RYSTAD ENERGY

International revenue from Norwegian oil service companies

Excerpt in English from report to the Ministry of Petroleum and Energy
October 31th, 2017

Summary (1/5)
132 billion NOK in international revenue – Strong decline of 31 % from 2015

Historic decline in international revenue in 2016
The international revenue of the Norwegian oil service suppliers was 132 billion NOK in 2016. The total revenue for Norwegian oil service suppliers was 378 billion NOK, meaning an international share of revenue of 35 %.

2016 marked the year when Norwegian oil service companies had to come to terms with the effects of the cost-cutting and lower activity in the oil and gas industry. The international revenue declined by 32 % from 2015 to 2016, which is the largest decline ever for the international revenue. The domestic revenue declined by 15 %.

Statistics for 2016 is based on Rystad Energy's database consisting of over 1100 companies. Of these, 315 have international revenue as defined in the report.

Decline in backlogs and prices characterized 2016
International revenue was characterized by cost-cutting and decline in activity in 2016. In 2015, revenue was partly protected from larger decline mainly due to full backlogs, high day rates from old contracts, and a weakening of the Norwegian krone versus the US dollar. In 2016, none of these effects helped Norwegian oil service suppliers. The result was a 31 % decline in the international revenue from 2015 to 2016. The two main reasons for the large decline was:

- *Very low amount of new orders in 2015* - Many suppliers, especially in the drilling equipment segment, had very few new incoming orders in 2015, and both 2015 and 2016 was characterized by cancellations and renegotiations.
- *Large decline in realized rates for rigs and vessels* – In 2015, rates in many contracts for the lease of rigs and vessels was signed before the drop in oil price in 2014. In 2016, this effect was smaller, and the realized rates much lower.

West Europe and UK still on top
West Europe is still the largest international region in terms of revenue. The UK is the largest contributor in this region, and revenue exceeds the other regions combined. Although West Europe still is the largest region, revenue declined considerably in 2016 (-30%). One region which relatively speaking has become more important the last year is West Africa, which declined much less than the other large regions (-5%), and climbed to second place. In West Africa, Norwegian oil service suppliers have managed well due to several deliveries to large subsea projects in the region. South America, led by Brazil, is the third largest region and declined -32%. North America (-24.5%), and Southeast Asia (-19%) follows as the third and fourth largest regions. East Asia, led by South Korea, experienced a dramatic decline (-64%) in 2016 and is now the sixth largest region.

UK, Brazil, and the US were the three most important countries for Norwegian oil service suppliers in 2016. The revenue from the three countries were 25, 19 and 11 billion NOK, respectively.

Other important countries are Angola (9 billion), South Korea (9), Singapore (7), Australia (5), Canada (4), Malaysia (4), and Nigeria (3).

Subsea is now the largest segment despite decline
Subsea equipment and installation was the largest product segment with a market share of 23% in 2016, despite a decline of 24%. Revenue ended at 30 billion NOK in 2016 (down from 40 billion NOK in 2015), and was driven by important geographical markets like Angola, Brazil, the US, and UK, where Aker Solutions, FMC and DOF are significant contributors.

Topside and process equipment, which has been the largest and most important segment the last years, experienced a decline of 52% in 2016, from 59 billion NOK in 2015 to 28 billion NOK in 2016. At the same time, market share declined from 30% in 2015 to 21% in 2016.

Source: Rystad Energy

Summary (2/5)

132 billion NOK in international revenue – Strong decline of 31 % from 2015

Top 20 companies affected differently by the downturn

Among the top 20 largest suppliers, two companies have been more exposed to the Asian yards: NOV and MHWirth. Both have been severely affected by the reduced activity at the rig yards in 2016, and significantly contributes to the overall decline in revenue for the top 20 largest companies. NOV experienced the largest decline among the top 20 companies (-75%). 2016 was a tough year for several rig and shipping companies, as more ships and rigs were without contract. The majority of the top 20 companies experienced a decline in revenue in 2016, but in varying degree. Aker Solutions managed relatively well with a decline of 10%. Furthermore, a few top 20 companies managed to increase revenue, e.g. ABB which managed to increase revenue by 15% in 2016.

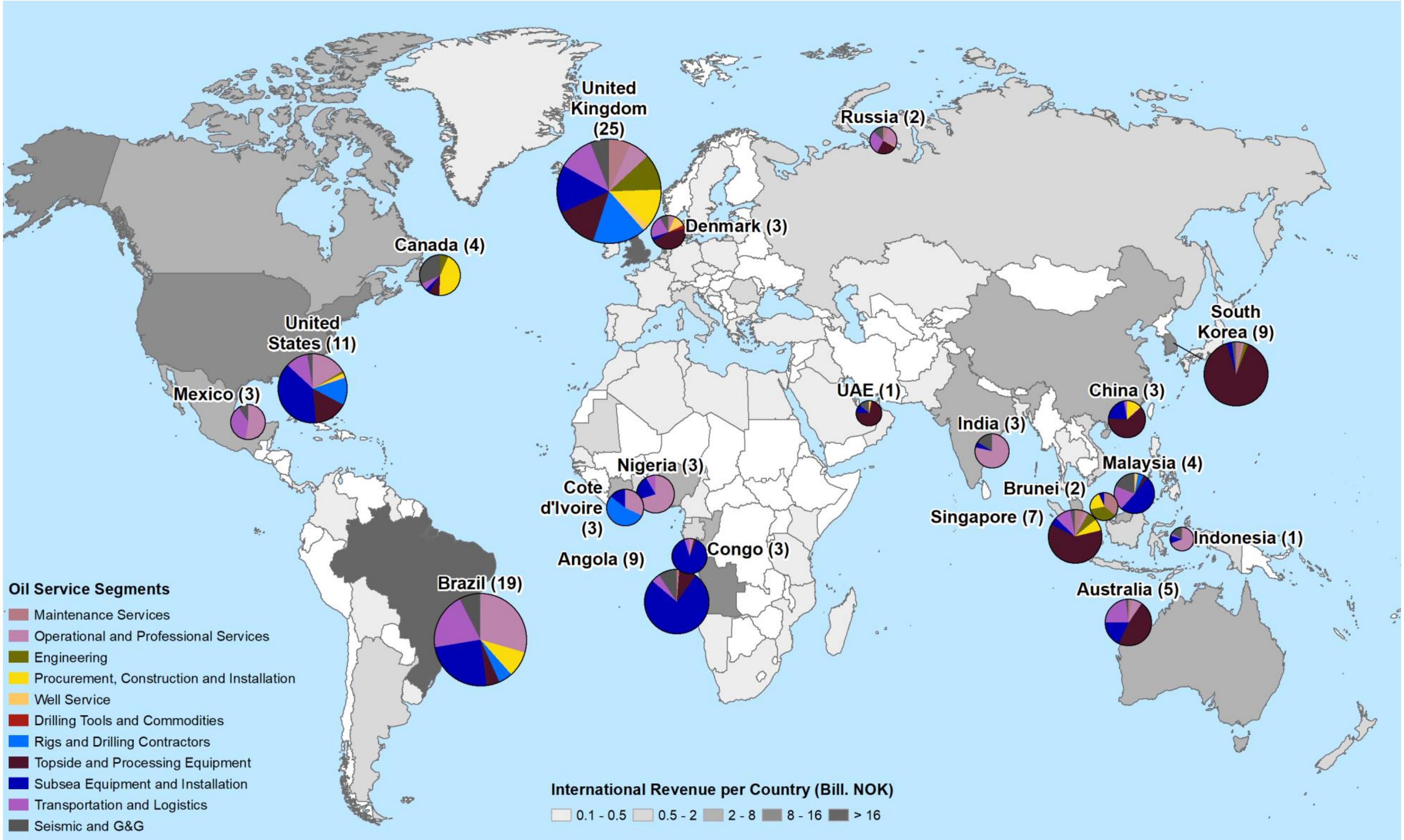
Still demanding for Norwegian oil service in 2017 and 2018

The demanding situation for the Norwegian oil service industry outside Norway is expected to continue in 2017 and 2018. New backlog orders in 2016 was very low, down 75% compared to 2015, and is expected to affect revenue in 2017 and 2018. Global expenditures in the offshore oil and gas industry is expected to decline over the next two years, and market conditions will remain tough across all product segments for the next two years. The decline in global expenditures is expected to turn after 2018 and grow towards 2020, which will create opportunities for Norwegian oil service suppliers internationally.

Source: Rystad Energy

Summary (3/5)

Norwegian service companies with deliveries in multiple segments across all continents



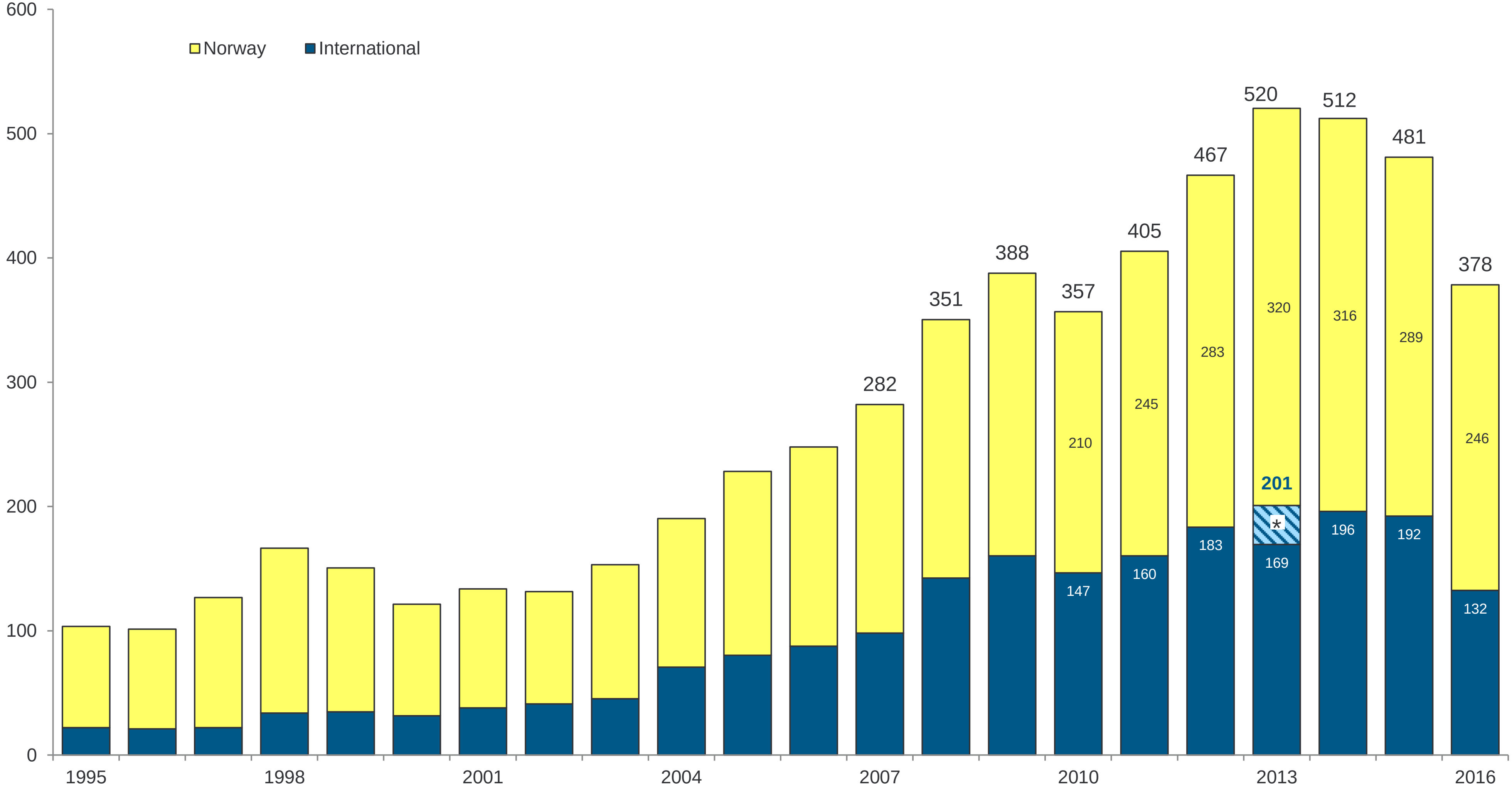
Source: Rystad Energy

Summary (4/5)

Severe decline in international revenue (-31%). Domestic marked with smaller decline (-15%)

Figure 0.1: Total revenue from Norwegian suppliers, Norway vs. internationally*

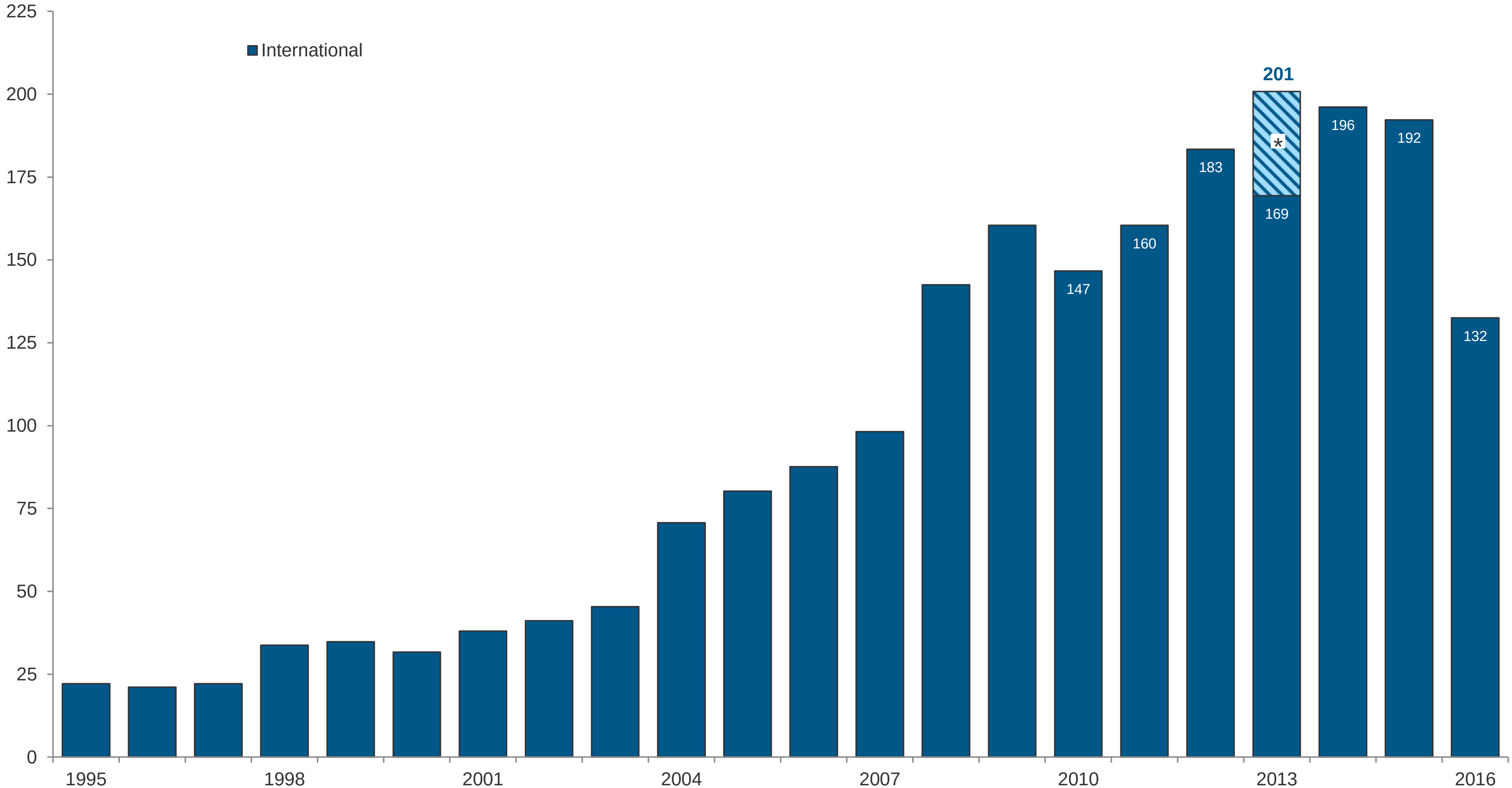
NOK billions



* International revenue from Seadrill and Archer is excluded from the data set for 2014 (Norwegian revenue from a subsidiary with business address in Norway is included in the revenue for Norway). Growth is calculated for comparable data sets (same base of companies). The revenue of all Norwegian oil service suppliers, both with and without international revenue, is included. See Appendix 5 for explanation of differences between this year's and last year's report. Source: Rystad Energy.

Summary (5/5)
Large decline in international revenue (-31%)

Figure 0.2: Total international* revenue from Norwegian oil service suppliers
NOK billions



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