

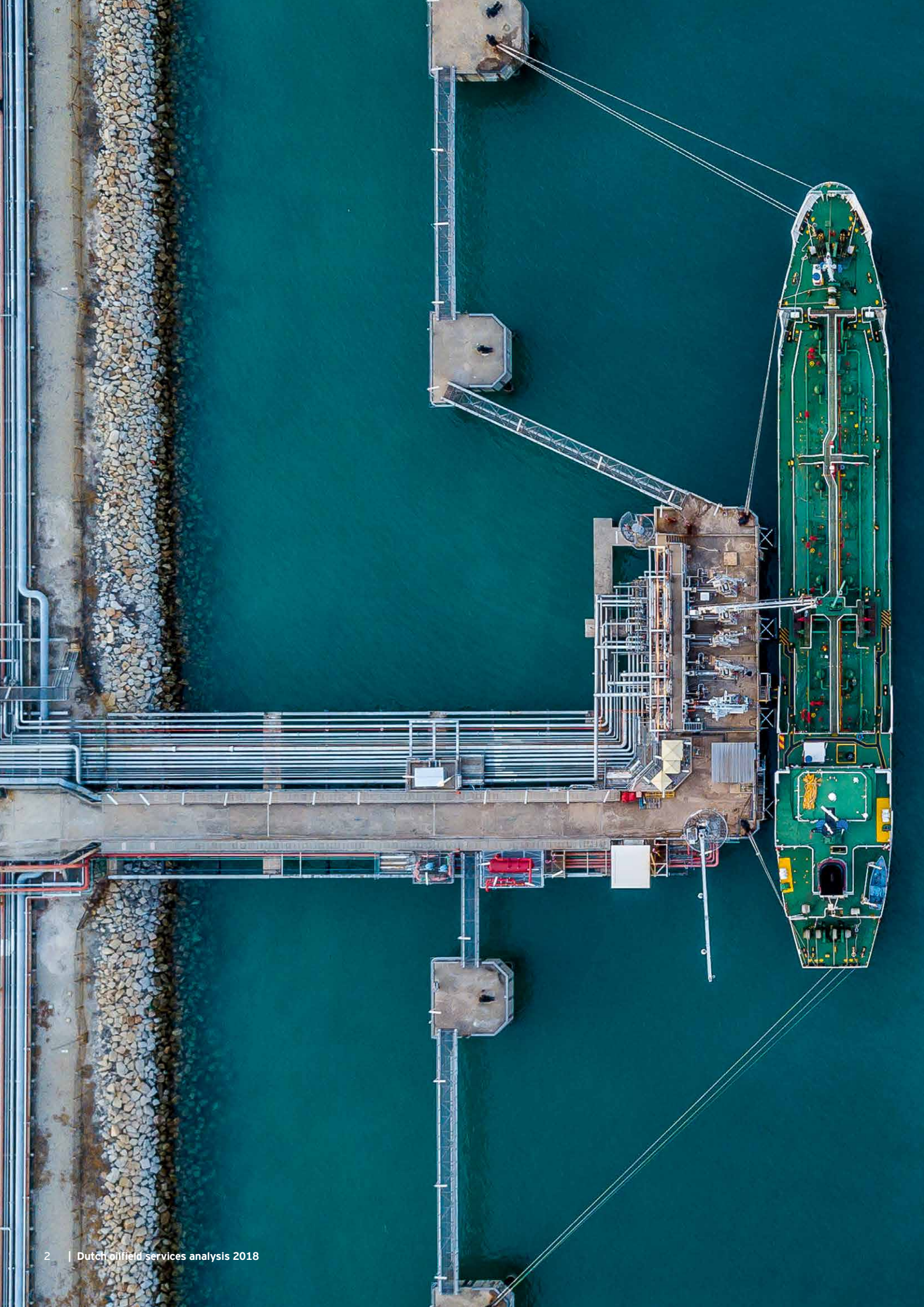


# Dutch oilfield services analysis 2018



Building a better  
working world







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# Introduction



Welcome to the 2018 Dutch oilfield services (OFS) industry analysis. In this report, we quantify the size and profitability of this diverse industry and analyze its dynamics.

## Historical analysis

EY teams conduct an annual analysis of the various North Sea OFS segments. In addition to this review of the Dutch OFS sector, we also issue annual reports covering the UK and Norwegian-based OFS industries. We have analyzed annual financial information published by the companies in our sample from 2013 to 2017. As such, the analysis does not reflect the most recent financial developments in the industry.

## Sentiment analysis

To supplement this, we conducted an intensive interview program with senior management of several leading Dutch OFS companies. Each interviewee was asked the same set of questions to determine prevailing market sentiment throughout the various phases of the value chain. The theme of transformation was central to this sentiment analysis, and relevant subtopics included the state of the industry, consolidation in the OFS market, sustainability, ongoing innovation, pressure on the staffing market and the shift from debt to equity. The findings of this sentiment analysis among a sample of OFS companies are presented in this report.

## Methodology

EY defines a company as a Dutch OFS company if:

- ▶ At least 50% of its activities is deemed to be related to the oil and gas sector
- ▶ It is a Dutch-registered company

Accounting information is publicly available from the Dutch Chamber of Commerce. The companies' registered business addresses have been used to reflect their geographic location. The number of companies included in the analysis varies somewhat, due to variation in availability of financial information.

We have used the stand-alone financial statements for each legal entity in our analysis. As a result, large corporations have been analyzed as a series of individual companies and not as a single consolidated group, where possible, to get a more detailed demographic view of location and activities across the supply chain. The implication is that intercompany transactions are not eliminated when financial figures are aggregated.

Please note that the completeness of our data depends on the financial information disclosed in companies' annual accounts submitted to the Dutch Chamber of Commerce. Our sample of companies comprises those we deemed to be relevant determined by the methodology described below. The number of companies included in our analysis varies from year to year, due to availability of financial information. This means that 2016 figures mentioned in our 2017 report might deviate from the 2016 figures mentioned in this year's report, on an aggregated level (although not at a company-by-company level).

## Categorization

Each company in the OFS portfolio has been reviewed individually, and an assessment has been made of its position in the value and supply chain. The value chain has the following segments:

- ▶ Reservoir and seismic (RS)
- ▶ Exploration and production drilling (drilling)
- ▶ Engineering, procurement and construction (EPC)
- ▶ Operations (OPS)

# Summary

During 2017, despite a gradual if short-lived recovery of the oil price, the average price level remained below US\$60/bbl for the third year in a row. This resulted in lower (investment) activities by the major oil companies, precipitating a further revenue drop of 13.0% across the Dutch OFS industry. However, the 2017 decline appears to have leveled off as it is less pronounced than the decline of 18.9% in 2016.

The revenue decrease only had a limited impact on the number of people employed by the industry. This could indicate that the Dutch OFS industry focused on job retention in the sector during 2017 and anticipated a potential recovery going forward. In the short term, revenue increase is likely to come from activities abroad, since the Dutch Continental Shelf (DCS) mostly hosts “end of lifetime” fields that are less profitable in an era of sustained low oil prices, with limited potential for the development of new fields.

## The Dutch OFS industry in 2017

The 2017 data available indicates an overall revenue decrease of 13.0% for the Dutch OFS industry, compared with 2016, dropping to a total of €15.6b.

However, this decrease in revenue had a limited impact on the number of people employed by the industry. Compared with 2016, the number of employees in the Dutch OFS industry remained relatively stable, decreasing by only 2.3%.

## Reservoir and seismic

**11.3% decrease**

The reservoir and seismic (RS) segment saw a decrease of 11.3% in 2017, dropping from €2.3b to €2.1b, due to a further decrease in exploration expenditure. The number of employees in this sector remained relatively stable at around 15,000 employees decreasing by only 0.3%.

## Exploration and production drilling

**19.7% decrease**

The smaller drilling segment sustained further revenue decline in 2017 of 19.7%. The size of this segment has almost halved in the past two years, due to less productivity on the DCS, a very cost-intensive production area. The negative revenue development is also reflected in the 41.0% percent reduction in staff in this segment to approximately 650 during 2017.

## Engineering, procurement and construction

**15.6% decrease**

The engineering, procurement and construction (EPC) segment continued to drop in 2017 to €8.4b, a decline of 15.6% compared with 2016. In 2017, a large proportion of projects were sanctioned before the decreasing oil price reached completion. The decline in the number of employees was less pronounced with a decrease of 4.0% to about 27,700 in 2017.

## Operations

**4.0% increase**

Operations (OPS) is the last link in the supply chain, and order books continued to empty in 2017. However, the 2017 data available indicates an overall revenue increase of 4.0% for the entire OPS segment, compared with 2016. We note that the increase across this segment is solely driven by an excessive revenue increase of one specific OFS company, related to a transaction in 2017. If we exclude this company from our sample, we see a 6.4% decline in the OPS segment in 2017 to approximately €4.2b. Headcount in this segment increased by around 2.6% to about 13,300 employees.

### **Recovery of oil price not sustained**

OFS activities are strongly related to the oil price. Depending where one is in the supply chain, sooner or later the rise in oil price will drip through to the activity levels of OFS players.

The rise in oil price by the end of 2017 and the first nine months of 2018 was caused by a number of factors, such as concerted discipline by members and allies of the Organization of Petroleum Exporting Countries (OPEC) and possible sanctions against Iran, pressuring the supply chain. The initial rise was seen as the first green sprouts of sector recovery and led to optimism that activity levels might finally liven up.

Then fall set in again. By early October, crude prices started to drop as production levels in Russia and Saudi Arabia increased in anticipation of the Iran boycott, along with measures adopted by the United States. Furthermore, production of shale oil rose much faster than anticipated after the summer. All in all, this led to oil prices reverting to 2017 levels.

Expectations for 2019 are uncertain. The industry anticipates a barrel price of around US\$60 to be the level for 2019 and

perhaps the new normal. Potential slowdown of global economic growth, further enhanced by uncertainties such as trade wars and Brexit, may lead to short-term downward pressure.

Yet, the longer-term outlook indicates enhanced demand for oil, despite the climate agreement and the surge of renewables. Fragmentation of production has increased volatility in price control and this is likely to remain the case going forward.

### **Impact on Dutch OFS companies**

The OFS industry has reacted in a number of ways to the decline in oil prices since 2014 and the accompanying lower activity levels. High activity levels in renewables, particularly in offshore wind parks, counterbalanced this trend, and a number of OFS players benefited. Furthermore, costs were cut. The quest by oil majors for greater efficiency has been pushed back into the value chain with all parties reducing margins (and costs).

This has resulted in new break-even points for exploration and production, leading to even more price instability as a modest price increase leads to more wells coming on stream.

Despite decreased cost, capacity has not necessarily followed suit, leading to substantial asset overcapacity.





The Dutch OFS sector is dominated by family-owned companies, fortunately. Many of them went into the downturn with healthy balance sheets, conservative financing, a strong will and plenty of entrepreneurial drive, which helped the sector through these difficult times. Until now, the number of defaults has been very limited.

Having said that, what is the sentiment going forward, specifically regarding the outlook for 2019-2020? That depends on where companies are in the value chain. Companies higher up the value chain (closer to exploration) feel recovery is in the air, because activity levels are increasing. However, prices and margins are still under pressure due to excess capacity that needs to be reutilized. Companies further down the value chain (equipment manufacturers and installation companies) are still holding their breath. They see some activity increase in other parts of the value chain, yet it will be a while before this trickles down to their own activities. All in all, the Dutch OFS industry anticipates a slow 2019 but is a little more upbeat about 2020. We will address the sentiment in more detail later in this report.



**René Coenradie**  
Netherlands Oil & Gas TAS Leader  
Transaction Advisory Services

Over the past few years, exploration and production spending levels have remained low, putting pressure on the market for oilfield services (OFS). As a consequence, margins in the sector have been squeezed and many companies have focused on short-term transformations with immediate cash results. The number of employees dropped severely. Moreover, oil price levels seem to have stabilized at a new lower level (US\$60/bbl), hampering investments in new and more difficult reservoirs as well as impacting the OFS project pipeline.

Going forward, we expect that OFS companies will continue to focus on cost discipline, including managing headcount, but the primary focus of (Dutch) OFS companies will shift toward more structural transformations. These are likely to include creating more integrated offerings as well as innovating in technology, data analytics and commercial arrangements, in order to (out-)perform in this new lower oil price environment in a sustainable manner.

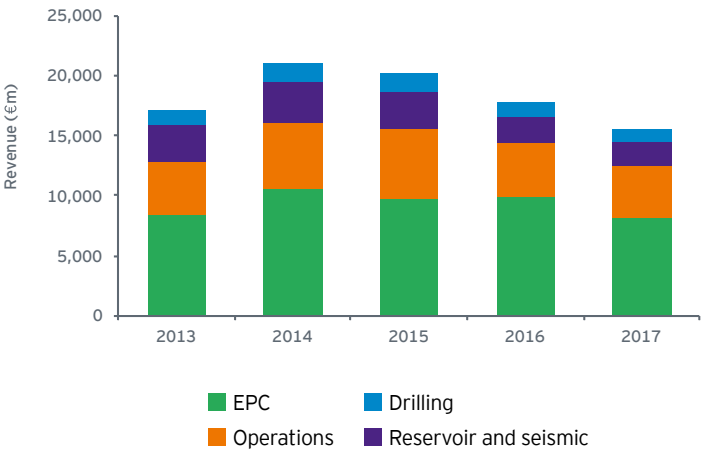
There are signs sentiment could be turning. 2018 was a low point for exploration, but there would appear to be both renewed confidence in and appetite for exploration across the North Sea region. Moreover, CAPEX levels are expected to increase in 2019, albeit at moderate levels. Price levels in the OFS sector are projected to improve, but they will continue to be affected by overcapacity in many sub-segments. In addition, we see a growing enthusiasm among privately backed/owned investors, eager for North Sea assets, who are breathing new life into the region as well as bringing a ruthless focus on cost control. Renewable energy will continue to provide market opportunities to exploit knowledge, technology and assets. The question is whether Dutch OFS companies can benefit from this “cautious optimism” in the short term and strengthen their position in the value chain, since it is unlikely that overall activity is going to revert to 2014 levels anytime soon.

Given its strong heritage and innovative, flexible character, the Dutch OFS industry will remain a significant factor in the Dutch economy and will continue to play an important role in the global oil and gas industry. By focusing on innovation, sustainability and consolidation, companies are looking to lay the foundations for future success in the Dutch OFS industry.

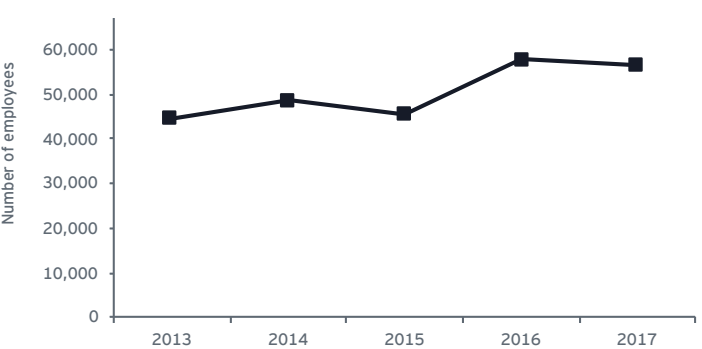
# Dutch OFS industry - five-year historical comparison

## Total

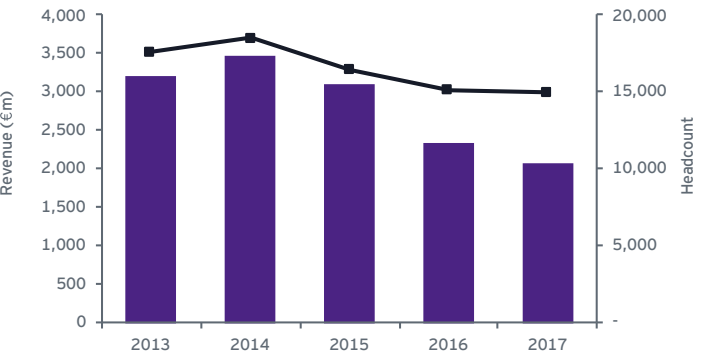
Five-year revenue split



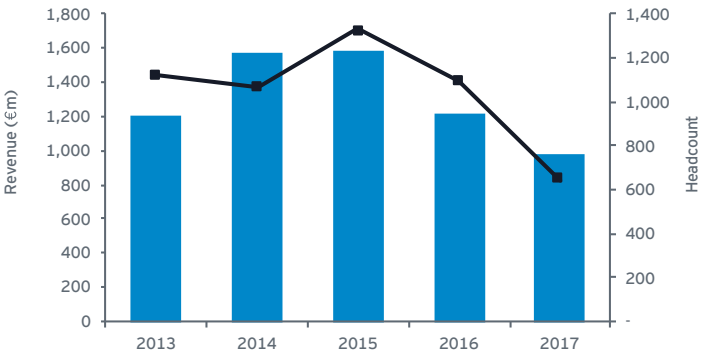
Five-year employee total



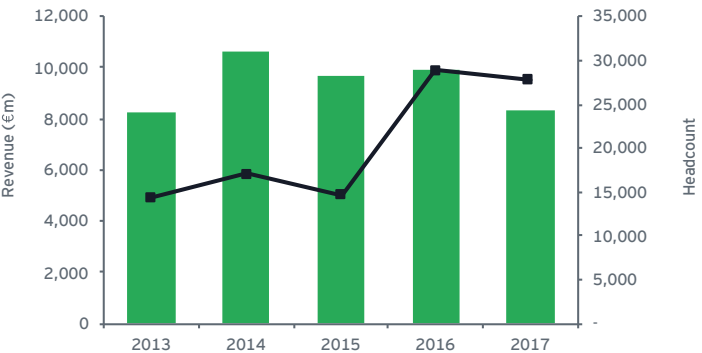
## Reservoir and seismic



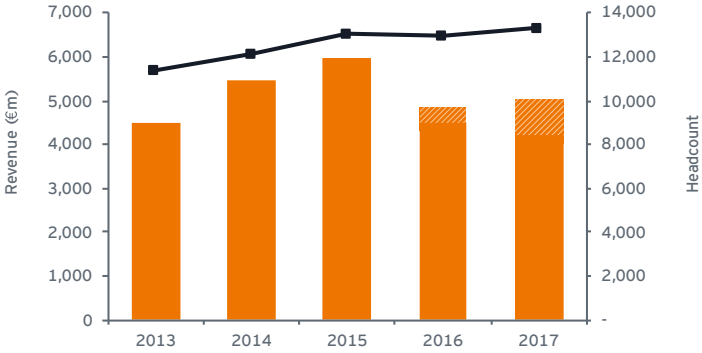
## Drilling



## EPC



## Operations



Identified outlier with an excessive revenue increase due to a transaction in 2017



## Reservoir and seismic

Dutch legal entities that operate the vessels and equipment used for seismic surveys are included in the RS segment, as well as companies that analyze and interpret the geophysical and petrophysical data acquired from these surveys. Companies need to operate on projects across the globe to create revenue, as the market for the RS segment in the Netherlands is relatively small. The result is a segment with some large international companies as well as a few small local companies.

## Drilling

Drilling is a mature market from a Dutch perspective and a multifaceted segment of the OFS industry. It includes companies that own or operate drilling rigs, as well as the more traditional companies that deliver products and services to these rigs. Companies in this segment typically provide a wide range of services. Drilling activities will remain rather limited, with only a few Netherlands-based companies involved, so the potential for the drilling segment on the Dutch Continental Shelf (DCS) going forward continues to decline. Ongoing divestment of North Sea assets by the major oil companies may offer opportunities for more drilling activity on the North Sea, as small independent

players are eager to purchase these assets and extend the life cycle by managing costs more efficiently.

## EPC

Dutch legal entities involved in the engineering, procurement and construction of production platforms, vessels, equipment and components are included in this segment. It is the largest segment of the OFS market in terms of revenue. Thanks to high standards of safety, innovation and quality, Dutch contractors uphold a worthy EPC tradition of a robust reputation and a strong track record. The segment is a global market, and Dutch contractors have been involved in many oil, gas and offshore wind energy projects worldwide. Dutch engineering firms are acknowledged all over the world for the way in which they design mobile offshore units, drillship or jack-up drilling rigs, FPSOs and offshore support vessels.

## Operations

Entities that support oil companies and operators with production modification, maintenance and inspection fall under the OPS segment. These entities also provide logistical services such as helicopter transport and onshore bases.



# OFS company presence

Legal entities located across the Netherlands form the sample for our analysis. The Dutch OFS industry is mainly found in three clusters in the western part of the Netherlands:

- ▶ Rotterdam
- ▶ Amsterdam and IJmuiden
- ▶ Den Helder

Besides its significant presence in these clusters, the Dutch OFS industry provides employment opportunities and contributes to infrastructure across the whole country.

Rotterdam is the largest and most important cluster in the Netherlands. For two reasons, the city harbors several of the largest OFS companies active in the Netherlands.

First, the Port of Rotterdam provides an access point for the offshore industry.

Second, the Rotterdam region is home to a wide array of storage, refining and transport assets for the oil and gas sector.

The refineries of integrated oil and gas companies are situated in the Port of Rotterdam and surrounded by the oil storage infrastructure, indicating the importance of Rotterdam as the hub of a large part of the downstream oil and gas infrastructure.



The importance of the OFS to the Netherlands as a whole is illustrated by the significant number of companies located outside of the Rotterdam area: the Noord-Brabant region, for example, with its active cluster of family businesses.

# Dutch OFS sentiment analysis – the industry's view on the future



This year, we carried out a series of interviews with senior management of several leading Dutch OFS companies to assess prevailing market sentiment in the various segments of the value chain: reservoir and seismic; exploration and production drilling; engineering, procurement and construction; and operations. Alongside the historical analysis of market performance provided in the previous sections, this chapter addresses the state of the Dutch OFS industry with the help of the keen insight of industry leaders.

The key finding is that sentiment among prominent players in the Dutch OFS sector is mildly positive with 2019 underway and 2020 rapidly approaching:

- 1. Market:** Industry expects the market to remain flat to slightly positive in 2020, irrespective of a strong increase in renewable activity.
- 2. Margins:** Even if the market picks up, margins are not expected to improve immediately due to substantial overcapacity in the market.
- 3. Consolidation:** Rigorous consolidation has not been witnessed in the Dutch market in recent years, despite significant M&A activity in the OFS sector in other parts of the world. The overcapacity in the market and subsequent low margins will not be resolved by a surge in mergers.
- 4. Renewables:** Given the lack of projects in the oil and gas sector, many companies have recently moved into renewables, a sector that is perceived as here to stay.
- 5. Digitalization:** Innovation (including digitalization) is primarily focused on efficiency improvements and the optimization of core processes, not so much on new product development.
- 6. Staffing:** Although the lack of technical personnel is resolved by most companies by hiring international engineers, staffing is likely to remain an industry challenge.
- 7. Capital structure:** Has not undergone radical change as a result of the recent crisis since most Dutch OFS companies are family-owned and characterized by low leverage financing and healthy balance sheets.
- 8. Decommissioning:** Reuse of assets is not expected to provide real projects in the coming years, although decommissioning has looked promising; even though plans for decommissioning are aggressive, actual expenditure might take longer to materialize as operators may have limited incentives.



Let us take a more detailed look at these eight key insights:

## 1. Market

### **Industry expects the market to remain flat to slightly positive in 2020, irrespective of a strong increase in renewable activity**

Business leaders hold a broad spectrum of views but the consensus is that increasing investments in E&P will positively impact the OFS market, although not this year. "2020 will be better than 2019, which in turn will be better than last year. This is mainly driven by increasing investments in smaller gas fields. Investments in large fields will decline." Companies at the beginning of the OFS value chain tend to be more positive about short-term market developments. "We anticipate that the industry will pick up; following the low in 2017 and the improvement in 2018, the road to recovery is around the corner and we see a price hike of 10% for the early-cyclical businesses." Volumes will pick up thanks to backlogs and deferral and the need to invest to ratchet up production.



The 2019 market will be of similar size to last year, but an activity shift is taking place in that renewables will continue to grow while oil and gas activity will decrease.

Prices may well remain at a lower level thanks to the oversupply of available assets. "Current market levels are extremely low although a slight increase in activity is expected in 2019, which will be characterized by a stable market with increasing renewable influences and declining oil and gas investments in the North Sea." New projects are expected, but the long average lead time of larger projects is unlikely to drive revenue increase in the short term. "2019 will be slightly better than 2018, mainly due to the development of smaller new gas fields in the North Sea and continuous investment in renewables."



Turnover from European offshore wind parks almost equals oil and gas investments, and we're also seeing this growing trend developing in North America.

Prices are slowly improving, although there are major differences between the various phases of the value chain. "2019 will not be much better than last year. Market recovery is not to be expected before 2020-2021." Although the impact of the sustainability trend is difficult to estimate, regulation at a regional level or technological development could take place faster than expected. At the moment, however, "carbon capture and storage is complete nonsense and will not lead to tangible opportunities anytime soon."

## 2. Margins

### **Even if the market picks up, margins are not expected to improve immediately due to substantial overcapacity in the market**

Business leaders believe that even if OFS activity picks up in the years ahead, margins will remain low for the time being.



Margins will probably stabilize or slightly decline, despite increasing project complexity and risk. Mainly driven by severe, enduring overcapacity in the market.

The misalignment between supply and demand is only likely to improve once asset utilization increases to healthier levels. "2019 margins might be somewhat better compared with 2018, however the influx of new projects is too small to overcome the extensive overcapacity in the market and substantially improve margins." Prices will only increase if the number of projects really picks up and average utilization increases across the board, resulting in higher margins. Initiatives implemented to improve margins include stringent cost control and standardization of core business process, but "the low margins in the oil and gas sector will most likely be the new normal. I do not expect these margins to increase anytime soon."

### 3. Consolidation

**Rigorous consolidation has not been witnessed in the Dutch market in recent years, despite significant M&A activity in the OFS sector in other parts of the world. The overcapacity in the market and subsequent low margins will not be resolved by a surge in mergers**

Business leaders anticipate that acquisitions in the sector leading to further portfolio diversification will offer opportunities for improving margins and reducing vulnerability.

“Consolidation in order to increase scale is not the solution for low margins, since it does not address the overcapacity in the market. Further diversification of activities is wise to reduce oil and gas dependency.” The current market is “dominated by excess capacity of equipment of reasonable quality, therefore consolidation is not the way forward: you’ll only create more of the same.” However, “consolidation in the Dutch OFS market will have to occur.”

“

At the moment the market is too fragmented, and given the low margins, not all players are expected to survive.

These notions are endorsed by other business leaders: “Growth through acquisition of other parties neither necessarily increases efficiency nor improves margins.” M&A activities are “of great importance for our industry in the future. Acquisition of distressed companies and assets has enabled us to obtain a relatively new fleet at favorable conditions and save operating costs through standardization.” Indeed, portfolio diversification through acquisition is thought to provide suitable possibilities to improve margins and reduce vulnerability to the hydrocarbon commodity cycle. “Broadening the spectrum of activities toward adjacent market segments can provide new opportunities and is wise to reduce oil and gas dependency.” At some point, “companies will have to choose between specialization and diversification: at the moment, expanding the service offering offers most potential.” Diversification is a good move, or, as one business leader puts it, “consolidation can never be a goal in itself, merely a means to an end.”

### 4. Renewables

**Given the lack of projects in the oil and gas sector, many companies have recently moved into renewables, a sector that is perceived as here to stay**

Business leaders share the sentiment that renewable and wind energy has strongly increased in recent years and anticipate the sector will develop yet further in the years ahead, although the role of oil and gas is not to be dismissed lightly over the next couple of decades. One business leader is not so sure, however. “The shift toward offshore wind parks is temporary. Once oil and gas activity picks up again, a large number of companies will tend toward their traditional sector and experience, since it’s more profitable.” After all, investment in offshore wind farms has surged in the last few years, up to the point of nearing the 2016 level of investment in oil and gas.

Industry executives expect that renewables will remain an important part of the portfolio once the oil and gas market recovers, even though many companies will refocus on oil and gas, as this is believed to be a large and more attractive market.

“

The shift toward offshore wind projects will continue to make an impact in the longer run, and the offshore renewables market will only increase in size in the years ahead.

“A small number of companies are fully committed to the offshore wind industry. Those still uncommitted are likely to switch in the event that oil and gas activity increases.” One business leader expects that the relative importance of offshore wind will decrease as soon as the oil price increases to US\$80/bbl. The consensus, however, is that offshore wind will remain a permanent new activity in the North Sea. “Despite the unhealthy low margins in this sector, I expect the offshore wind market to increase in size in the years ahead.” This sentiment is endorsed by other industry executives. “The renewable market is a lasting investment.” In a nutshell, “offshore wind is here to stay.”

## 5. Digitalization

**Innovation (including digitalization) is primarily focused on efficiency improvements and the optimization of core processes, not so much on new product development**

The innovation imperative is gaining ground: “Historically, the need to innovate was smaller due to favorable market conditions, but at the moment innovation is key for the success of OFS companies. The OFS sector as a whole can still innovate significantly going forward.” Business leaders agree that innovation provides marketable new product development opportunities, specifically within the OFS equipment manufacturer segment. “As global market leader, we have completely changed the industry standard by bringing several new products to the market. This is something our clients expect from us.” An industry executive disagrees: “Clients do not demand innovation. They demand a fitting solution at the best possible price. Innovation helps to achieve better, more efficient and cleaner solutions.”

Digital disruption is neither anticipated nor perceived as a threat to the sector: “Continuous digital innovation is key to remain ahead of the competition, at home and abroad, and if you do not continuously innovate, you will start to lag behind. And that is what will threaten your market position.” Industry executives agree the focus is on core business process optimization “in terms of cost, safety and environment. Innovation is used to create a more efficient process.” Equipment manufacturers have used innovation and digitalization to develop new products and services, “companies have to keep on developing if they want to remain relevant.” Digitalization is crucial to the success of this process:

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Digital innovation of our offering helps to increase margins through more efficient business processes and fewer errors.

## 6. Staffing

**Although the lack of technical personnel is resolved by most companies by hiring international engineers, staffing is likely to remain an industry challenge**

Industry executives believe that the larger corporates can still rely on their brand reputation to recruit and retain talent.

“Finding technical personnel is not an issue. Some vacancies take a little longer than normal, but this does not harm our business. We do not have any trouble in attracting the right technical staff, neither in graduate nor experienced hires.”

Small and medium-sized enterprises in the OFS sector, however, are seeing their growth ambitions hampered by a shortage of service technicians. “The shortage in technical staff is something we have witnessed for quite some time. We’re recruiting internationally to prevent negative impact on our business. Finding the right technical employees is definitely a challenge, especially those with relevant oil and gas experience.” Another challenge looms in the event of strong market recovery:

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In current market conditions, staffing is not an urgent issue, but if the market picks up in 2020, finding the right technical personnel will become a serious problem.

Experienced technical staff have already left the industry due to natural attrition and early retirement. “Finding the right personnel is not the issue, it’s finding the right experience for the job.” Other leaders resort to internal training: “Finding suitable and experienced personnel is a problem, that’s why we choose to educate our staff ourselves.” SMEs expect the larger corporations at some point to start recruiting qualified technical staff from their own companies by offering premium terms and conditions: “We have had to change our remuneration package to retain our technical staff.” Moreover, the oil and gas sector would appear to be suffering from a deteriorating image at the moment, particularly among Dutch technical graduates who appear to prefer to work in the renewables sector.

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An increasing number of Dutch technical graduates no longer wish to work for traditional oil and gas companies, but prefer to work at a company that is connected in some way to renewable energy operations.



Business leaders agree that recruitment and retention can be supported by diversifying activities, although “attracting technical talent remains difficult in the current market. The shortage in operational staff limits our growth and has already delayed projects.”

## 7. Capital structure

**Capital structure has not seen radical change as a result of the recent crisis since most Dutch OFS companies are family-owned and characterized by low leverage financing and healthy balance sheets**

Business leaders endorse the view that projects have been impacted by more stringent requirements from the financial community, although this tends to be limited to Dutch funding. “Dutch banks are becoming more demanding when it comes to oil and gas related investment, however this is definitely not the case for international financial institutions that are still more than prepared to provide capital.” Industry executives acknowledge the Dutch Government is limiting export credit guarantees on oil and gas related projects, a major concern for the industry as it can jeopardize a level playing field.

“

Independent and smaller oil and gas companies active in the North Sea are especially impacted by the risk-averse and “sustainable” attitude of the Dutch Government and financial institutions. This directly impacts the number of oil and gas projects there.

One business leader plays down the risk: “We notice that banks have become more cautious and increased their capital requirements with regard to investments in traditional hydrocarbon projects, but this has not unduly impacted us.” The ever-intensifying demands of corporate social responsibility have not gone unnoticed, however. “Sustainability requirements are becoming more extensive and tend to play an important role in successfully obtaining project financing. This can form a challenge for certain new projects. However, this mainly concerns Dutch banks.”

## 8. Decommissioning

**Reuse of assets is not expected to provide real projects in the coming years, although decommissioning has looked promising in the past; even though plans for decommissioning are aggressive, actual expenditure might take longer to materialize as operators may have limited incentives**

“People talk about decommissioning, but it will not lead to real projects in the next decade” appears to be the consensus. Decommissioning is really happening, but not in the next five years. Decommissioning is a market that is going through tough times and is insufficiently delivering at the moment.

Longer term, “the large potential of decommissioning is real,” however the timing of these projects remains uncertain. “Kickstarting this process is challenging because of contradictory legislation”, in countries surrounding the North Sea, binding legislation and even guidance differs to the degree that “decommissioning of large platforms is and will remain one big dream” due to the substantial investment required, particularly by the early adopters. In the UK, for example, decommissioning after a certain period is mandatory, and some business leaders are convinced that “government should take a leading role in incentivizing oil majors.” Although decommissioning is taking place in the Dutch Continental Shelf (albeit concerning small platforms) there is currently no incentive at all for companies to remove their old assets: “I expect the number of decommissioning projects to take flight in 2025, but not before that.” One executive believes even more time is required before decommissioning and the reuse of assets becomes truly tangible:

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Neither decommissioning nor asset reuse in the North Sea will materialize anytime soon. It might lead to real projects come 2030, but not before that.

# Comparison with Norwegian and UK OFS sectors

## Summary table of results

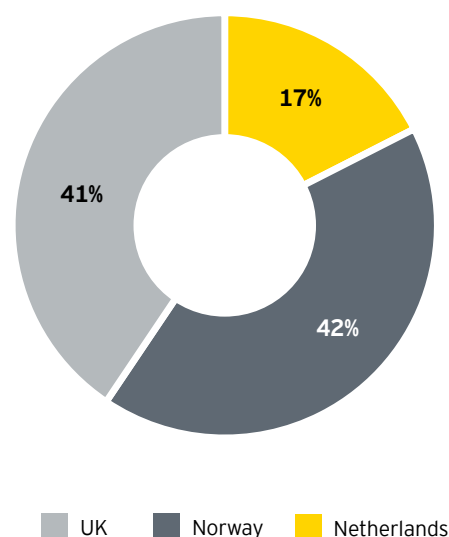
(All data for 2017 and in € billion unless stated otherwise)

	Norway*	UK**	The Netherlands
Number of companies	1,199	484	329
Number of employees	95,288	106,334	56,618
Turnover	31	30	15.6
Turnover decline 2016 to 2017	(13%)	(8%)	(13%)
Exports as a percentage of turnover (estimated)	35%	39%	n/a
EBITDA	2.2	2.0	Not disclosed
EBITDA margin	7%	7%	Not disclosed

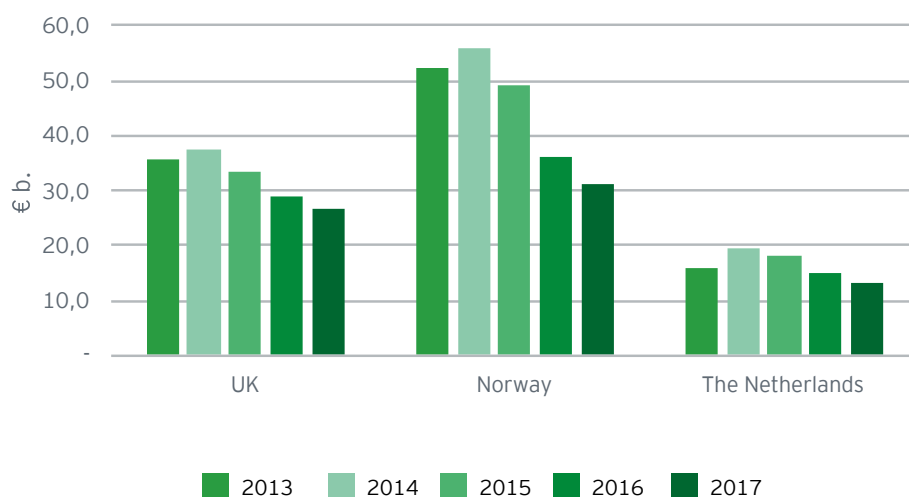
\* The exchange rate used to convert the Norwegian data is NOK9.3 per €

\*\* The exchange rate used to convert the UK data is £0.88 per €

## Turnover by basin



## Revenue trends 2013-2017





**Espen Norheim**  
*EMEIA Oil & Gas Leader  
 Transaction Advisory Services  
 Norway*

The 2014-2015 downturn in the Norwegian oilfield service industry continued through 2017, but with diminishing strength. The strong growth in revenues in the period 2011-2014 when oil prices averaged well above US\$100 per barrel has been reversed, and current aggregate revenues are now back to 2007 levels. We note that 2017 has been yet another challenging year for all joints in the entire OFS value chain. However, the sharp decrease in revenues from 2015 and 2016 have somewhat flattened out, as revenues fell 13.3% compared with 26.7% last year.

Further, we note that the cost inflation observed up until 2014 has challenged OFS companies' ability to generate profits. This can be explained by the swap from older and lucrative contracts to lower day-rates and short time horizon contracts. Consequently, several cost-saving programs have been initiated by the industry operators in order to meet with the E&P companies lower-for-longer regime. As a result, the large restructuring programs we have observed has led to a net job reduction of more than 36,000 employees. This is equivalent to a 27% reduction of jobs from the peak in 2014.

The overall cost levels have come down significantly the last two years, and new development projects have hence regained competitiveness in the capital allocation battle. Recent efficiency gains are likely to be sustainable, but could potentially challenge the classic supply and demand analysis for offshore services. With more efficient assets and processes, these efficiency gains may offset some of the increase in the demand for offshore services.

Going forward we expect E&P spending to remain at current levels until investments in existing facilities and new subsea facilities will start to pick up in 2019 and forward. However, consensus investment forecasts do not expect a return to such levels witnessed in 2013 and 2014 in the foreseeable future.



**Derek Leith**  
*Global Oil & Gas Tax Leader  
 International Tax Services  
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2017 was another tough year for the UK OFS sector. Yet there are signs in 2018 that the bottom has been reached: upstream margins have improved and capital structures repaired, the transfer of upstream assets to North Sea-focused operators continues, the number of projects reaching FID has increased, significant cost restructuring has been completed and investor appetite in private OFS companies has picked up.

However, while opportunities are certainly increasing for the more nimble companies in the UK, it is uncertain when these factors may be realized in increased activity levels and it is unlikely that overall activity is going to return to 2014 levels anytime soon. This makes it all the more important to have a clear strategy for long term growth, whether through developing and implementing new technology, expanding geographic presence, diversifying into adjacent markets or driving consolidation and building scale. The ability to partner with customers in their preferred ways and offer multiple commercial models will also be a critical differentiator and might even be the key to survival for many contractors.

With margins still tight, these long term imperatives need to continue to be balanced with rigorous cost discipline. Focus will need to remain on exiting unprofitable or subscale activities, ensuring cost savings are sustainable, managing liquidity carefully and resolving any legacy issues with capital structures. The challenges facing management in navigating through this period don't look like abating anytime soon.



# About EY

Sharing the unmatched experience and commitment of a highly integrated team of international oil and gas professionals for the benefit of EY clients and prospects

## Global oil and gas capabilities

The oil and gas industry faces major technological, geopolitical and regulatory challenges as it seeks to grow in the face of a sustained period of intense instability and volatility. Together with our clients, we address the key issues in our quest for compelling opportunities to assist them in their transformation from today to tomorrow: optimizing portfolios and restructuring, completing ongoing major capital projects within budget, and moving beyond cost-cutting.

## Scale

- ▶ There are over 100 professionals in the Netherlands working in the oil and gas sector.
- ▶ North Sea teams provide clients with seamless support.
- ▶ EY leadership and presence around the world offers clients an established network of over 10,000 readily accessible, highly experienced professionals anywhere they conduct business.

- ▶ EY organization has a strong account management philosophy, supported by seamless technology and leading-edge knowledge management.

## Oil and gas skills

- ▶ For over 100 years, EY has been a trusted advisor to the oil and gas sector.
- ▶ Oil and gas is a Global Priority Sector for EY. Major oil and gas companies are among the largest and most international in the world. EY serves every one of the largest Global Fortune 500 oil and gas companies, either as G360 or Core clients, and is a leading auditor of oil and gas companies globally.
- ▶ EY strategic hubs support the four service lines Advisory, Assurance, Tax and Transactions providing the right skills in the right location at the right time.



# Thought leadership

EY Global Oil and Gas Centers keep you updated with regular thought leadership publications, exploring the latest developments within the sector. The deep industry knowledge can help you anticipate trends, manage regulatory changes, drive down costs and compete more effectively.



## The Norwegian oilfield services analysis 2018

Hot off the press (30 January), this report covers the situation and development of the oilfield services industry in Norway based on actual performance. We quantify the size and profitability of this diverse industry and analyze the dynamics across the value chain.



## Review of the UK oilfield services industry 2018

EY eighth annual review of the UK oilfield services industry. We review the 2017 trading performance of UK registered companies in the hugely diverse OFS marketplace and discuss the impact the changing oil market has had on their performance in both the UK and internationally. Just out (6 February).

For more information about the latest thought leadership publications please visit: [ey.com/en\\_gl/oil-gas](http://ey.com/en_gl/oil-gas).

## Technology can light the way, but do you know where you're going?

However you choose to use digital, whether for cost-cutting, security or innovation, the level of effectiveness is often determined by customization.

## Why national oil companies need to transform

In a low-price environment, NOCs need to act more like IOCs in order to remain competitive and continue their role of supporting the state.

## How to accelerate the oil and gas IIoT journey

The industrial internet of things (IIoT) enables impactful decisions to be made with real-time information. Optimizing asset uptime while streamlining maintenance activities requires having access to accurate, detailed and timely information.

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#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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The oil and gas sector is constantly changing. Increasingly uncertain energy policies, geopolitical complexities, cost management and climate change all present significant challenges. EY's Global Oil & Gas Sector supports a global network of more than 10,000 oil and gas professionals with extensive experience in providing assurance, tax, transaction and advisory services across the upstream, midstream, downstream and oilfield subsectors. The Sector team works to anticipate market trends, execute the mobility of our global resources and articulate points of view on relevant sector issues. With our deep sector focus, we can help your organization drive down costs and compete more effectively.

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