreased by 2.5 ppt, primarily driven by the decline in activity in the drilling contractors subsector, which could not be offset due to the relatively fixed nature of the cost base. The results from the listed parents of the top five companies for the nine months to September 2019 show 4.8% growth in turnover but a 3.1 ppt EBITDA margin decline due to the impact of the change in revenue mix and increased operations and maintenance costs associated with ultra-deepwater and harsh environment floaters. We would expect 2019 results for UK OFS companies to continue to be affected by pricing pressures but to continue the gradual recovery seen in 2018.
- ▶ Turnover for **Facilities** grew by 5% between 2017 and 2018, driven by contract renewals, multi-year contract awards and acquisitions. EBITDA margin also improved by 1.9 ppt due to successful project close outs, a change in revenue mix resulting from acquisitions positively impacting margin

and streamlining of operational costs. The listed parents of the top five companies results for the six months to June 2019 showed a 13% turnover growth due to the impact of acquisitions but only 0.5 ppt EBITDA margin improvement as cost synergies/reductions were offset by a change in project mix and cost overruns on challenging project executions. We would expect UK companies in the Facilities segment to continue to be affected by fierce competition in this market, although diversification into clean energy and decommissioning could provide growth opportunities.

- ▶ **Marine and Subsea** turnover continued to decline and decreased by a further 7% in 2018 due to sustained pressure on pricing, particularly in the North Sea. Large scale projects completed and were not replaced and a significant renewables project ended. EBITDA margin also declined by 2.3 ppt due to projects awarded during the downturn at significantly lower margins now being executed and higher third party lease costs being incurred. We would expect to see turnover continue to be impacted by low margin backlog being converted in 2019 and 2020, although the increase in FIDs in the UK in 2018 and 2019 could result in a gradual recovery. The lead times from FID to development however mean this may not result in significant growth in the near term.
- ▶ **Support and Services** turnover grew by 7% in 2018, with mixed results across the subsectors. The largest subsector, recruitment, experienced 15% growth due to an increase in activity outweighing projects demobilising in 2018. EBITDA margin also improved by 1.5 ppt as although the revenue growth in recruitment did not positively impact margins, lower operating costs resulted from favourable currency movements in the sea/air transport subsector. As the majority of the top five customers do not have listed parents, there is no financial information available in relation to 2019 trends. However, we expect these companies to follow the overall global listed trends, with gradual growth in 2019, given the levels of demand in the UK are not expected to increase significantly in the short-term.

Proportionally, the share of each category is also changing, with the importance of the Marine and Subsea and Wells sectors declining (from 49% of revenues in 2014 to 42% in 2018) and the Support and Services and Facilities sectors increasing (from 17% and 31% in 2014 to 22% and 33% respectively in 2018). This is driven by the trend towards doing more with the existing asset base rather than investing in new capex.

Geographic analysis of turnover

Figure 8: The analysis of turnover between UK and exports

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
UK	18,989	22,840	24,315	20,928	17,004	15,810	14,932
Exports	14,016	14,336	14,937	13,361	11,373	10,082	11,554
Turnover	33,006	37,176	39,252	34,289	28,378	25,892	26,486
Exports as percentage of turnover	42%	39%	38%	39%	40%	39%	44%

- ▶ 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. Although Reservoirs has historically been the most active in overseas markets, its exports as a percentage of turnover declined significantly in 2018 due to an increase in seismic services in the UKCS. 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.
- ▶ Exports consistently averaged around 40% of total activity between 2014 and 2017 but increased by £1.5bn (5 ppt) in 2018, the first monetary increase since 2014. This was driven by strategic overseas acquisitions and an increase in international activity for the recruitment and engineering, operation, maintenance and decommissioning contractors subsectors.
- ▶ It is encouraging that an upturn in export activity has been achieved in 2018, given the continued competition for capital. Although 2018 UKCS unit operating costs have decreased by 50% as compared to 2014, the UKCS is a mature basin with remaining discoveries likely to be smaller scale. As such, UK OFS companies must continue to focus on generating revenues from export activity or diversifying into other sectors to survive in the long-term.

Figure 9: 2018 UK and export turnover by supply chain category

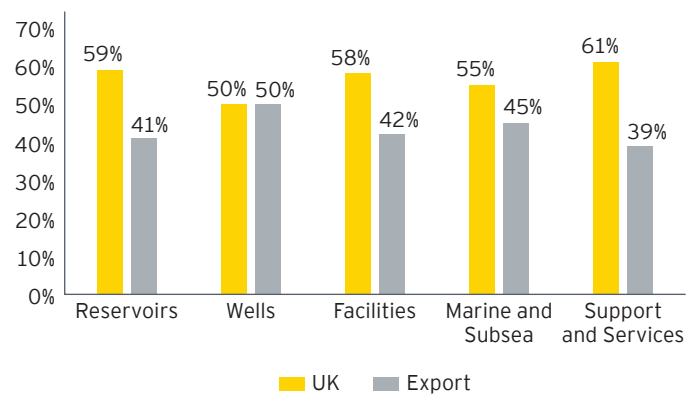
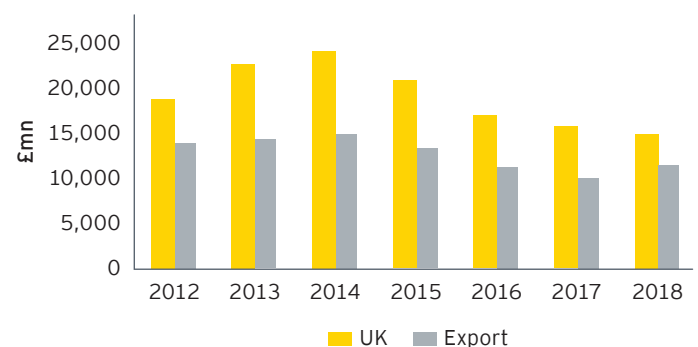
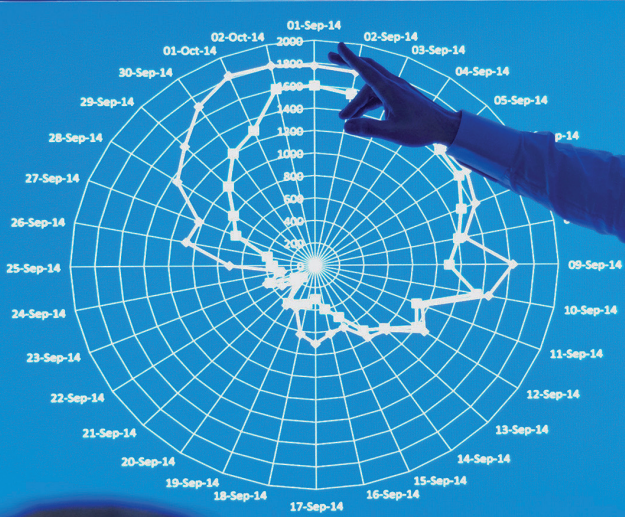


Figure 10: UK and export turnover 2012–18



Reservoirs



Reservoirs

Figure 11: UK upstream oil and gas supply chain subsectors



Figure 12: The analysis of Reservoirs turnover and EBITDA margin by subsector

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Seismic data acquisition and processing contractors	795	858	685	597	487	471	532
Geosciences consultancies	183	168	190	155	65	82	127
Data interpretation consultancies	101	175	229	112	94	122	100
Seismic instrumentation	109	134	155	131	102	93	97
Turnover	1,189	1,335	1,259	994	748	767	856
<i>Seismic data acquisition and processing contractors</i>	12.6%	19.8%	3.9%	6.0%	7.6%	0.4%	9.3%
<i>Geosciences consultancies</i>	11.3%	11.6%	14.1%	6.3%	5.4%	(0.2%)	4.5%
<i>Data interpretation consultancies</i>	21.4%	22.1%	14.3%	2.8%	(2.2%)	26.7%	22.7%
<i>Seismic instrumentation</i>	12.7%	14.0%	12.1%	(0.0%)	0.3%	1.2%	(0.2%)
EBITDA margin	13.1%	18.5%	8.4%	4.9%	5.2%	4.6%	9.0%

Summary of results

In 2018, the Reservoirs supply chain comprised 3% of the total UK upstream oil and gas supply chain turnover.

Figure 13: Summary of results 2012-18

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Number of companies	62	62	61	65	65	65	65
UK turnover	507	581	541	437	355	334	509
Export turnover	681	754	718	557	393	433	347
Total turnover	1,189	1,335	1,259	994	748	767	856
Growth trends – turnover	n/a	12.3%	(5.7%)	(21.0%)	(24.8%)	2.5%	11.7%
EBITDA	156	247	105	49	39	35	77
EBITDA margin	13.1%	18.5%	8.4%	4.9%	5.2%	4.6%	9.0%
Tax on profits	28	42	15	(1)	–	9	(1)
Number of employees	4,328	4,649	5,175	4,752	3,984	3,841	4,398
Wages	228	255	287	262	200	190	217

Key highlights of the Reservoirs supply chain category results

The large seismic acquisition vessel owning companies are mostly based in Europe (e.g., Norway, France). The UK companies in our analysis are not typically vessel owners and will lease vessels from their international parents when required and are more involved in either data processing, data interpretation, multi-client library data, other consultancy services or providing specialised seismic equipment.

2018 is the first year that we have seen significant growth in Reservoirs, following the impact of the oil price decline on investment levels in exploration activity in 2014. Although the sector is still challenging, market fundamentals appear to have improved and higher contract pricing was achieved compared to 2017. In addition, there were a number of significant contract wins and an increase in multi-client sales. However, there was a decline in the data interpretation consultancies subsector due to large scale prefunded projects in Gabon being of a smaller scale in 2018 as compared to 2017.

Export turnover as a percentage of total turnover has historically been the highest amongst all the supply chain categories. However, in 2018, it declined from an average of 56% (between 2012 and 2017) to 41%. This was driven by a decline in oversea

multi-client sales (e.g., Africa) and a reduction in activity in Europe, resulting in export revenue decreasing by 20% between 2017 and 2018. UK revenue grew by 52% over the same period, reflecting the improving UKCS market conditions.

Although EBITDA margin improved by 4.4 ppt between 2017 and 2018, there was variation across the subsectors. The largest growth was achieved by the seismic data acquisition and processing contractors and geosciences consultancies subsectors which were both positively affected by revenue growth and delivery of substantial cost reductions, following structural changes to simplify and streamline operations by a number of companies.

There was an increase of 557 employees in 2018, following three years of decreases as a result of redundancy programmes and structural organisational changes implemented by a number of companies in response to the decline in activity. The average salary was £49,000 in 2018, reflecting the skilled nature of the work. This was in line with 2017 but it remains lower than 2014 (£55,000) due to a number of companies introducing wage freezes and salary reductions since 2014.

Turnover increased by

12%

between 2017 and 2018

Export turnover accounted for

41%

of 2018 total turnover

Number of employees decreased by

777

between 2014 and 2018

Key trends in Reservoirs

Global

Between 2014 and 2018, Reservoirs has been one of the most affected segments due to the delays or cancellations of exploration programmes. After four years of reduced global E&P spending on seismic, growth is expected from 2019 onwards as more projects are approved to meet the increasing energy demand and crude oil prices increase.

Figure 14: **Listed Reservoir companies results for the period from January 2019 to September 2019 (9m2019) versus the period from January 2018 to September 2018 (9m2018)**

Currency: US\$m	9m2019	9m2018	Variance	Variance (%)
Turnover	7,992	7,871	121	1.5%
EBITDA	2,425	2,091	334	16.0%
EBITDA margin	30.3%	26.6%	3.8	n/a
Backlog (where disclosed)	4,187	3,861	326	8.4%

Where available, we have analysed the divisional results of the listed parents of the top five companies in the Reservoir supply chain category. There was a small increase in turnover in 9m2019 as compared to 9m2018, due to an improving market environment resulting from an upturn in exploration and production spending, with prices increasing as compared to 2018. The demand for 4D acquisition and new proprietary seismic data has increased during 9m19, underpinning the recovery.

EBITDA margins improved by 3.8 ppt as a result of increased utilisation, higher prices and the continued benefits from the restructuring activities carried out in 2016 and 2017. Companies are continuing to monitor their cost bases to ensure margin improvements can be maintained. The increase in backlog reflects the gradual recovery of the markets these companies are operating in.

As noted above, there has been a gradual recovery in 9m2019, as oil and gas companies look to maintain their reserve base and develop new fields in order to counter production decline from existing fields, particularly in deepwater and ultra-deepwater reserves. The increase in backlog supports this recovery and Reservoir companies are focused on bringing new technology to their clients for near field exploration, field development and reservoir optimisation needs to support E&P customers' digital agendas and the need to prioritise spending around quicker returns. The outlook for 2020 is for continued recovery, albeit this is expected to continue at a gradual rate.

UK

Exploration activity levels in the UK have declined significantly since 2014. To try to address this, the OGA generated a large volume of seismic from surveys in 2015 and 2016 that was made available to companies as part of the 31st bidding round that closed in November 2017. Further studies (in areas perceived as being relatively under explored), which were carried out as part of an industry collaboration and completed in the third quarter of 2018, were purchased by the OGA and made available in October 2019.

In addition, the OGA has purchased digital well data from CGG for an additional 2,235 E&A wells. These have been selected from across the UKCS to complement the existing digital well logs that the OGA has previously released either in support of licence rounds or as part of the Government Seismic Data initiatives.

The 32nd licencing round, which closed in November 2019, received more than 100 applications covering 245 blocks or part-blocks across the main producing areas of the UK North Sea and exceeded the level of interest in the 30th round awarded in 2018, which also covered more mature areas. The companies ranged from multinationals to new country entrants and awards are expected to be made in the second quarter of 2020.

There are also signs of an increase in seismic services being provided, such as the CGG seafloor survey in the CNS region that will capture over 2,000 square kilometres of data over a multi-year programme, with first results being expected in 2021.

As such, we would expect the recovery in 2019 to continue in 2020, driven by more 4D acquisition and generally higher demand for new seismic data. UK companies are continuing to refocus their activities and consolidate services to enable an integrated offering to customers. The continued M&A transactions in the North Sea could also trigger growth in multi-client late sales as these new players look to develop their portfolios.



4

Wells

Wells

Figure 15: UK upstream oil and gas supply chain subsectors

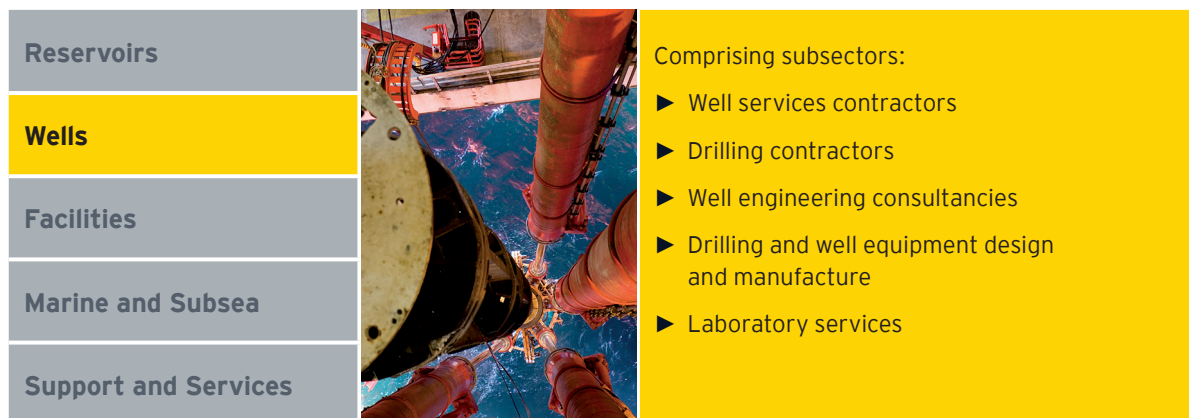


Figure 16: The analysis of Wells turnover and EBITDA margin by subsector

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Well services contractors	2,569	2,740	2,937	2,417	2,049	1,884	2,114
Drilling contractors	2,717	2,775	3,220	2,688	1,656	1,288	1,012
Well engineering consultancies	169	157	190	146	49	23	30
Drilling and well equipment design and manufacture	1,766	1,980	1,785	1,496	1,115	989	1,220
Laboratory services	94	107	108	108	102	102	119
Turnover	7,315	7,758	8,240	6,855	4,971	4,284	4,496
<i>Well services contractors</i>	12.7%	10.6%	12.3%	11.5%	8.7%	3.7%	5.3%
<i>Drilling contractors</i>	8.2%	10.3%	15.5%	23.6%	26.9%	32.2%	24.7%
<i>Well engineering consultancies</i>	8.3%	10.1%	15.6%	22.3%	22.6%	22.4%	16.3%
<i>Drilling and well equipment design and manufacture</i>	19.0%	19.7%	23.5%	17.8%	11.4%	12.2%	13.0%
<i>Laboratory services</i>	13.1%	14.9%	17.4%	15.7%	14.5%	10.5%	13.0%
EBITDA margin	12.4%	12.8%	16.1%	17.9%	15.6%	14.5%	12.0%

Summary of results

In 2018, the Wells supply chain comprised 17% of the total UK upstream oil and gas supply chain turnover.

Figure 17: Summary of results 2012-18

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Number of companies	160	162	161	164	164	163	164
UK turnover	3,446	3,858	4,390	3,733	2,613	2,283	2,260
Export turnover	3,869	3,900	3,850	3,121	2,358	2,002	2,236
Total turnover	7,315	7,758	8,240	6,855	4,971	4,284	4,496
Growth trends – turnover	n/a	6.1%	6.2%	(16.8%)	(27.5%)	(13.8%)	4.9%
EBITDA	909	996	1,330	1,229	777	620	541
EBITDA margin	12.4%	12.8%	16.1%	17.9%	15.6%	14.5%	12.0%
Tax on profits	170	122	207	127	74	45	32
Number of employees	18,376	20,556	20,441	19,119	16,076	14,522	15,642
Wages	1,012	1,157	1,247	1,206	986	896	999

Key highlights of the Wells supply chain category results

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 (c.65%) 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.

Apart from the drilling contractors subsector, all other Wells subsectors experienced revenue growth in 2018, the first time since 2014. This was driven by increased activity across multiple product lines and locations, with improving oil and gas prices resulting in higher levels of drilling activity and demand for oil and gas equipment, parts and services. However, the drilling contractor subsector experienced lower day rates (an element of which related to renegotiating existing contracts to extend the term at reduced rates) and an increase in idle time/warm stacking. Export revenue grew by 12% compared to 2017 due to an increase in activity in Middle East and Africa, which has resulted in one company seeking to establish a manufacturing facility in Saudi Arabia.

Despite the revenue growth in 2018, EBITDA margin declined by 2.5 ppt, with variation across the subsectors. Although there is continued competition for contracts, several companies have been successful in reducing their cost bases in response to this to ensure margins are maintained. However, this was more than offset by the impact of the margin decline in the drilling contractor subsector. This subsector has the highest margin as a number of the drilling contractor companies are fleet owners (as opposed to incurring bareboat charter expenses) and can generate EBITDA margins in excess of 70% when the fleet is highly utilised, due to the relatively fixed low cost base. However, there was a 7.5 ppt margin decline in 2018 as there was minimal scope to reduce the cost base in response to the decrease in utilisation and day rates.

Employees increased by 1,120 between 2017 and 2018, albeit this is still 4,799 lower than 2014, following organisations right sizing their operations during the period of lower activity levels. The average salary in 2018 was £64,000, an increase of 3% as compared to 2017. This is in line with 2015, prior to companies implementing wage freezes or minimal annual increases. Due to the specialist nature of a large number of the subsectors, Wells average salary is the highest out of all the supply chain categories.

Turnover increased by

5%

between 2017 and 2018

Export turnover accounted for

50%

of 2018 total turnover

Number of employees decreased by

4,799

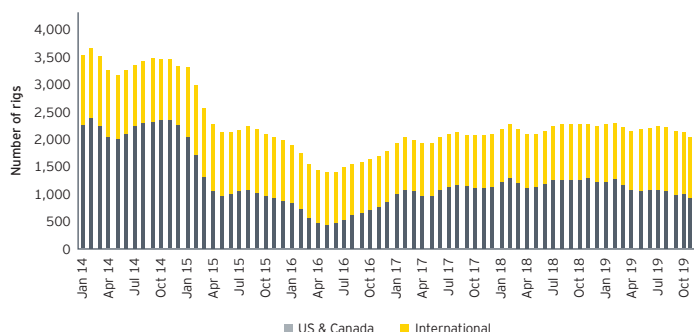
between 2014 and 2018

Key trends in Wells

Global

Oil price declines typically result in a reduction in drilling activity and excess supply, with a knock-on effect on day rates. Although the number of active rigs stabilised in 2018 and 2019 as can be seen from Figure 18, current levels are still well below the over 3,500 active rigs in January 2014, meaning a large number are still stacked or have been scrapped.

Figure 18: **Worldwide rig count for January 2014 to November 2019**



Source: Baker Hughes Incorporated

Figure 19: **Listed Wells companies results for the period from January 2019 to September 2019 versus the period from January 2018 to September 2018**

Currency: US\$m	9m2019	9m2018	Variance	Variance (%)
Turnover	20,895	19,939	957	4.8%
EBITDA	1,923	2,450	(526)	(21.5%)
EBITDA margin	9.2%	12.3%	(3.1)	n/a
Backlog (where disclosed)	43,753	44,661	(908)	(2.0%)

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 5% improvement in turnover as the contraction in the North American market (lower land rig count, reduced drilling and wireline activity and lower demand for short-cycle products and services) has been more than offset by growth in international activity in locations such as Russia, China and Australia. However, despite the revenue growth, 9m2019 EBITDA margin reduced by 3 ppt due to the impact of change in revenue mix and increased operations and maintenance costs associated with ultra-deepwater and harsh environment floaters. Backlog has shown a small decline but remains at a healthy level.

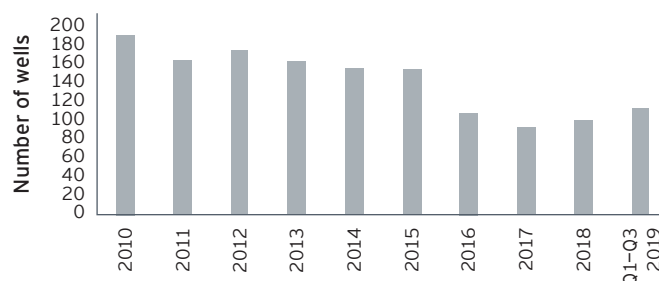
In the Wells segment, listed parents consider the structural efficiency gains achieved over the last five years have substantially improved the economics of offshore development

projects and means break-even prices for these developments now compare favourably with many onshore shale prospects. This has positively impacted customers investment decisions and drilling services opportunities have continued to increase in 2019. The long term view of the market is positive as tender activity has increased and demand driven dayrates are starting to improve, particularly for the latest generation and highest capability units. The risks of drilling project delays, contract renegotiations and contract terminations and cancellations seen up to 2018 appear to have diminished as project economics improve and the recovery seen in 2019 is expected to continue into 2020 and beyond.

UK

Drilling activity in the UKCS declined from 2014 but there are positive signs in 2019 (see Figure 20), with the number of wells drilled increasing from c.100 in 2018 to 114 for the 9 months to September 2019. Exploration and appraisal is still occurring at far lower levels than in previous years as companies focus on development rather than new exploration or move out of the UKCS altogether. Yet there has been an increase in activity in 2019 (c.25 E&A wells expected in 2019 compared to 17 in 2018) and it appears that companies are drilling 'high impact' prospects (wells with a greater degree of risk but with a higher pay-off (100mn barrels or more)). Although there have been a number of unsuccessful wells, the Glengorm exploration well drilled in January 2019 has been estimated at 250mn boe and is the UKCS's largest gas find since Culzean in 2008. In addition, the West of Shetland is the least developed and least mature area on the UKCS and has the largest exploration potential for significant new finds, with recent Hurricane (and BP and Total previously) discoveries supporting this.

Figure 20: **Drilling activity on the UKCS from 2010 to September 2018**



Source: OGA

We would expect the 2019 results for the companies in the Wells supply chain to continue to be affected by rig rate and pricing pressures but the increase in exploration drilling activity, new developments approved by the OGA and the number of planned developments in 2019 should result in the continued gradual recovery for this sector.



Facilities

Facilities

Figure 21: UK upstream oil and gas supply chain subsectors


Reservoirs		<p>Comprising subsectors:</p> <ul style="list-style-type: none"> ▶ Engineering, operation, maintenance and decommissioning contractors ▶ Engineering consultants ▶ Structure and topside design and fabrication ▶ Machinery/plant design and manufacture ▶ Engineering support contractors ▶ Specialist engineering services ▶ Specialist steels and tubulars ▶ Inspection services
Wells		
Facilities		
Marine and Subsea		
Support and Services		

Figure 22: The analysis of Facilities turnover and EBITDA margin by subsector

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Engineering, operation, maintenance and decommissioning contractors	4,678	5,247	5,114	4,528	4,010	3,420	3,568
Engineering consultants	330	341	369	320	244	184	183
Structure and topside design and fabrication	462	524	651	519	404	412	278
Machinery/plant design and manufacture	2,179	2,069	2,388	2,030	1,821	1,702	1,733
Engineering support contractors	1,146	1,302	1,383	1,372	1,122	1,169	1,388
Specialist engineering services	739	1,013	1,256	1,053	845	825	834
Specialist steels and tubulars	366	791	565	484	524	342	465
Inspection services	365	411	418	351	303	301	299
Turnover	10,266	11,697	12,145	10,657	9,274	8,354	8,747
<i>Engineering, operation, maintenance and decommissioning contractors</i>	6.2%	5.5%	(0.8%)	1.0%	3.3%	2.4%	3.8%
<i>Engineering consultants</i>	3.4%	2.1%	1.1%	(2.6%)	1.6%	(12.2%)	(7.7%)
<i>Structure and topside design and fabrication</i>	8.2%	9.9%	8.3%	1.7%	(1.5%)	(10.2%)	0.1%
<i>Machinery/plant design and manufacture</i>	12.9%	13.8%	11.6%	8.6%	5.8%	5.1%	4.8%
<i>Engineering support contractors</i>	7.0%	7.2%	7.8%	7.0%	6.3%	5.3%	8.3%
<i>Specialist engineering services</i>	10.1%	9.6%	11.0%	12.2%	3.9%	2.8%	4.8%
<i>Specialist steels and tubulars</i>	4.7%	4.6%	4.5%	3.5%	3.4%	6.5%	7.3%
<i>Inspection services</i>	15.0%	14.8%	16.6%	14.7%	13.2%	14.8%	13.5%
EBITDA margin	8.3%	7.8%	5.2%	4.8%	4.3%	3.1%	5.0%

Summary of results

In 2018, the Facilities supply chain comprised 32% of the total UK upstream oil and gas supply chain turnover.

Figure 23: **Summary of results 2012-18**

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Number of companies	421	423	423	421	430	425	434
UK turnover	6,955	8,199	8,287	7,062	5,975	5,174	5,030
Export turnover	3,311	3,498	3,857	3,595	3,299	3,179	3,717
Total turnover	10,266	11,697	12,145	10,657	9,274	8,354	8,747
Growth trends – turnover	n/a	13.9%	3.8%	(12.3%)	(13.0%)	(9.9%)	4.7%
EBITDA	849	918	636	514	395	256	437
EBITDA margin	8.3%	7.8%	5.2%	4.8%	4.3%	3.1%	5.0%
Tax on profits	171	138	113	53	34	88	59
Number of employees	52,054	53,616	56,381	56,965	52,330	47,309	46,183
Wages	2,400	2,674	2,867	2,883	2,617	2,405	2,463

Key highlights of the Facilities supply chain category results

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. 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 25% 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 nearly 70% of its 2018 turnover was from exports.

Turnover growth of 5% was achieved in 2018, following three years of decline. This was driven by the specialist steels and tubulars subsector (36% growth) due to the delivery of a large project and a greater volume of tubing being supplied internationally, the engineering support contractors subsector (19% growth) as a result of the impact of acquisitions, increased levels of project work and new contract awards and the engineering, operation, maintenance and decommissioning contractors (EOMD) subsector (growth of 4%) following an increase in project activity through contract renewals and new

multi-year projects being awarded. However, this was offset by a 33% turnover decline in the structure and topside design and fabrication subsector due to excess fabrication capacity and fierce competition, which is expected to continue in the foreseeable future.

EBITDA margin for Facilities is the lowest out of all the supply chain categories, primarily due to the low margin multi-year duty holder contracts that a large number of players operate under. EBITDA margin improved by 1.9 ppt in 2018 due to successful project close outs, a change in the revenue mix due to acquisitions positively impacting margin and streamlining of operational costs.

There has been a reduction of over 10,000 employees between 2014 and 2018, as the companies that report headcount reduced their workforce in response to the contraction in activity. The average salary in 2018 was £53,000, an increase of 5% as compared to 2017. There is a significant fluctuation between average salaries across the subsectors within Facilities, with employees involved in the more specialised niche subsectors typically receiving higher salaries.

Turnover increased by

5%

between 2017 and 2018

Export turnover accounted for

42%

of 2018 total turnover

Number of employees decreased by

10,198

between 2014 and 2018

Key trends in Facilities

Global

Figure 24: **Listed Facilities companies results for the period from January 2019 to June 2019 (1H2019) versus the period from January 2018 to June 2018 (1H2018)**

Currency: US\$m	1H2019	1H2018	Variance	Variance (%)
Turnover	13,512	11,947	1,565	13.1%
EBITDA	955	788	168	21.3%
EBITDA margin	7.1%	6.6%	0.5	n/a
Backlog (where disclosed)	12,022	14,366	(2,344)	(16.3%)

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 9m2019, we have compared the results for the first six months for each of 2018 and 2019.

There has been a 13% improvement in turnover, primarily driven by the impact of WorleyParsons acquisition of the Energy, Chemical and Resources division of Jacob Engineering Group Inc. Phasing of capital projects continues to impact the revenue trends for the remaining companies, both positively and negatively.

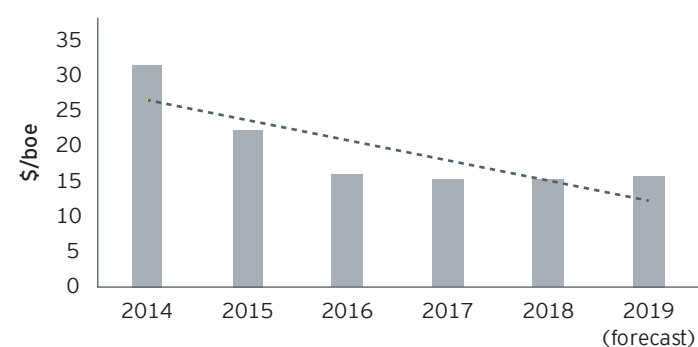
Although there was significant turnover growth in 1H2019, there was only a small improvement in EBITDA margin as the turnover impact from the WorleyParsons acquisition did not translate to margin improvement. However, this is expected to deliver US\$130mn to US\$150mn of cost synergies within the next two years and should translate to margin improvement in 2020. The remaining companies improved margins through cost synergies/reductions but this was offset by project mix and cost overruns.

Backlog is only available for two companies and this has shown a decline of around 16% for 1H2019 compared to 1H2018, due to low order intake in recent years by one of the companies. For those not disclosing backlog, there appears to be greater visibility in short term revenue (2H2019) with one company noting that over 80% of 2019 forecast revenue had been delivered or secured at Jun19. Although tendering activity is high, the market and pricing for new awards remains very competitive but there are signs of growth in markets such as Brazil, Africa and Asia-Pacific where key projects are expected to be awarded in the next six to twelve months.

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 25: **UKCS unit operating costs 2014-19**



Unit operating costs (UOC) declined from US\$31.7/boe in 2014 to US\$15.3/boe in 2018 as a result of cost reduction and efficiency initiatives implemented and are expected to remain around US\$15-16/boe in 2019. As oil prices have stabilised, there is a risk of cost escalation as demand increases and the market tightens. Given the scale of cuts to date and the requirement for margins to improve for OFS companies (as the current level is unlikely to be sustainable in the long-term), to ensure UOCs are maintained and the UKCS remains a competitive basin for capital investment, there will be ever more pressure to ensure the potential benefits are maximised from opportunities, such as greater digitalisation, new ways of working and new contract models between the operators and the supply chain.

We would expect 2019 results for the companies in the Facilities supply chain segment to continue to be affected by the fierce competition, although there will be a level of protection from the number of long-term contracts that are in place. New opportunities through diversification into clean energy (e.g., Wood's multi-million pound deal with Equinor to support its plans to power North Sea oil and gas platforms with offshore wind) or into the decommissioning market, supported by the investment at several quaysides (e.g., Methil), could also generate growth in this sector.



Marine and Subsea

Marine and Subsea

Figure 26: UK upstream oil and gas supply chain subsectors

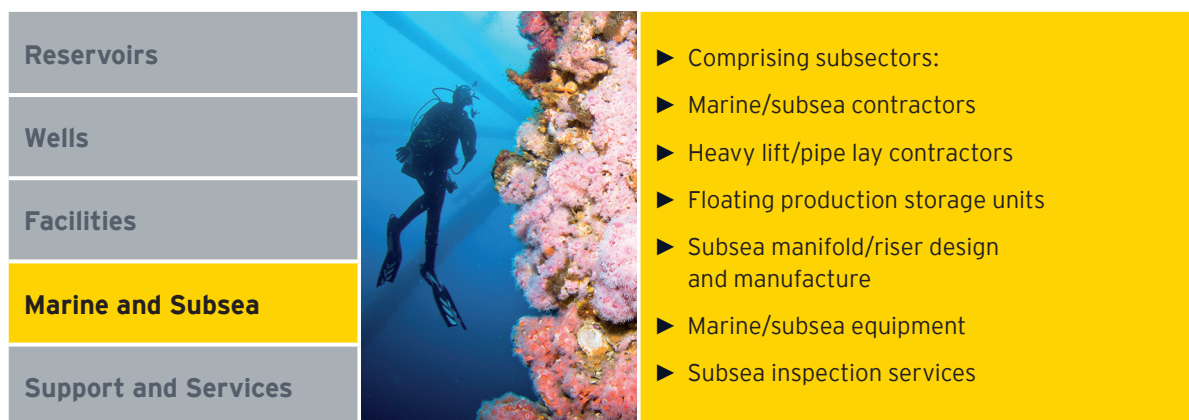


Figure 27: The analysis of Marine and Subsea turnover and EBITDA margin by subsector

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Marine/subsea contractors	4,984	5,467	6,013	5,131	4,227	4,311	3,903
Pipe lay/heavy lift contractors	91	94	56	25	10	4	–
Floating production storage units	283	478	438	443	384	337	351
Subsea manifold/riser design and manufacture	70	79	94	75	50	41	49
Marine/subsea equipment	3,008	3,496	4,092	3,688	2,971	2,284	2,179
Subsea inspection services	187	215	219	212	179	166	182
Turnover	8,623	9,829	10,911	9,575	7,821	7,142	6,664
Marine/subsea contractors	13.6%	11.5%	14.7%	12.3%	11.3%	10.2%	4.8%
Pipe lay/heavy lift contractors	4.9%	5.1%	5.8%	7.8%	1.7%	(9.5%)	n/a
Floating production storage units	(33.1%)	(6.7%)	(8.3%)	(4.5%)	1.7%	(3.8%)	7.4%
Subsea manifold/riser design and manufacture	23.1%	24.6%	19.8%	2.3%	(9.1%)	(16.5%)	(14.9%)
Marine/subsea equipment	10.8%	11.6%	12.6%	9.4%	14.2%	3.3%	4.8%
Subsea inspection services	6.8%	11.4%	9.8%	3.8%	1.3%	4.9%	5.4%
EBITDA margin	10.9%	10.7%	12.9%	10.1%	11.5%	7.1%	4.8%

Summary of results

In 2018, the Marine and Subsea supply chain comprised 27% of the total UK upstream oil and gas supply chain turnover.

Figure 28: Summary of results 2012-18

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Number of companies	185	184	187	188	190	190	192
UK turnover	4,332	5,750	6,547	5,345	4,004	4,189	3,639
Export turnover	4,292	4,079	4,364	4,231	3,817	2,953	3,025
Total turnover	8,623	9,829	10,911	9,575	7,821	7,142	6,664
Growth trends – turnover	n/a	14.0%	11.0%	(12.2%)	(18.3%)	(8.7%)	(6.7%)
EBITDA	943	1,047	1,408	970	903	504	318
EBITDA margin	10.9%	10.7%	12.9%	10.1%	11.5%	7.1%	4.8%
Tax on profits	213	204	213	118	118	87	(8)
Number of employees	19,418	23,841	25,786	25,324	22,677	19,746	19,149
Wages	982	1,257	1,302	1,356	1,107	905	912

Key highlights of the Marine and Subsea supply chain category results

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.

Unlike the other supply chain categories, Marine and Subsea turnover continued to decline, with a further 7% turnover reduction in 2018. A large number of companies were negatively impacted by reduced demand for onshore and offshore OFS services and products, continued pressure on pricing (particularly from North Sea customers), a decrease in international activity due to the completion of large projects that were not replaced (e.g., in North Africa) and the completion of a large windfarm project (turnover impact was decline of £363mn). However, this was offset by a number of companies that generated increased revenues in 2018 due to diversification outside of traditional oil and gas projects, such as installing jackets and topsides for a renewables project and the removal of topsides as part of the dismantlement of a UKCS platform.

EBITDA margin declined by 2.3 ppt between 2017 and 2018, driven by the marine/subsea contractors subsector. This was a result of continued pricing pressure, increased costs due to the risk/reward compensation mechanism in one of the large companies, higher lease costs due to additional third party equipment being utilised and delivery of projects awarded during the downturn at significantly lower margins. This was partially offset by the marine/subsea equipment subsector due to the successful close out of completed projects and improved performance in execution compensating against margin pressure on new orders. Across all subsectors, it appears there is limited scope for any further significant cost base reductions, given the level of cuts in prior years.

Although there was a small decline in headcount in 2015 as the initial headcount restructuring involved decreasing contractor numbers, there has been a decrease of over 6,000 employees between 2015 and 2018 in response to the contraction in activity. The average salary in 2018 was £48,000, a decline of 11% compared to 2015 due to salary reductions and wage freezes, although there has been a 4% increase between 2017 and 2018.

Turnover decreased by

39%

between 2017 and 2018

Export turnover accounted for

45%

of 2018 total turnover

Number of employees decreased by

6,637

between 2014 and 2018

Key trends in Marine and Subsea

Global

The oil price decline resulted in a sharp reduction in global capital expenditure in 2015 and 2016, with only a minimal recovery between 2017 and 2019. However, a number of major Final Investment Decisions (FID) were reached in 2019, resulting in an increase in tendering and contract awards.

Figure 29: **Listed Marine and Subsea companies results for the period from January 2019 to September 2019 versus the period from January 2018 to September 2018**

Currency: US\$m	9m2019	9m2018	Variance	Variance (%)
Turnover	31,887	31,223	664	2.1%
EBITDA	2,738	2,797	(58)	(2.1%)
EBITDA margin	8.6%	9.0%	(0.4)	n/a
Backlog (where disclosed)	124,480	118,006	6,474	5.5%

We have analysed the divisional results of the listed parents of the top five companies in the Marine and Subsea supply chain category. Between 9m2018 and 9m2019, there has been a 2% increase in turnover driven by increased activity in early engineering, technology and integrated services, offset by lower activity in renewables and heavy lifting sectors reflecting the timing of awards and increased competition for foundation installation projects.

The turnover growth did not convert into EBITDA margin, which declined by 0.4 ppt. This was due to the delivery of more lower margin projects that were awarded during the downturn, increased competition for heavy lifting services negatively impacting margins and a higher portion of contracts at an early stage. This was partly offset by operational improvements and digital applications becoming commercialised.

We have also analysed backlog and this has shown an improvement of 5.5% for 9m2019 against 9m2018. There have been signs of increased capital spending, particularly on ROVs, in line with the projected higher activity in 2020. This is supported by the visibility of significant commercial opportunities in the near term, increased order levels and completed projects being replaced by a number of new packages of work. The outlook is a gradual recovery as larger greenfield oil and gas projects are sanctioned and demand increases for offshore wind farm construction and deepwater SURF activity.

UK

Figure 30: **Selected UKCS projects reaching Final Investment Decision (FID) in 2018 and 2019**

Project	Operator	Stage	Expected start-up	Concept
Penguins	Shell	FID	TBC	Redevelopment
Alligin	BP	FID	2020	Tie back to Schiehallion and Loyal subsea infrastructure
Buzzard Phase 2	Nexen	FID	2021	Subsea development tied back to existing Buzzard complex
Seagull	Neptune Energy	FID	2021	Tie back to ETAP Central Processing Facility
Blythe and Vulcan Satellites	IOG	FID	2021	Platform
Cambo	Siccar Point Energy	Environment statement submitted to OGA	2023	FPSO
Laverda	Premier	Environment statement submitted to OGA	2021	Tie back to Catcher FPSO

Although a number of large scale developments have completed in recent years, there has been an increase in the number of projects reaching FID or submitting their environment statement in 2018 and 2019, a selection of which are noted above. It is believed FID could be reached on as many as 38 new offshore projects over the next three years, with the developments varying in magnitude and complexity. In the short-term, the majority of projects are expected to be satellite and tie-back brownfield projects of a small to medium scale.

Companies in the Marine and Subsea supply chain segment continue to be affected by projects awarded during the downturn that were competitively priced and which are now being executed. However, there was an increase in FIDs in the UK in 2018 and 2019, as well as globally, which could result in a gradual recovery, although given lead times from FID to development, this may not result in significant growth in the near-term.

Support and Services



Support and Services

Figure 31: UK upstream oil and gas supply chain subsectors



Figure 32: Analysis of Support and Services turnover and EBITDA margin by subsector

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Catering/facility management	184	199	242	251	216	202	198
Sea/air transport	836	862	803	949	845	771	757
Warehousing/logistics	912	964	947	764	684	776	877
Communications	190	167	176	145	132	131	125
Recruitment	2,249	2,920	2,972	2,603	2,354	2,071	2,372
Training	43	47	64	53	40	38	32
Health, safety and environmental services	531	592	654	707	585	592	557
Energy consultancies	421	492	499	430	402	407	394
IT hardware/software	247	313	340	305	306	358	410
Turnover	5,612	6,556	6,697	6,208	5,564	5,345	5,723
Catering/facility management	7.9%	6.7%	6.1%	8.3%	7.4%	5.3%	3.4%
Sea/air transport	9.2%	9.0%	10.5%	7.8%	1.7%	(11.6%)	(4.3%)
Warehousing/logistics	4.2%	4.4%	4.2%	5.0%	5.7%	4.2%	2.9%
Communications	9.6%	16.5%	19.6%	15.8%	5.7%	9.5%	20.8%
Recruitment	3.3%	3.3%	2.9%	2.9%	1.8%	1.8%	2.1%
Training	21.3%	21.5%	21.3%	11.6%	(0.1%)	2.5%	8.8%
Health, safety and environmental services	14.0%	15.9%	15.3%	17.7%	17.0%	12.6%	13.9%
Energy consultancies	29.2%	30.6%	31.2%	30.6%	25.1%	26.2%	30.2%
IT hardware/software	22.4%	24.7%	22.6%	19.4%	14.6%	17.5%	19.9%
EBITDA margin	8.6%	9.0%	9.0%	8.9%	6.5%	4.7%	6.2%

Summary of results

In 2018, the Support and Services supply chain comprised 21% of the total UK upstream oil and gas supply chain turnover.

Figure 33: Summary of results 2012-18

Currency: £mn	2012	2013	2014	2015	2016	2017	2018
Number of companies	358	357	356	354	359	359	361
UK turnover	3,749	4,451	4,551	4,351	4,059	3,830	3,494
Export turnover	1,863	2,105	2,147	1,857	1,505	1,515	2,230
Total turnover	5,612	6,556	6,697	6,208	5,564	5,345	5,723
Growth trends – turnover	n/a	16.8%	2.2%	(7.3%)	(10.4%)	(3.9%)	7.1%
EBITDA	484	590	605	555	363	249	357
EBITDA margin	8.6%	9.0%	9.0%	8.9%	6.5%	4.7%	6.2%
Tax on profits	72	95	95	66	47	34	26
Number of employees	16,603	18,463	19,659	22,012	20,014	19,236	18,955
Wages	791	894	995	1,097	1,005	931	942

Key highlights of the Support and Services supply chain category results

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 7% in 2018, with four of the subsectors achieving growth and five subsectors declining.

- ▶ The largest subsector, recruitment, experienced a 15% increase in turnover due to the growth in the market outweighing the number of large projects demobilising. It was also positively impacted by a change in reporting period, resulting in 18 months of activity being reported in 2018 as compared to nil in 2017 (turnover impact of £170mn in 2018)
- ▶ The warehousing subsector achieved 13% growth due to an increase in direct fuel sales (note: there is minimal markup on these sales)

EBITDA margin improved by 1.5 ppt but again there was variation across the subsectors. Within the largest subsector, recruitment, EBITDA margin was flat despite the revenue growth, due to continued pressure on rates. The largest improvement was achieved in the sea/air transport subsector, where the impact of exchange rate movements on the cost base resulted in £65mn lower operating costs.

The agency staff contracted out by the recruitment subsector are not included in our analysis of employees and only management and administrative employees are included. For the remaining subsectors, the increase in 2015 primarily related to the catering/facility management subsector that flexes headcount to match activity levels. There was a sharp reduction in headcount in 2016 (which has continued in 2017 and 2018) due to right sizing of organisations. There is a wide variation in average salaries within Support and Services subsectors, with employees typically receiving lower salaries in the catering, training and warehousing/logistics subsectors, compared with the highest average salaries received in the sea/air transport and energy consultancies subsectors.

Turnover increased by

7%

between 2017 and 2018

Export turnover accounted for

39%

of 2018 total turnover

Number of employees decreased by

3,057

between 2015 and 2018

Key trends in Support 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. However, in general, our analysis has historically shown these companies will typically follow the trends of the global listed OFS companies.

Recruitment

The global recruitment market is forecast to achieve 14% CAGR growth over the next five years. When a business expands internationally or conversely when it needs to retrench a workforce during a downturn, the related costs can be significant. Companies are choosing to outsource their recruitment processes to streamline the exercise and reduce operating costs and this is set to continue. There has also been a shift from CV based assessments and competency-based interviews to recruitment focusing on employing a candidate based on his/her performance on a practical assessment. This skills-based assessment is intended to remove bias from the process and the number of companies using this has increased.

With the upturn in activity in 2018, UK OFS companies could potentially face skills shortages in future years due to:

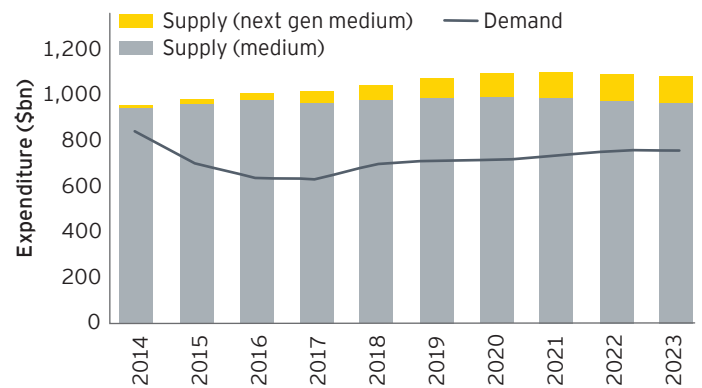
- ▶ Shortage of contractors due to the impact of IR35 legislation
- ▶ Lack of technical knowledge as a result of the redundancy programmes
- ▶ New skills being required due to digitalisation
- ▶ Climate change agenda and lack of attractiveness of the oil and gas sector to the next generation

Recruitment companies could be well placed to assist companies to maintain a flexible workforce if they can ensure their resource pool has the skillset needed, at competitive rates.

Sea/air transport

As a result of over-ordering during the peak oil and gas years, the offshore helicopter market continues to be underutilised and this is not predicted to improve significantly in the period up to 2023. Unlike rigs, which can rust, lose their technical edge and eventually get scrapped if they are not being used, helicopters can be mothballed and rolled out for use, in line with the industry's cycles over several decades. As such, given the long service life of helicopters, little can be done in the short-term to alter reduced rates and over-capacity.

Figure 34: **Global O&G helicopter supply and demand of medium class 2014-2023**



Source: Westwood

The opportunities for helicopter companies appear to be:

- ▶ In underdeveloped areas such as East Africa as developments in deepwater should increase the requirement for helicopters as they are less attractive to supply from ships
- ▶ Outside of the traditional oil and gas sector, into areas such as offshore wind as servicing turbines often requires helicopters. Out of the c.2,000 helicopters servicing oil and gas, less than 100 are working in offshore wind

In the UK, cost cutting has resulted in a change in rotas, which has decreased the number of trips and fewer people are being required to man offshore installations. As such, UK sea/air transport companies will need to proactively expand their geographic footprint and diversify to benefit from the forecast international growth, given the levels of demand in the UKCS are not expected to increase significantly in the short-term.

Comparison with the Norwegian oilfield services sector



Comparison with the Norwegian oilfield services sector

Figure 35: **Summary of results**

(All data for 2018 and in £ billion unless stated otherwise)

	UK	Norway*
Number of companies**	520	1,136
Number of employees	102,601	93,623
Turnover	26	28
Turnover growth 2017 to 2018	2%	6%
Exports as a percentage of turnover (estimated)	44%	n/a
EBITDA	1.7	1.7
EBITDA margin	6%	6%

* The exchange rate used to convert the Norwegian data is NOK10.9 per £

** Only companies with turnover greater than £10mn in any year from 2013 to 2018 are included

Figure 36: **2013-18 revenue trends – UK**

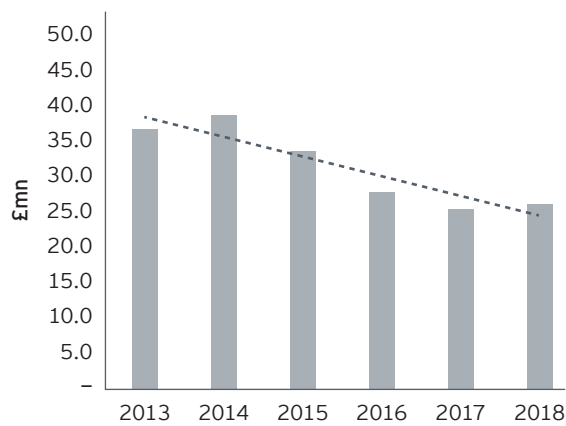
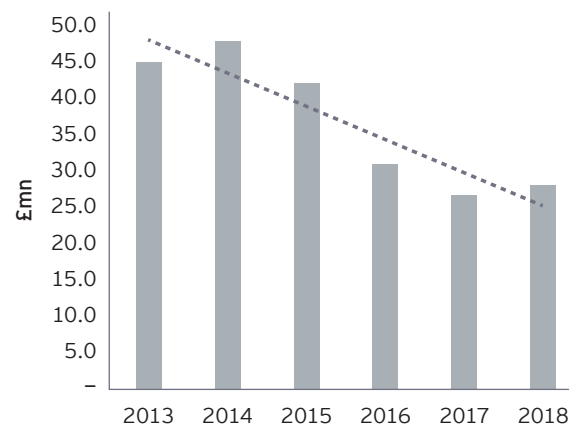


Figure 37: **2013-18 revenue trends – Norway**



Viewpoint

The tables have turned

After several years of revenue decline following the O&G downturn, we observed that the sharp dip in revenues from 2015 to 2016 had to a certain degree flattened out. In 2018, the OFS market saw increasing revenues, finally turning the long-lasting downturn. Our report shows that aggregate revenues have increased by 5.9% in 2018, mostly driven by higher activity from the engineering segment. However, despite the increase in revenue, the aggregate profit margin decreased by 1.2 ppt to 5.9% in 2018, and hence continues its downward trend since 2014.

As a result of the major cost-cutting initiatives in response to the O&G downturn, we have observed a net job reduction of more than 35,000 employees. This is equivalent to a 28% reduction of jobs from the peak in 2014. The negative trend in number of employees continued in 2018, as we observed a net job reduction of more than 800 employees. In 2018, the industry saw an increase in overall cost levels compared with 2017, mostly driven by increased cost of goods.

The downturn in the Norwegian OFS industry appears to have passed the bottom, as the industry is gradually recovering. Although the industry managed to finally turn the long-lasting revenue downturn, it still has some fundamental challenges to overcome. With profit margins still tight, it is unlikely that the industry is going to return to 2014 levels anytime soon. Going into the 2020s, we expect a continued positive development in revenues, as well as a gradual improvement of aggregate profitability to normalized levels. Further, we expect that E&P spending is to remain at around current levels. New discoveries or higher oil prices are needed to maintain growth in NCS investments.



Espen Norheim
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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 2012, 2013, 2014, 2015, 2016, 2017 and 2018 for financial year ends within each of these calendar years. Where a company has not yet filed its 2018 annual accounts and it had turnover in excess of £27mn in 2017, 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 2017 revenue.
- ▶ For EBITDA, we have applied the 2017 EBITDA margin to 2018 turnover.
- ▶ For wages and employees, we have included 2017 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 and
- ▶ It has filed 2018 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.

There are a number of companies where the reporting currency is not GBP and

we have translated their results for each of 2012 to 2018 at the average rate for 2018. This allows the trends to be analysed based on a constant currency rates and negates the impact of any exchange rate movements during the period.

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.

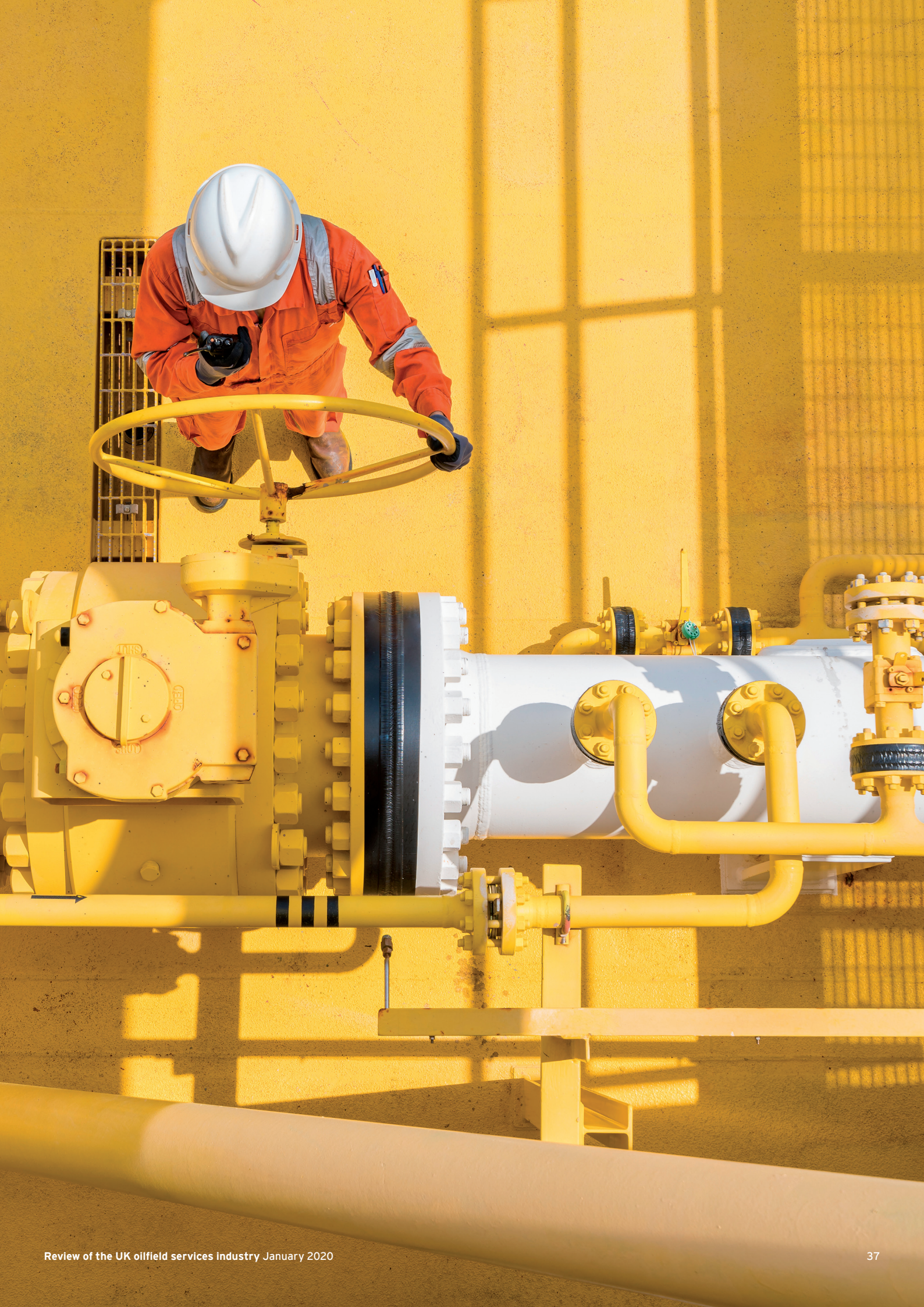
For export analysis, we analysed the geographic disclosure within the annual accounts of the largest 300 companies (by 2018 turnover). Where this did not result in at least 80% coverage of the turnover in each of the 32 supply chain subsectors, additional companies were also analysed.

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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How EY can help

The EY team of oil and gas professionals across the globe, coupled with closely linked transactions advisory, tax and advisory services teams, is equipped to provide independent, whole-life support and advice to their oil and gas clients. EY teams have proven skills covering the entire breadth and depth of their oilfield services clients' businesses.

Transaction advice

Opportunity identification, advising on execution of mergers, acquisitions, divestments and carve-outs, joint ventures and alliances, as well as undertaking buy- and sell-side due diligence.

Financial and operational restructuring

Advising corporates, banks, bondholders, private equity, alternative capital providers and other stakeholders on financial and operational restructurings, including assessment of existing restructuring programmes, evaluation and execution of cost savings initiatives, negotiations with corporates, banks and capital market providers of capital, and other capital providers, accelerated M&A processes.

Integration

Determining and analysing post-acquisition and merger integration and portfolio realignment.

Capital agenda

Improving capital needs at the corporate, portfolio, asset, project and business unit levels, including working capital, cash flow improvements, and debt and equity raising and/or refinancing.

Strategy and performance management

Strategy development and assessment, market access study, competitor analysis, asset portfolio management, organisational improvement, supply chain improvements in procurement, logistics, engineering, field operations, manufacturing and distribution; improving work processes, identifying key risks to facilitate services of major capital projects, improving overall financial and management reporting, supporting key business and operations improvements by effectively deploying information technology.

Risk management services

Advising on business risks and developing plans to accept, identify or capitalise on them, including assessments (assessing risk potential and processes), improvements to achieve business objectives) and monitoring (evaluating if processes, initiatives and functions are operating as expected), as well as undertaking internal audit programmes to augment clients' internal capabilities.

Tax advisory

Advising on country fiscal regimes, tax structuring, transaction planning and impact of alternative energy, as well as managing international assignments for key employees and understanding tax considerations in expanding operations to new countries.

Forensic and integrity services

Successful organisations depend on their reputation for keeping promises, respecting laws and behaving ethically to maintain stakeholder trust. EY Forensic & Integrity Services professionals help organisations protect and restore enterprise and financial reputation. We assist companies and their legal counsel to investigate facts, resolve disputes and manage regulatory challenges. We put integrity at the heart of compliance programmes to help better manage ethical and reputational risks.

Digital transformation

Development and implementation support of digital strategies covering all operational and functional areas including asset performance management, digital supply chain, operations and field ticketing, digital tax, intelligent process automation, integrated planning and portfolio management, cybersecurity and data analytics.

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