

# Oil & Gas

## - How to do sustainable business



Building a better  
working world

Espen Norheim  
Partner  
Transaction Advisory Services  
T +47 51 70 67 66  
M +47 928 02 095  
E [espen.norheim@no.ey.com](mailto:espen.norheim@no.ey.com)

# Disclaimer

---

This preliminary document has been prepared by EY. The information and opinions contained in this document are derived from public and private sources which we believe to be reliable and accurate but which, without further investigation, cannot be warranted as to their accuracy, completeness or correctness. This information is supplied on the condition that EY, and any partner or employee of EY, are not liable for any error or inaccuracy contained herein, whether negligently caused or otherwise, or for loss or damage suffered by any person due to such error, omission or inaccuracy as a result of such supply. In particular any numbers, initial valuations and schedules contained in this document are preliminary and are for discussion purposes only.



# Backdrop 1

...then and now

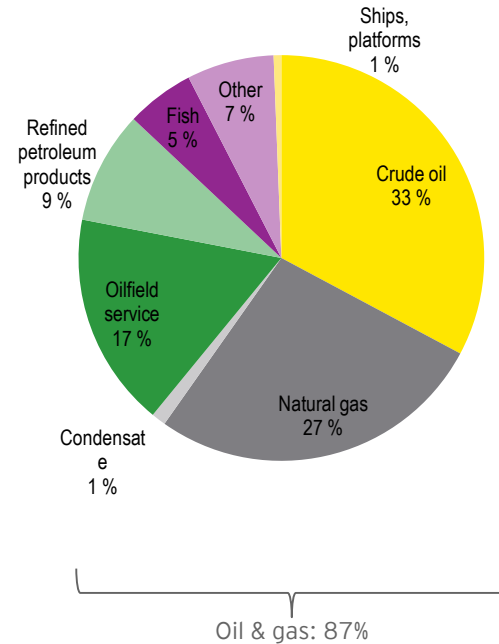
---



## Backdrop 2

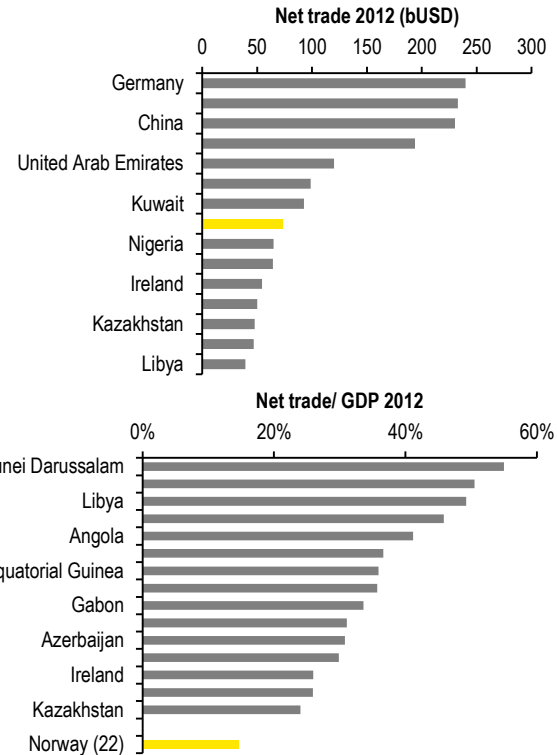
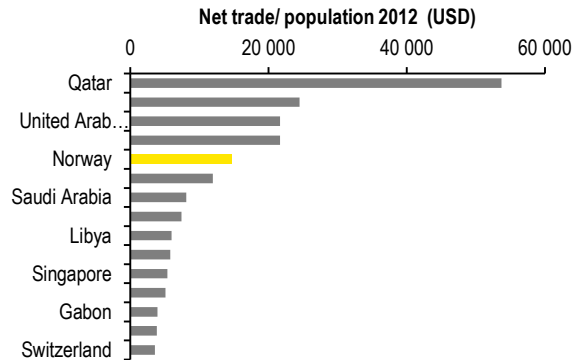
### Oil and gas attributes to most of the value creation in Norway

Total export 2012:	935 bNOK
Crude oil:	307 bNOK
Natural gas:	252 bNOK
Condensate:	10 bNOK
Ships, platform	6 bNOK
Land industry:	360 bNOK
<i>Oilfield services:</i>	160 bNOK
<i>Refined petroleum products:</i>	74 bNOK
<i>Fish:</i>	51 bNOK
<i>Others:</i>	75 bNOK
Import:	507 bNOK
Net trade surplus:	428 bNOK



## ...which position the Nation in the top of World ranking

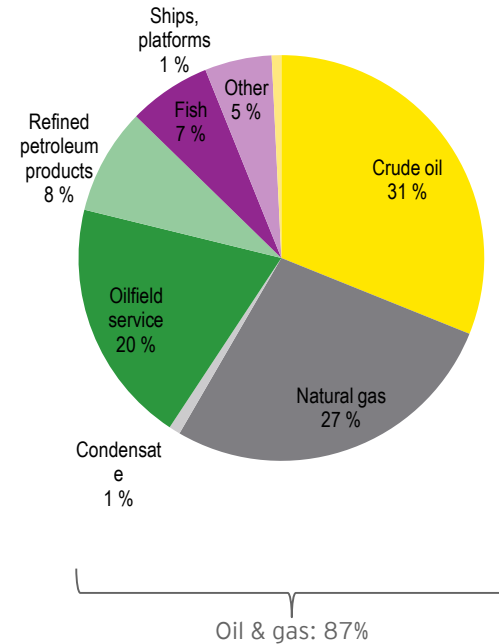
- ▶ Norway has a significant trade surplus compared to other countries - both in absolutely terms and in terms of population
- ▶ Oil exporting countries create noticeable trade surpluses, e.g. Saudi Arabia, Qatar, Brunei and Kuwait



## Backdrop 2

Net trade surplus 2013 (-10% YoY)

Total export 2013:	912 bNOK
Crude oil:	284 bNOK
Natural gas:	249 bNOK
Condensate:	8 bNOK
Ships, platform:	7 bNOK
Land industry:	364 bNOK
<i>Oilfield services:</i>	178 bNOK
<i>Refined petroleum products:</i>	77 bNOK
<i>Fish:</i>	60 bNOK
<i>Others:</i>	49 bNOK
Import:	528 bNOK
<b>Net trade surplus:</b>	<b>384 bNOK</b>



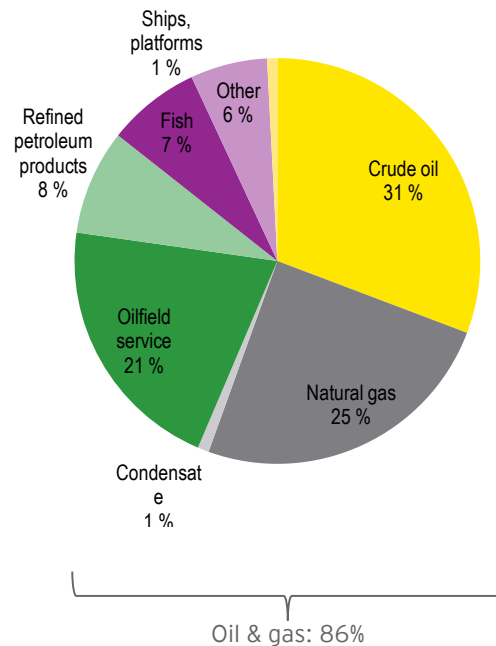
## Backdrop 2

### Net trade surplus 2014 (-11% YoY)

<u>Total export 2014:</u>	904 bNOK
Crude oil:	278 bNOK
Natural gas:	224 bNOK
Condensate:	8 bNOK
Ships, platforms	7 bNOK
<u>Land industry:</u>	387 bNOK
<i>Oilfield services:</i>	188 bNOK
<i>Refined petroleum products:</i>	76 bNOK
<i>Fish:</i>	67 bNOK
<i>Others:</i>	55 bNOK

Import: 561 bNOK

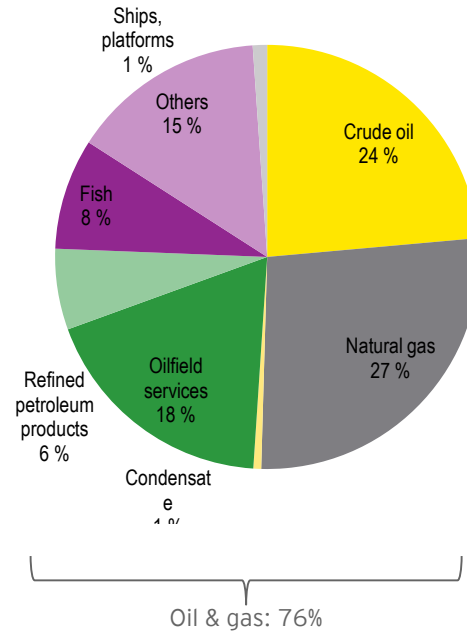
Net trade surplus: 343 bNOK



## Backdrop 2

### Net trade surplus 2015 (-32% YoY)

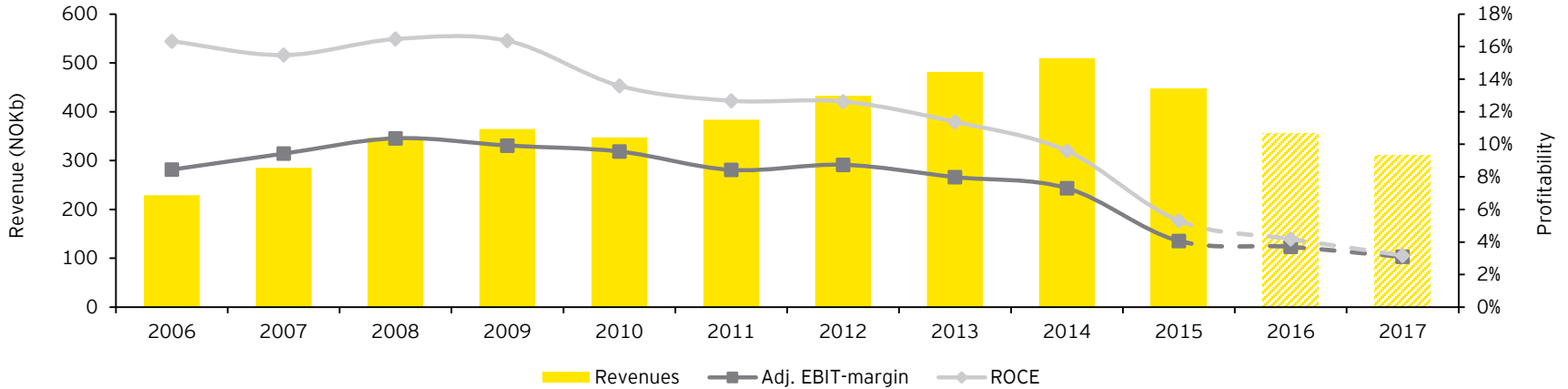
<u>Total export 2015:</u>	848 bNOK
Crude oil:	200 bNOK
Natural gas:	228 bNOK
Condensate:	5 bNOK
Ships, platforms	9 bNOK
<u>Land industry:</u>	406 bNOK
<i>Oilfield services:</i>	156 bNOK
<i>Refined petroleum products:</i>	52 bNOK
<i>Fish:</i>	72 bNOK
<i>Others:</i>	126 bNOK
<u>Import:</u>	614 bNOK
<u>Net trade surplus:</u>	234 bNOK





# What did we say February 1st 2017?

OFS revenue and profitability development 2006 - 2017



- ▶ Revenues down from 447 bNOK in 2015 to 355 bNOK in 2016 (-21%), with further revenue decline to 310 bNOK in 2017 (-13%) (For comparison: 2007-revenues = 285b)
- ▶ Adjusted EBIT (EBITI) margin (excl. impairment) continues decline from 4% in 2015 to 3% in 2017.
- ▶ Revenues have been supported by appreciating NOK over the past two years.
- Further appreciation going forward is considered less likely
- ▶ Going forward, the revenue decline will shift from labour-intensive subsegments (e.g. yards and M&M) to more capital-intensive (e.g. rig companies and supply), and OEM export oriented companies

# Top 5 themes

## Internationalisation

The oilfield services industry is one of the Norwegian export success stories. However, in 2015 the total value of exports decreased for the first time since our review commenced in 2006 and as a proportion of total activity had decreased to 32%, from a high of 38% in 2014.

Given the maturity of the Norwegian Continental Shelf, what more can be done to target higher growth regions and build international businesses of scale?

## Technology

The oil and gas industry has traditionally been regarded as one of the world's most advanced users of technology. With ever-increasing volumes of data able to be handled, data analytics and digital technology has the potential to transform operating models.

With the pressure on costs, how does Offshore production areas maintain investment and continue to ensure it is at the forefront of innovation?

## People

Recent years have been very challenging for people working in the oilfield services industry, with many businesses going through several cost cutting exercises and now operating with the leanest workforces they have had for many years.

When activity increases, how will the sector address potential skill shortages and ensure there is not a return to a 'war for talent'? What can be done to maintain the attractiveness of the sector to young people entering the workforce?

## Consolidation

Globally, the oilfield services industry is adapting to the new price environment and is starting to consolidate in response to the fundamental changes in its customer base and the impact of technology.

How will Norwegian companies respond? Will they join the early movers or will many investors see this as an opportunity to exit?

## Decommissioning

Decommissioning has long presented specialist late-life operations and decommissioning companies and the overall Norwegian oilfield services industry with an excellent opportunity to grow a significant line of business and develop an international centre of excellence. Yet progress has been slow.

What more can be done to deliver an optimum decommissioning solution for the North Sea and unlock the potential to develop world leading expertise?

# Summary

---

- ▶ **O&G is a resilient long term industry**
  - Offshore production is an required long term source of energy
  - Dependency on technology will continue to increase, at the expense of labour
- ▶ **Norwegian OFS technology development**
  - Problem solving is in the culture and the DNA
  - Radical and medium/long term technology bets must be part of the R&D slate
  - Access to capital and the correct industry/soft funding mix is critical
  - Access to test facilities and field trials trends must be reversed
- ▶ **Risk/Reward and valuation**
  - Great technologies and great companies create great value
  - Angel- and VC investment implies high risk and high return



# Keep updated on the oil & gas industry

## - Access our thought leadership anywhere with EY Insights, our mobile app

- ▶ Ernst & Young's Global Oil & Gas Centers keep you updated with the latest development in the sector with monthly publications of *Thought Leadership*, exploring the development and trends within the sector
- ▶ EY Insights provides access to more than 500 of our most recent global and country-specific *Thought Leadership* pieces via iPad®, iPhone® and Android™ devices

