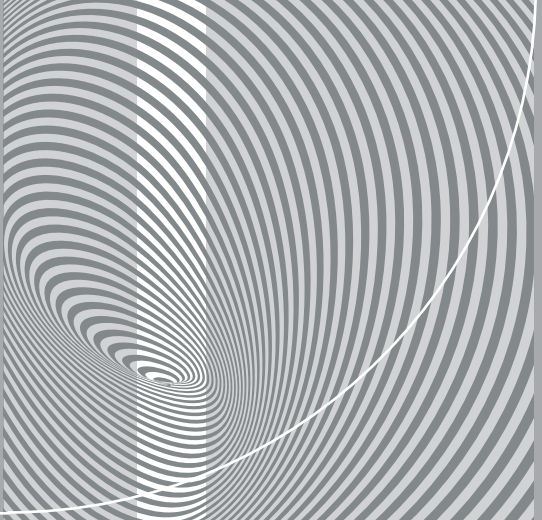
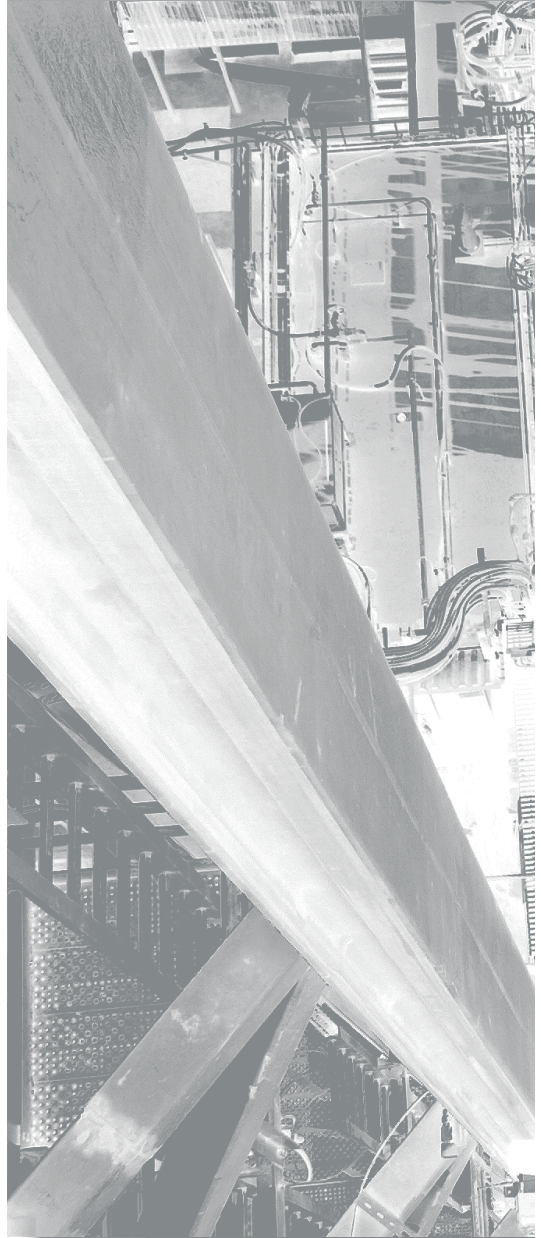
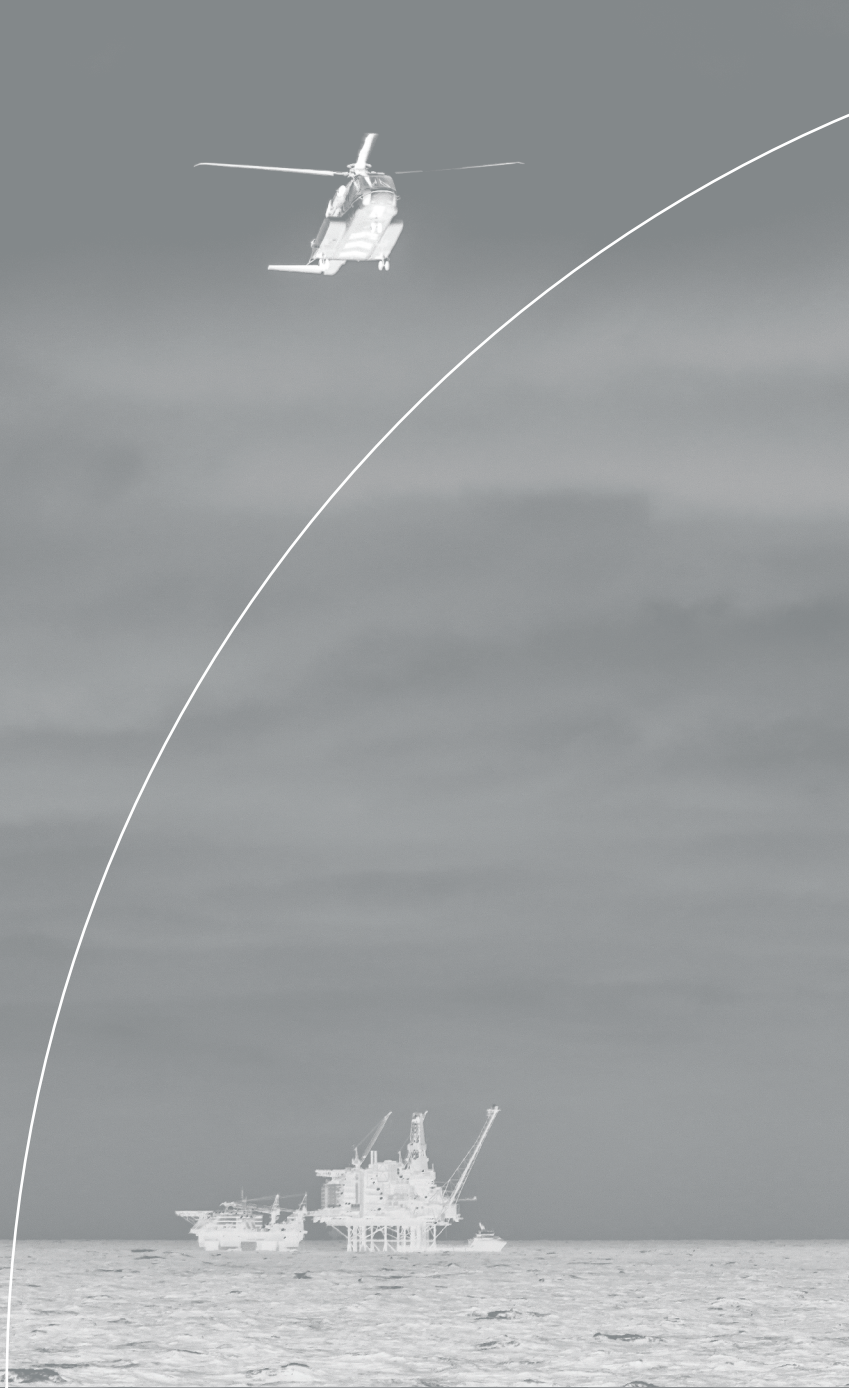


**WELL SERVICES  
CONTRACTORS  
REPORT 2015**



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## 1. Foreword

Welcome to the 2015 *Well Services Contractors Report*, which provides an update on both financial and non-financial aspects of the sector in 2014 as well as its business outlook for 2015. As a key part of the oil and gas industry, well services companies are involved in a broad spectrum of activities including the design, manufacture and sale of drilling and completion equipment and the services related to the installation and operation of this equipment on the UK Continental Shelf (UKCS).

The information contained in the 2015 report represents around 85 per cent of well services contractors. Firms surveyed range from small to medium enterprises (SMEs) focussing on high-end technologies to address specific downhole requirements, to major international multi-service contractors. Companies in this sector deliver services throughout the life cycle of the well including locating hydrocarbons and managing geological data, drilling, well construction and completions and generally optimising production.

The significant investment of £14.4 billion in the UK oil and gas sector in 2013 also had a positive impact on the performance of well services contractors who experienced strong demand for their services in early 2014. This led the sector to generate gross revenue of \$3.24 billion (£1.97 billion), a one per cent increase on the \$3.2 billion gross revenue recorded in 2013. It also suggests that the gross revenue generated by the sector had yet to feel the impact of the oil price fall that began in the last quarter of 2014.

Towards the end of 2014 and into the first quarter of 2015, a number of companies saw a reduction in the demand for their services and the expectation for 2015 is that activity levels will continue to decline. The report confirms that the sector, along with the rest of the UK oil and gas industry, faces a challenging business environment and therefore recruited fewer new staff during 2014.

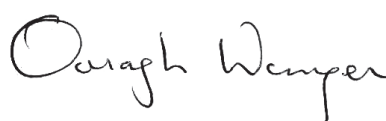
In common with other sectors in the UK oil and gas industry, well services contractors recognise the importance of tackling cost and improving efficiency and they continue to invest in technology and processes to support these goals. Such improvements in efficiency contribute to promoting increased activity and help maximise economic recovery from the UKCS.

Survey respondents highlighted a desire to focus on standardising processes to help improve efficiency through the use of shared industry tools such as standard contracts. These documents, alongside other tools and processes have been developed to help both operators and the supply chain become more cost effective. Further and continued collaborative effort can help to deliver value to all stakeholders and is strongly welcomed and encouraged by both Oil & Gas UK and the Well Services Contractors Forum.

We would like to thank the companies in the Well Services Contractors Forum for contributing to the information included in this report.



Paul White  
Chair of Oil & Gas UK's  
Well Services Contractors Forum



Oonagh Werngren  
Operations Director,  
Oil & Gas UK

## 2. Summary of Key Findings

This report highlights the following key trends within the UK well services contractor sector in 2014:

- Gross revenue for the sector was \$3.24 billion. Although this represents a small increase on the 2013 figure, the survey respondents forecast a decrease in revenue of nearly 23 per cent in 2015, reflecting the predicted downturn in drilling activity resulting from the reduction in oil price.
- The earnings before interest, tax, depreciation and amortisation (EBITDA) increased by nearly 23 per cent to \$591 million in 2014. The EBITDA margin increased to 18 per cent from 15 per cent in 2013.
- Capital investment at \$148.7 million decreased by 30 per cent in 2014. This is the lowest level of capital investment by the sector since 2010. It is forecast to fall a further 25 per cent to \$110.8 million in 2015.
- Spend on new technology decreased by 14 per cent to \$49 million.
- The UK well services contractor sector employed 12,894 people, which is a decrease from 2013 and is predicted to fall further in 2015.
- All survey respondents reported a decrease in demand for their work in 2014, particularly in quarter 4.
- The level of optimism within the sector has decreased, with companies predicting lower activity levels in 2015.

### 3. Introduction

The 2015 *Well Services Contractors Report* aims to present the key trends observed within the sector in 2014 and provide an insight into the key issues and opportunities on the UK Continental Shelf (UKCS) as identified by these companies.

The financial information in this publication is based on the services provided to operators in drilling and maintaining exploration, appraisal, development and production wells and does not include that which arises from the design, manufacture and sale of drilling equipment. Some of the companies surveyed also have activity in other areas, but these are not included in this report.

The data for this report were collected in March 2015 from responses to a survey sent to members of Oil & Gas UK's Well Services Contractors Forum. The companies included in this report represent the vast majority of activity in the well services contractor sector on the UKCS.

The companies surveyed include:

Altus International

Archer (UK) Ltd

Baker Hughes

Frank's International

Halliburton

Read Cased Hole Ltd

Schlumberger Oilfield Services

The questionnaire results are illustrated in an aggregated form and, for comparison purposes, data are shown from the earliest available date. Not every member of the forum provided data in response to each question.

Currency figures are in US dollars and are in money of the day.

## 4. Financial Data

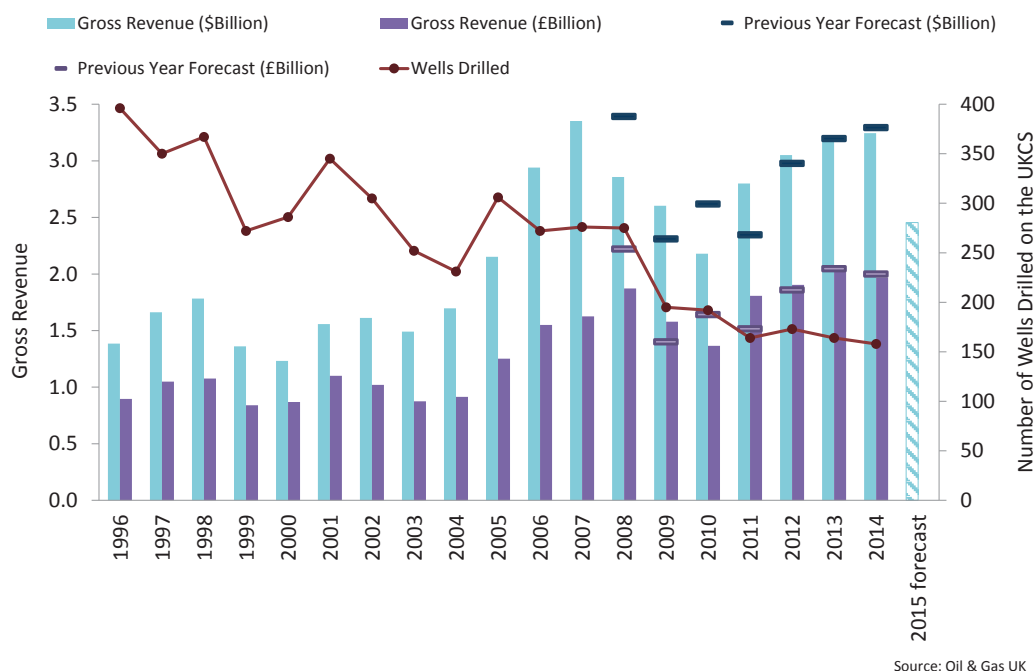
Companies were asked to provide financial data relating to their activity on the UKCS in 2014. This information does not include revenue from the design, manufacture and sale of well equipment.

### 4.1 Gross Revenue

Gross revenue for the UK well services contractor sector was \$3.24 billion (£1.97 billion) in 2014, a one per cent increase on the \$3.2 billion gross revenue recorded in 2013. It is important to note that the list of survey respondents who submitted financial information for this year’s report is not completely identical to the previous year. When like-for-like financial information is compared, a 4.8 per cent increase is observed from 2013 to 2014.

Figure 1 shows the forecast gross revenue for 2014 was \$3.29 billion, which is \$0.05 billion more than the actual recorded revenue. For 2015, the forecast gross revenue is \$2.5 billion, a projected decrease of nearly 23 per cent. Furthermore, the Well Services Contractor Forum members recognise that the actual revenue in 2015 could be even lower. For the last three years, the forecast revenues have been very close to the recorded values.

**Figure 1: UK Well Services Contractor Sector Gross Revenue**



The total number of wells drilled, including sidetracks, decreased by 3.7 per cent from 164 in 2013 to 158 in 2014<sup>1</sup>. Since 2010, the total number of wells drilled on the UKCS has decreased by 17.7 per cent. Despite this decline, the revenue for the sector has remained consistently strong, with companies reporting activity in areas such as the development and maintenance of existing wells. The forum members forecast that the number of wells drilled will fall significantly further in 2015 and, as such, they expect a large reduction in rig activity.

The fall in oil price that began in the last quarter of 2014 has not yet had a substantial impact on revenue. A number of companies reported strong performance in early 2014 with demand reducing in quarter 4.

<sup>1</sup> Oil & Gas UK’s *Activity Survey 2015* is available to download at [www.oilandgasuk.co.uk/activitysurvey](http://www.oilandgasuk.co.uk/activitysurvey)



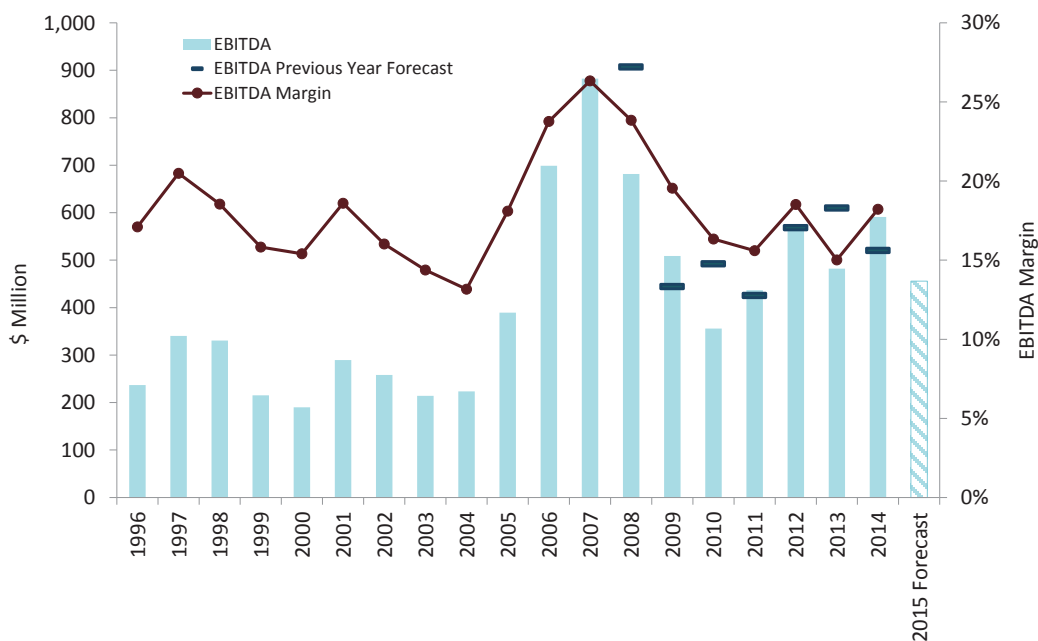
## 4.2 Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

Earnings before interest, tax, depreciation and amortisation (EBITDA) reflect the operating profit before adding back the specific non-cash items of depreciation and amortisation and, as such, can indicate the health of the sector. EBITDA does not account for movements in working capital (stock, debtors and creditors) and, therefore, it is not a proxy for cash flow.

In 2014, EBITDA was \$591 million (£359 million), an increase of nearly 23 per cent on the 2013 figure of \$482 million (£308.5 million). This is 14 per cent higher than the \$520 million forecast and is largely due to strong performance in the first three quarters of 2014. When like-for-like financial information is compared, a 33 per cent increase is observed. EBITDA is forecast to fall to \$456 million in 2015, a decrease of almost 23 per cent.

The EBITDA margin is the ratio of EBITDA to gross revenue and is the percentage remaining after operating expenses are deducted. This margin has increased from 15 per cent in 2013 to 18 per cent in 2014.

**Figure 2: Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)**



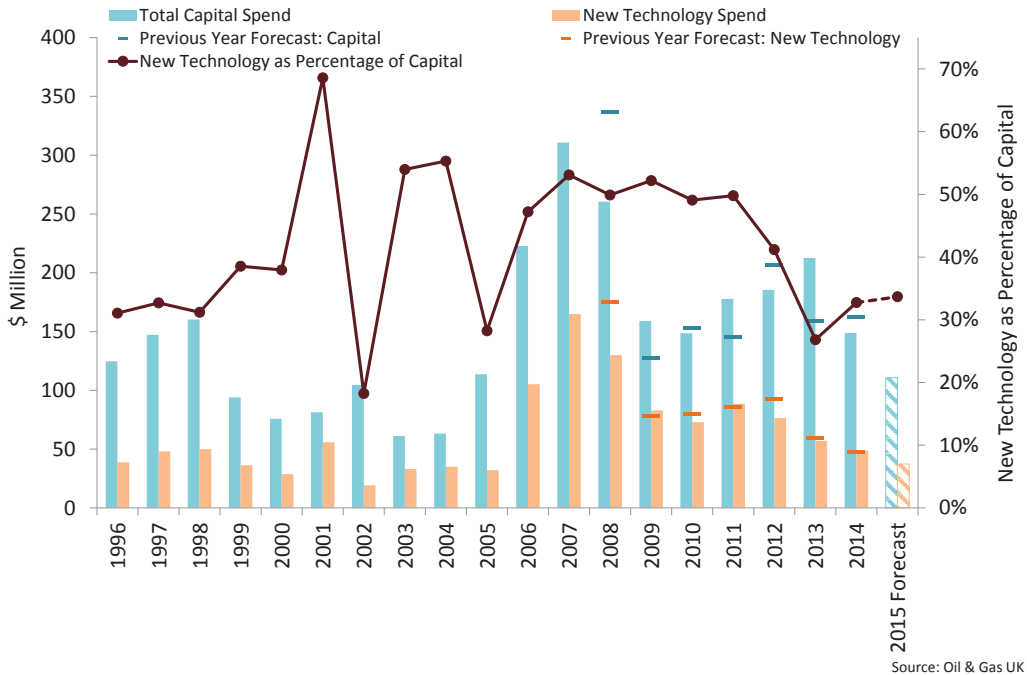
Source: Oil & Gas UK

### 4.3 Capital Investment and New Technology Spend

The UK well services contractor sector reported capital investment of \$148.7 million (£90.3 million) in 2014, a 30 per cent decrease on the 2013 figure of \$212.5 million (£136 million). This is the lowest level of capital investment recorded since 2010. Capital investment in the UKCS faces strong competition from other regions around the world, with more capital being spent in emerging markets and regions with a higher rate of return. It is forecast to fall a further 25 per cent in 2015 to \$110.8 million.

Spend on new technology in 2014 was \$49 million (£30 million), 14 per cent less than \$57 million (£37 million) in the previous year. This decline continues the downward trend seen over the last four years and is at its lowest level since 2005. A lack of exploration and appraisal activity has led to this decrease. However, the spend on new technology as a percentage of capital has increased since 2013, indicating that the well services contractor sector is still committed to delivering new solutions to clients.

**Figure 3: Total Capital Investment and Spend on New Technology**



Source: Oil & Gas UK

## 5. Sector Resources

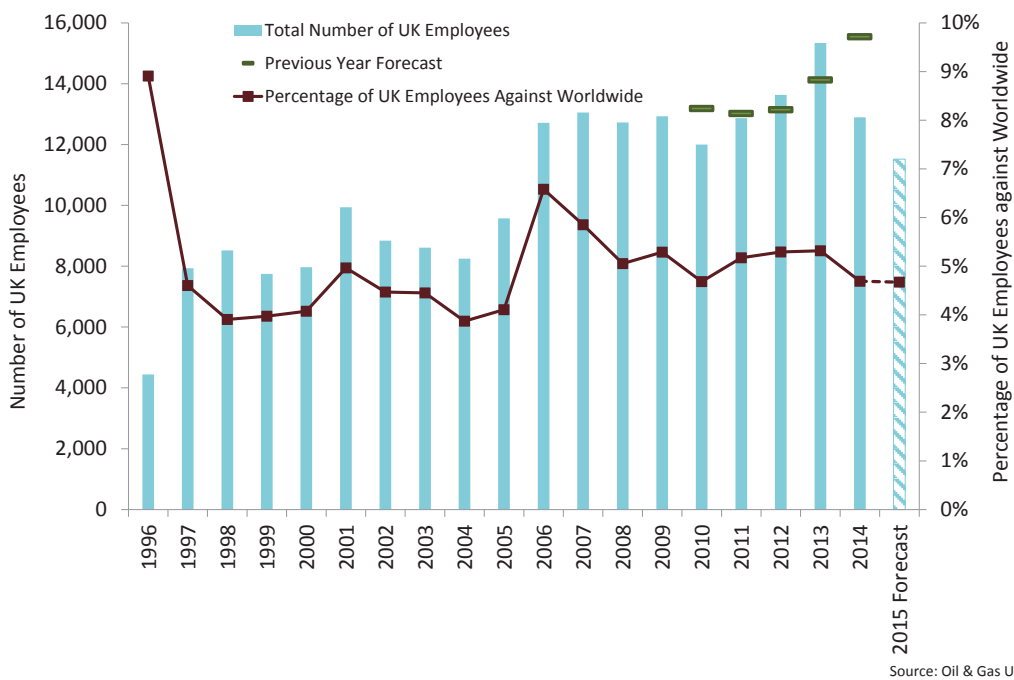
### 5.1 UK Employees

In 2014, the UK well services contractor sector employed 12,894 people. Although this represents a 16 per cent decrease on the 2013 figure of 15,339, a comparison of like-for-like information shows a smaller three per cent decrease. This discrepancy is due to different companies submitting resource information for this report.

The global workforce has seen a slight increase in employment numbers, meaning that the percentage of UK employment against worldwide has fallen slightly.

Staff turnover (attrition rate) has fallen from 12 per cent in 2013 to five per cent in 2014. A large proportion of the 2014 attrition rate is due to movement between well services contractors.

**Figure 4: Total Employment within the UK Well Services Contractor Sector**



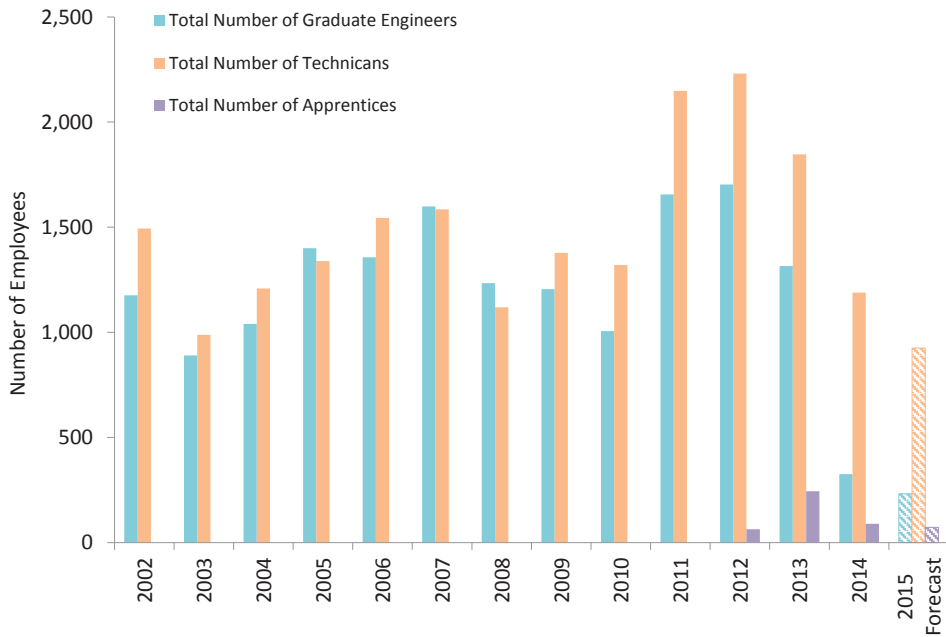
### 5.2 Graduate Engineers, Technicians and Apprentices

In 2014, the number of graduate engineers (326), technicians (1,189) and apprentices (89) employed within the sector declined by 75 per cent, 36 per cent and 64 per cent, respectively (see figure 5a overleaf).

It is important to note that a large proportion of this decrease is due to different companies submitting information to this year's survey. A like-for-like comparison shows that the number of graduate engineers decreased by 44 per cent, the number of technicians by three per cent and the number of apprentices by 47 per cent (see figure 5b overleaf). Further reductions are forecast in all three areas in 2015.

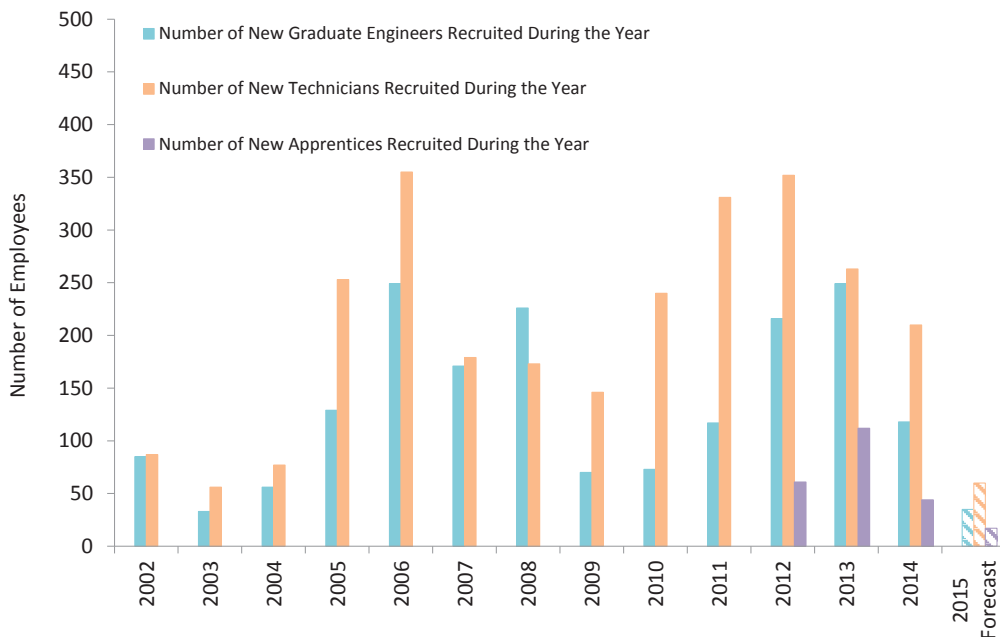
The number of new engineers, technicians and apprentices<sup>2</sup> recruited during 2014 decreased from the 2013 values. Along with the lower attrition rates, this suggests that the companies are retaining a higher proportion of current staff, rather than taking on and training new employees. This is a worrying trend, as a lack of recruitment of graduates and apprentices could lead to a significant skills shortage in the future.

**Figure 5a: Number of Technicians, Graduate Engineers and Apprentices**



Source: Oil & Gas UK

**Figure 5b: Number of New Technicians, Graduate Engineers and Apprentices Recruited During the Year**



Source: Oil & Gas UK

<sup>2</sup> Figures for recruitment of apprentices are only available from 2012

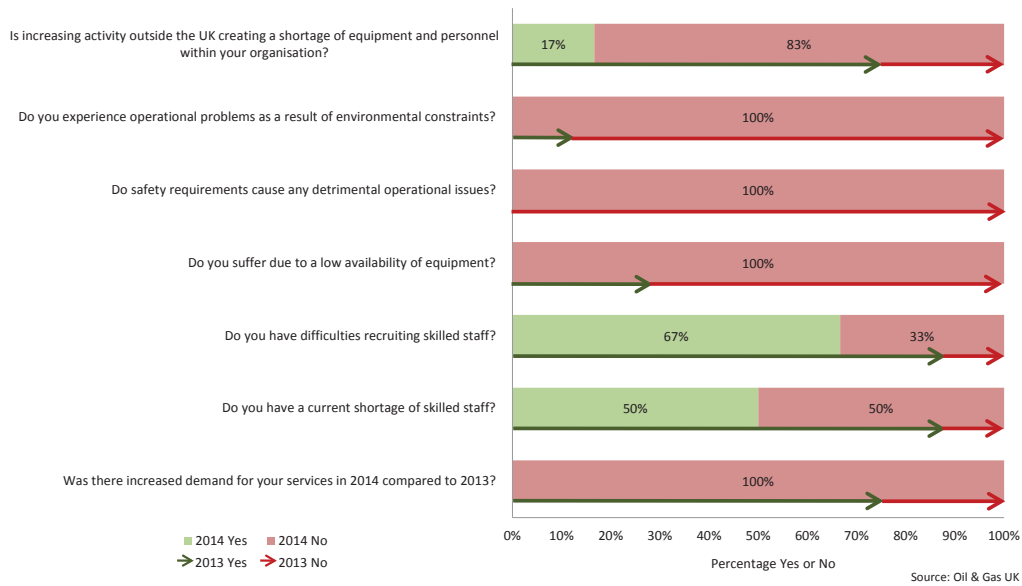
## 6. Operational Issues

Well services contractors were asked to provide an insight into the operational issues that they faced in 2014. All companies reported a reduced demand for their services, compared to 75 per cent reporting an increased demand in 2013. This reduction was especially pronounced in the final quarter of 2014.

Sixty-seven per cent of companies reported difficulty in recruiting skilled staff and half reported a current shortage in skilled staff. Both these figures have reduced from 88 per cent in 2013, with companies commenting that the downturn will lead to more skilled personnel becoming available.

Companies report that environmental and safety issues, as well as equipment shortages, are not creating operational constraints. Anticipated lower activity levels will cause a decline in equipment usage, leading to a reduction in equipment shortages. Increasing activity levels in oil and gas provinces other than the UK created a shortage of equipment and personnel for 17 per cent of companies in 2014 compared to 75 per cent the previous year, suggesting a global slow down of activity.

**Figure 6: Operational Issues**



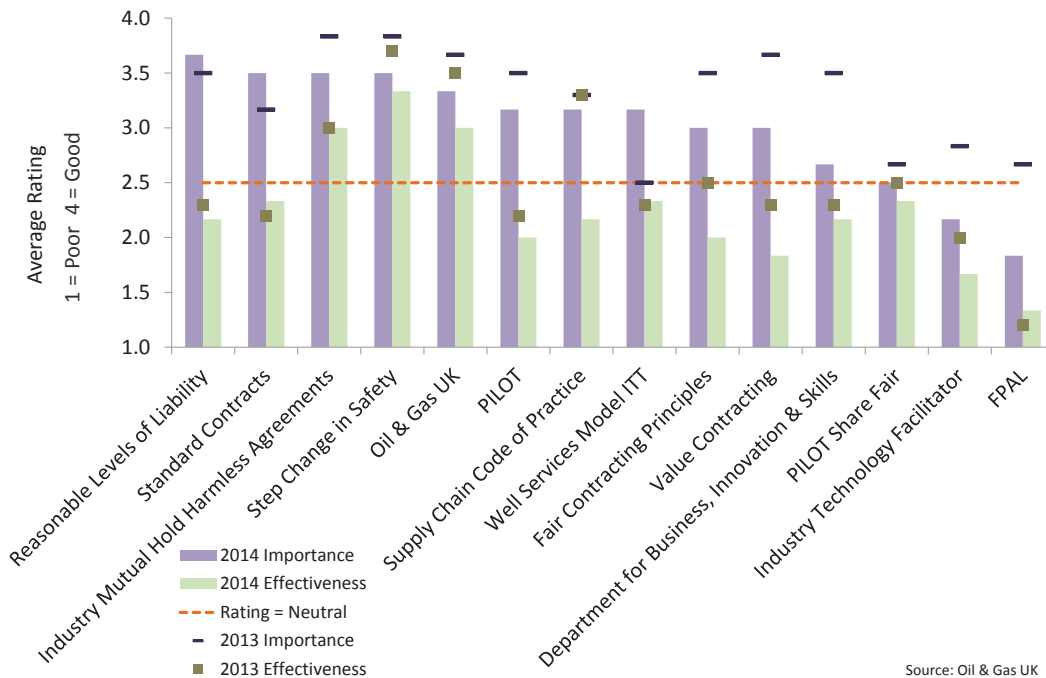
## 7. UK Government/Industry Initiatives and Organisations

Survey respondents were asked to rate the importance and effectiveness of a number of government and industry initiatives and organisations, which have been established to encourage improved safety standards, drive more efficient business practices and stimulate increased collaboration across the industry.

The four most important initiatives are Reasonable Levels of Liability, Standard Contracts, Industry Mutual Hold Harmless Agreements and Step Change in Safety. In terms of effectiveness, the highest ranking initiatives are Industry Mutual Hold Harmless Agreements, Step Change in Safety and Oil & Gas UK. Many of the initiatives ranked lower in both importance and effectiveness in 2014 compared to 2013, reflecting the overall negative industry sentiment<sup>3</sup>.

The high importance given to Reasonable Levels of Liability and Standard Contracts show that the well services contractor sector is keen to identify areas where standardising processes could help improve levels of efficiency in the industry. Both these initiatives have been ranked as having low effectiveness, suggesting that a lot more can be done to improve standardisation in these areas.

**Figure 7: Importance and Effectiveness of UK Government/Industry Initiatives and Organisations**



Source: Oil & Gas UK

<sup>3</sup> Oil & Gas UK's *Business Sentiment Index Q1 2015* is available to download at [www.oilandgasuk.co.uk/sentiment](http://www.oilandgasuk.co.uk/sentiment)

## 8. The Well Services Contractors Forum's Mission

The Well Services Contractors Forum has four key aims:

- Gaining recognition for technology
- Promoting the alignment of objectives with operators, suppliers and other contractor companies
- Challenging the barriers to maximise recovery of UKCS reserves
- Encouraging efficient contracting practices

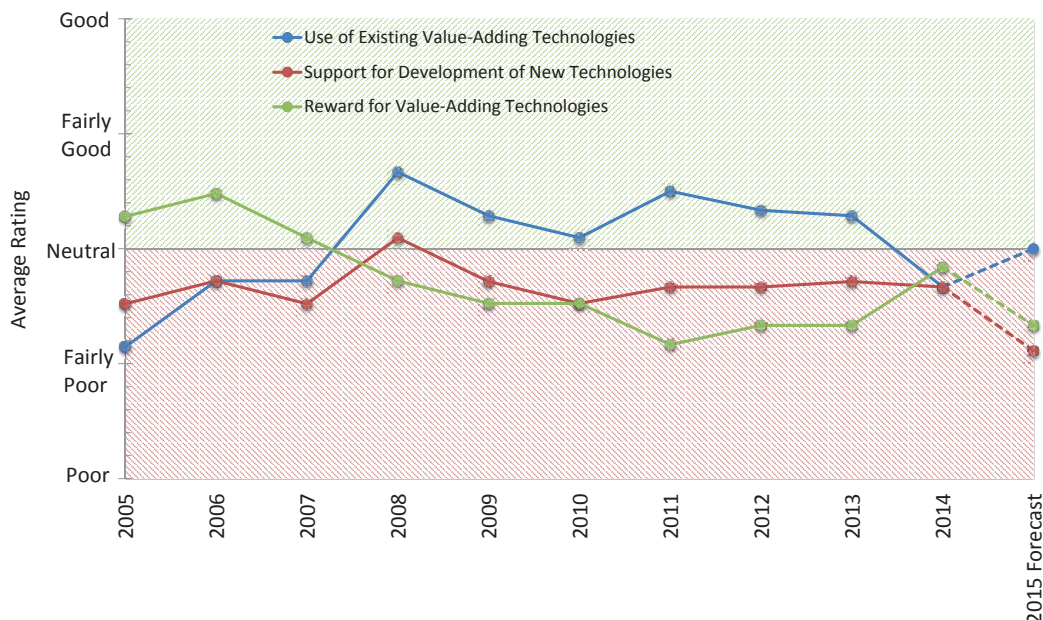
Respondents to the survey were asked questions surrounding the delivery of these four key aims.

### 8.1 Gaining Recognition for Technology

In 2015, well services companies forecast that use of existing value-adding technologies will increase, but the reward for value-adding technologies will decrease.

They also predict that the support for developing new value-adding technologies will decrease, indicating that clients are not willing to pay more for such technology. The predicted rise in the use of existing technology could be due to a move towards using tried and tested methods as the sector's services are more likely to be deployed in well interventions rather than for innovative techniques for drilling new wells.

**Figure 8: Recognition of Technology**



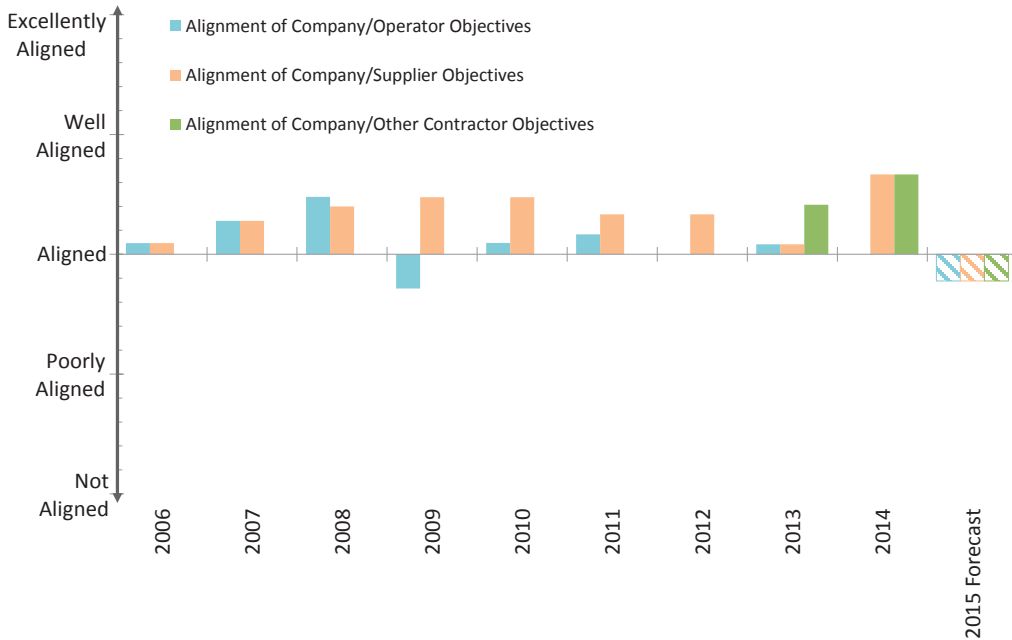
Source: Oil & Gas UK

## 8.2 Promoting Alignment of Objectives with Operators, Suppliers and other Contractor Companies

The survey indicates that there is room for significant improvement in the alignment of well services contractors' objectives with those of operators, suppliers and other contractors. For the first time since reporting began, alignment with suppliers and other contractors is forecast to be poor and alignment with operators is forecast to worsen. It has been suggested that the negative alignment with suppliers and other contractors is an initial reaction to poor market conditions, but respondents expect this relationship to return to positive in the near future.

The sector is keen to become involved in projects at an earlier stage and build higher levels of partnership with operators. The sector finds it challenging when asked to cut costs and believes that it could add value and efficiency through a more collaborative approach with operators.

**Figure 9: Alignment of Objectives with Operators, Suppliers and Other Contractors**



Source: Oil & Gas UK

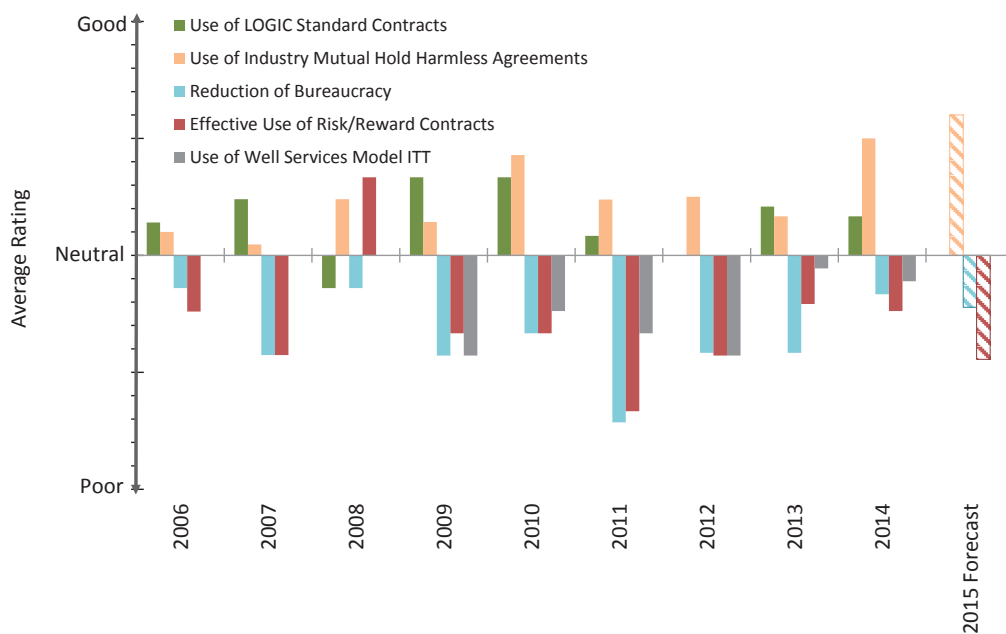


### 8.3 Encouraging Efficient Contracting Processes

The well services contractors sector rates the use of Industry Mutual Hold Harmless agreements as the most effective initiative in encouraging efficient contracting processes. In 2015, the rating for LOGIC Standard Contracts is forecast to decrease to neutral, while the rating of Reduction of Bureaucracy and Effective use of Risk/Reward Contracts remains in negative territory. Use of the Well Services Model ITT is also forecast to be neutral in 2015.

The survey reveals that there is still much room for improvement in this area. Companies hope to improve efficiency by making use of the standardisation and simplification that tools such as FPAL and LOGIC Standard Contracts can achieve. The respondents note the potential pan-industry benefits available through efficient use of these initiatives.

**Figure 10: Initiatives to Encourage Efficient Contracting Practices**



Source: Oil & Gas UK

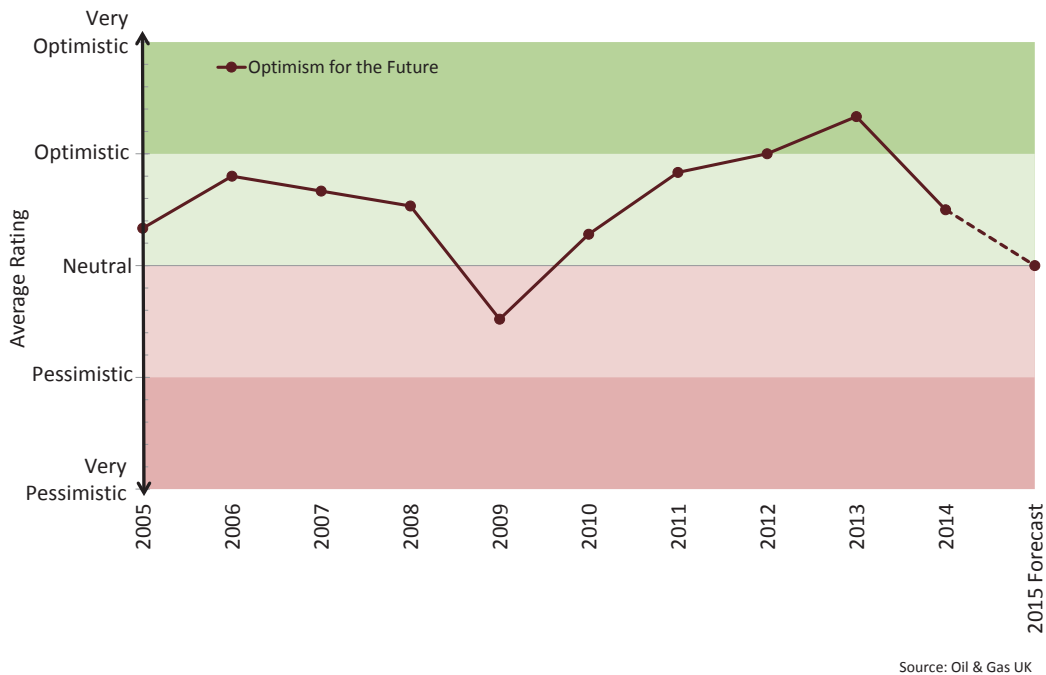
## 9. The Future Outlook

### 9.1 Degree of Optimism

The well services contractors sector expects a decrease in the level of optimism in 2015, continuing the decline since 2013. Companies cite the steep fall in oil price and concern about future activity levels among factors reducing optimism. A number of companies believe significant changes to the current business model are required and that there must be swift implementation of the Wood Review recommendations. The decrease in optimism reflects the *Business Sentiment Index*<sup>4</sup>, which has declined over the last eight quarters and has been in negative territory for the last three quarters.

Companies do note that there is still potential for new development on the UKCS, such as the possibility of exploring undeveloped areas and rejuvenating more mature regions. Combining these opportunities with the competence, experience and technology capability of the UK well services sector leads a number of companies to remain optimistic.

**Figure 11: Degree of Optimism about the Future of the UK Well Services Contractor Sector**



<sup>4</sup> Oil & Gas UK's *Business Sentiment Index Q1 2015* is available to download at [www.oilandgasuk.co.uk/sentiment](http://www.oilandgasuk.co.uk/sentiment)

## 9.2 Major Challenges and Suggested Actions

Optimism for the future has declined for the second year in a row (see figure 11) and there are a number of significant challenges facing the well services contractors sector. Companies report that the global downturn is having a substantial impact on a UK level and they anticipate a drop in activity in 2015. The sector also has concerns that job losses will mean that skilled workers will be lost from the industry, potentially creating a future skills shortage. In addition, the decreasing numbers of graduates and apprentices recruited could also contribute to a potential future skills shortage.

The high operating cost on the UKCS continues to be a major challenge for the sector, although the market downturn has triggered a restructuring of the cost base, which could have a long-term positive impact. Survey respondents emphasised the importance of sustaining activity to ensure that the local infrastructure remains strong.

The well services contractor sector notes efficiency as a key area to focus on. The companies suggest that standardising technologies across operators would greatly reduce manufacturing costs. They also recommend that technology aimed at increasing the lifespan of wells and improving the effectiveness of maintenance programmes should be an area of focus. The sector is keen to work closely with operators to help drive these efficiency changes and ensure a strong future for the UK oil and gas industry.

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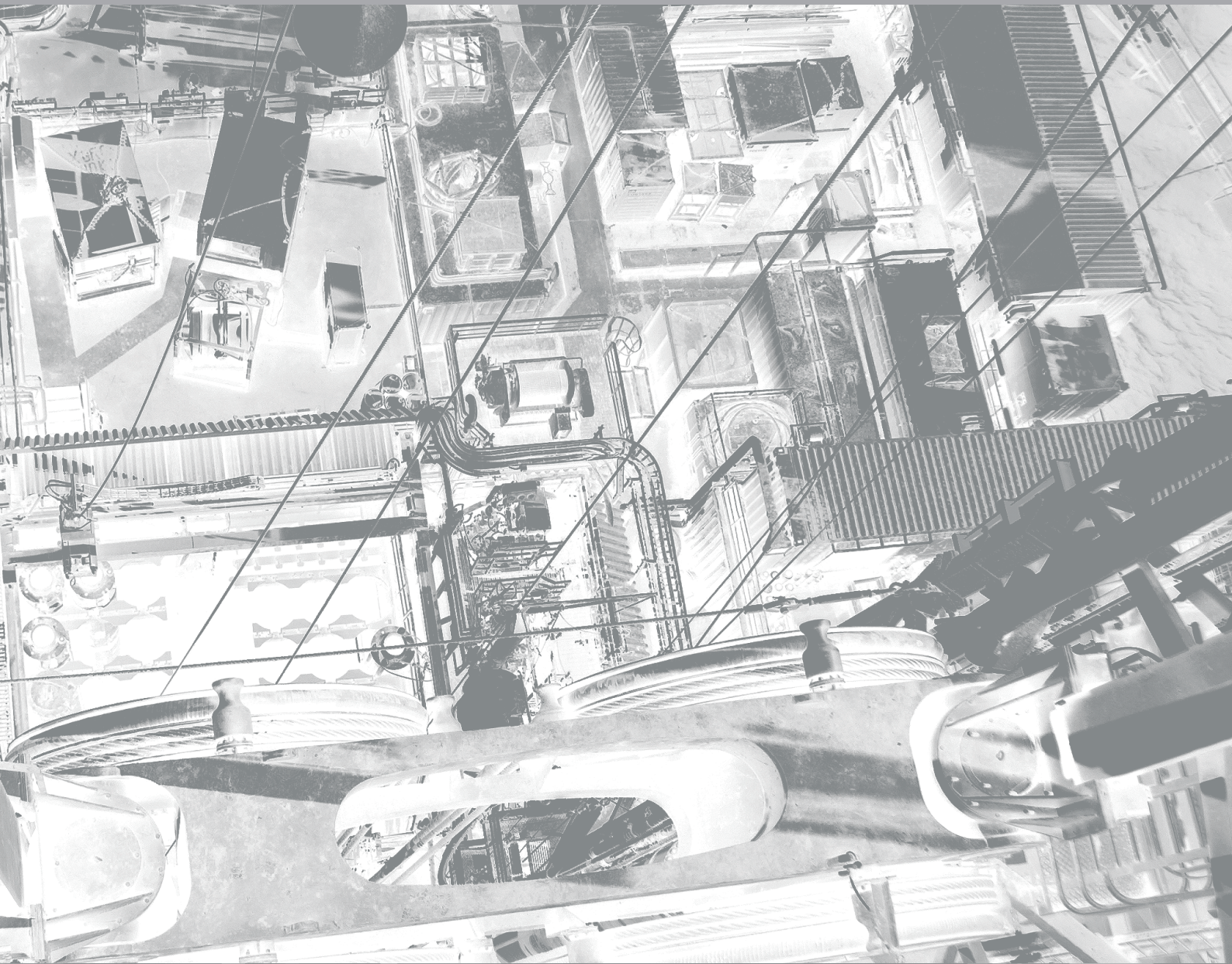
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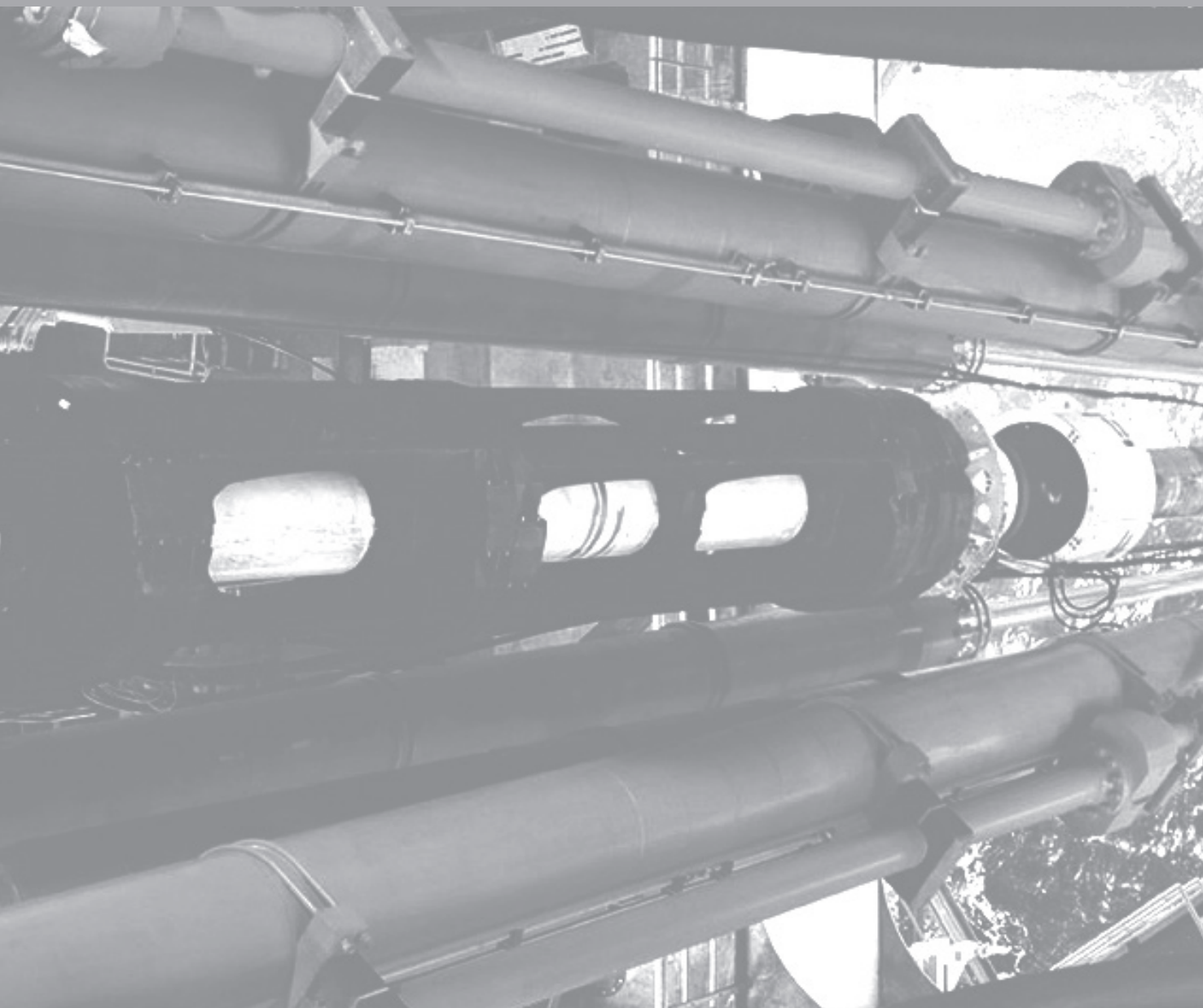
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## Notes





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ISBN 1 903 004 48 9

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