



Dutch Oil Field Services

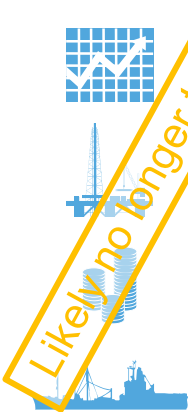
State of the industry and sentiment going forward

10 March 2020

The sentiment among leading companies in the Dutch OFS sector was positive towards the coming years – the recent developments will have changed this

Overview of key insights from December/January interviews

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Market is expected to continue the positive trend set in 2019 when the market saw a rebound

After years of decline, investment in greenfield has picked up again and is expected to continue going forward

Despite a more positive market environment, OFS sector will likely continue to experience margin pressure

Utilization of offshore support vessels remains low, indicating a lack of willingness to scrap overcapacity

... others are still valid or might become even more relevant in the new reality



The epicentre of OFS activity is likely to shift further away from the North Sea, given by higher growth rates elsewhere



The maturing renewables market presents an opportunity for the OFS sector despite being highly competitive



Opinions are divided on whether the Netherlands should actively push local content requirements on projects

Some of the topics are expected to be part of the future anyhow



'Doing good for the world' is a broadly-stated ambition and seen as a way to provide shareholder value

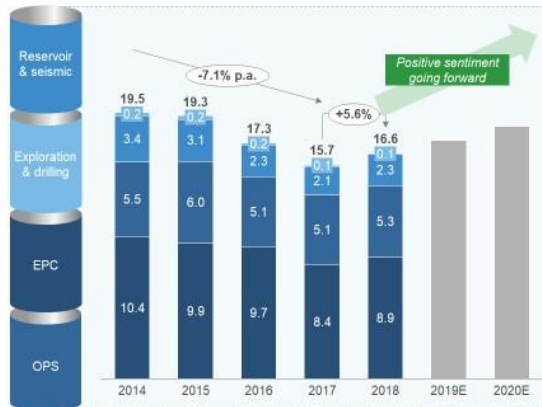


Although sustainability considerations are gaining more prominence, price remains the key criterion for OFS clients – how long will this hold?

The conclusions from the late 2019 interviews with the CEO's were still positive ...

Following the first signs of a rebound in 2018, the oilfield services industry is unanimously positive about revenue development in 2019 and going forward

Oilfield services industry revenue development and supporting verbatim by segment, Netherlands, 2014-2018
Cb, CAGR %



Interview commentary¹

"Last year we saw a lot more activity in the O&G sector – I think we are now continuing to recover from the bottom point reached just before."

"I agree that there is definitely a new investment cycle starting which will push growth for the industry..."

"Yes, we experienced growth last year and expect that to continue in the future, although different segments (O&G vs. wind) will be affected differently."

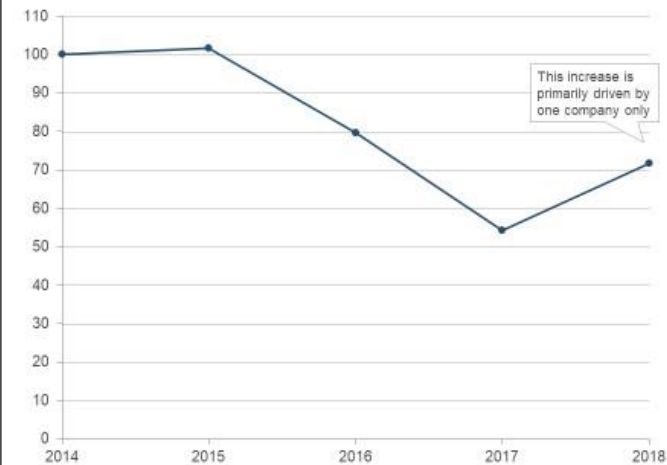
¹ Statement: industry revenues will increase in the next 1-2 years
Source: Dutch oilfield services analysis (2019); EY-Parthenon interviews and analysis

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Despite improving demand for oilfield services, the industry is expected to continue to experience pressure on margins

Oilfield services industry EBITDA development and supporting verbatim, Netherlands, 2014-2018
Margin-% normalized (2014 = 100)

Based on subset¹



Interview commentary

"Margins in offshore are increasing, but will never reach previous high levels"

"Slight margin improvement is possible yet at a very slow pace driven by structural overcapacity in various sectors"

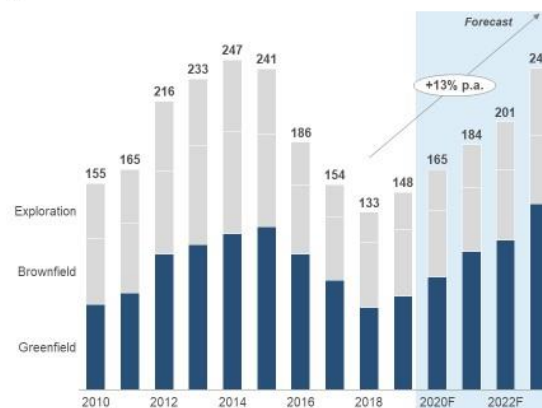
"Margins remain challenging driven by the surge of new vessels in 2005-2007, which currently drive overcapacity and hamper margin improvement, despite increasing offshore activity"

¹ Based on a subset of 32 companies, relative to the 48 on the previous page
Source: Dutch oilfield services analysis (2019); EY-Parthenon interviews and analysis

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A rebound of greenfield offshore projects in 2019 stopped the decline of offshore investments and resulted in a changing project mix for IRO members

Global offshore O&G investment, 2010 – 2023F
Cb



Interview commentary

"Greenfield CAPEX has been a larger growth driver this year and we expect that to continue into 2020."

"Brownfield is always important in O&G, but we also see more greenfield opportunities, especially in the renewable energy sector."

"We are seeing more greenfield projects coming up, especially in the North Sea region."

Source: RystadEnergy; EY-Parthenon interview program

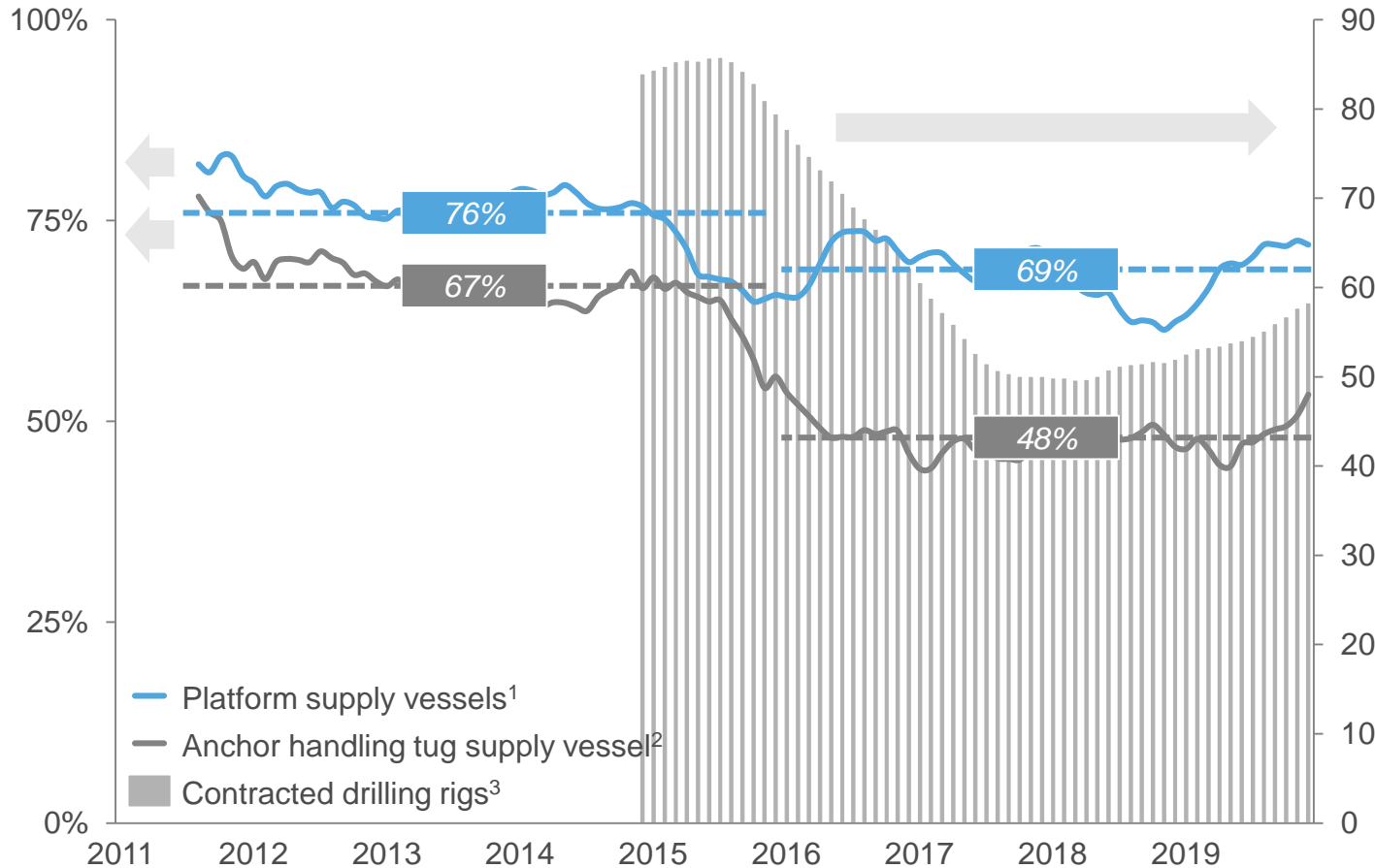
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Despite an uptick in the last months of 2019, utilization of offshore support vessels remains low - scrapping of capacity is not occurring across the industry (for now)

Number and utilization of offshore vessels, North Sea, 2011 – 2020

Utilization by vessel type
% moving annual average

Number of contracted drilling rigs
moving annual average



Interview commentary

Majority of interviewed IRO members **agree more should be done to reduce overcapacity³**

“Scrapping and cold stacking is **not done to the extent that it should be** happening.”

“There is **massive overcapacity** of offshore vessels and they stay in the market even if their owners go bankrupt because some other player will snap them up... Nobody **wants to be the first** to start scrapping”

1. 2012 – 2019: PSVs < 900m², 2010-2011: PSVs < 800m²

2. 2017 – 2019: AHTS < 22,000 BHP, 2010 – 2016: AHTS < 18,000 BHP

3. Both jack-ups and semisubmersibles

4. Statement: The OFS sector should be open to stacking or even scrapping equipment if it fails to meet threshold returns

Activity level of the Dutch OFS sector depends on the oil price – the future of the oil price is anybody’s guess.... But what can the OFS sector do?

For discussion

Elements of scenario’s in which oil price will likely remain low for a prolonged period

- ▶ It takes a longer period to contaminate the Corona COVID virus
 - Extensive travel bans
 - Many economies go into recession
- ▶ OPEC+ instability persists for a pro-longed period
- ▶ Global economic situation leads to (further) political instability
- ▶ ...

Likely to be prolonged period of uncertainty and instability

Elements of scenario in which oil price might recover to a reasonable level

- ▶ Corona Virus becomes in control and will not become a prolonged massive global Pandemic
- ▶ Governments stimulate economies to the maximum to prevent a (global) recession
- ▶ OPEC+ member states come to an agreement and rationalise production
- ▶ Old and less efficient wells are take out of service
- ▶ ...

What options does the OFS sector have in the meantime?

Can companies file for worktime reduction of staff?

Is additional capital available to whether the storm?

Can CAPEX be postponed for a period of time?

Are additional credit lines available?

Can cost be reduced any further?

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Although sustainability considerations are gaining more prominence, price remains the key criterion for OFS clients – how long will this hold?

The North Sea region is expected to (further) diminish in importance for the Dutch O&G sector as investment shifts to other areas of the world

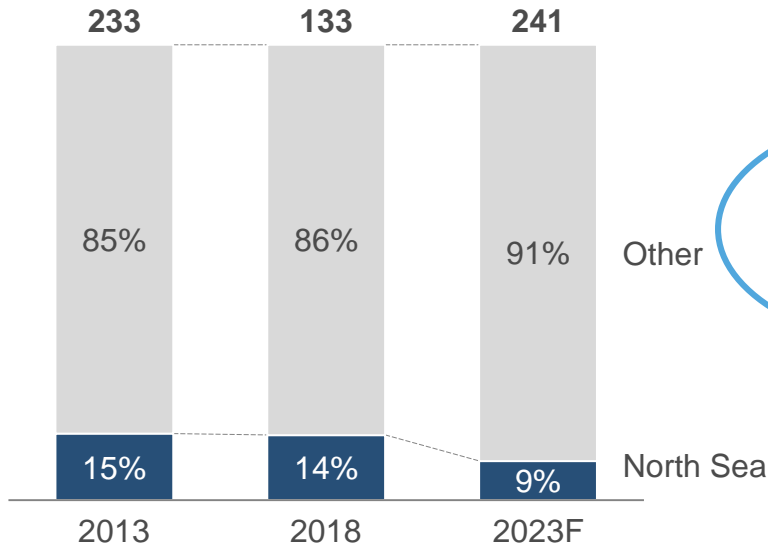
North Sea offshore activity in global context, 2013 – 2023F

Indicative

North Sea O&G CAPEX is expected to demonstrate modest growth for the next few years compared to other areas...

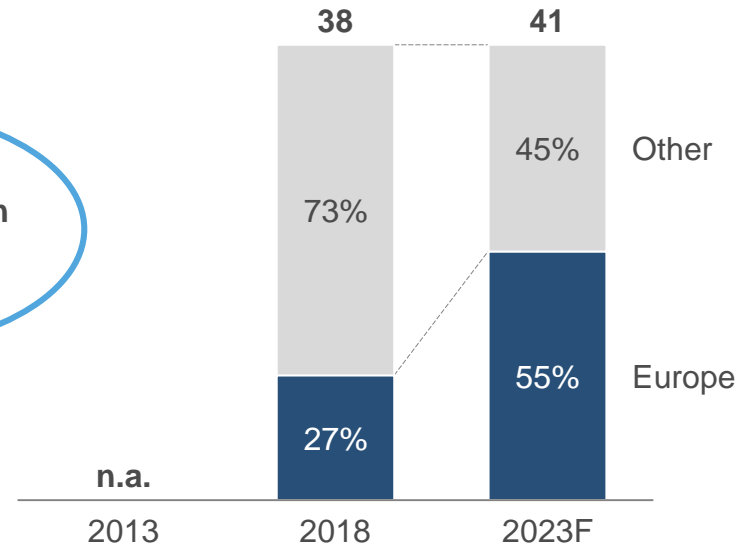
...but will continue to lead the world in deployment of offshore wind, generating substantial demand for O&S

Global offshore O&G CAPEX investment
€b



In the next 4 years, the offshore investment in **wind in Europe** equals that of O&G in the North Sea

Global offshore wind CAPEX investment
€b

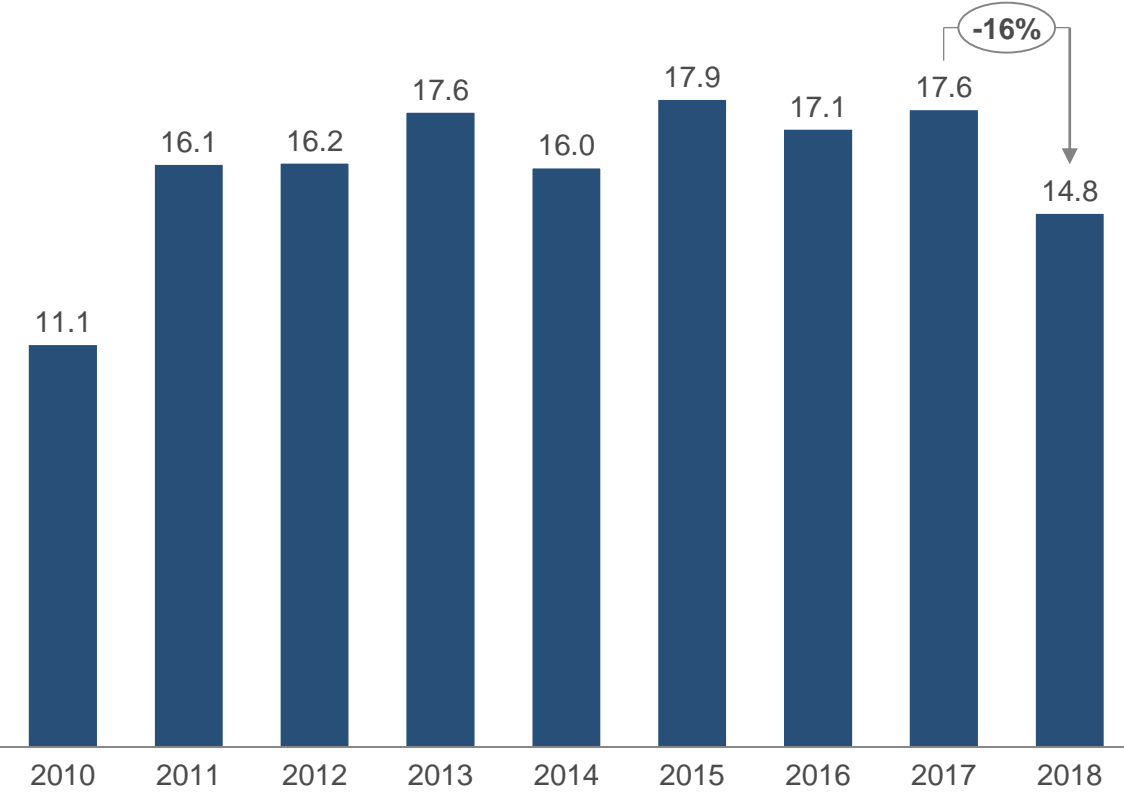


“A large share of the O&S market is already global, so as O&G in other regions takes off, these regions will naturally **become ever more important than the North Sea**”

“Our expectation is that **offshore wind will drive the majority of growth in the North Sea**”

Offshore wind is seen as a growth opportunity but its increased maturity is paired with higher levels of competition, potentially putting pressure on margins

Average investment costs per wind turbine, Europe, 2010 – 2018
€m



Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Average wind turbine power MW	3.0	3.8	4.1	4.0	3.8	4.1	4.7	5.3	6.0

Interview commentary

“We are **pivoting to becoming a wind-focused** organisation rather than an O&G one, as this has a lot of future potential”

“Offshore renewables are a **tough and highly competitive** market, especially since subsidies were withdrawn.”

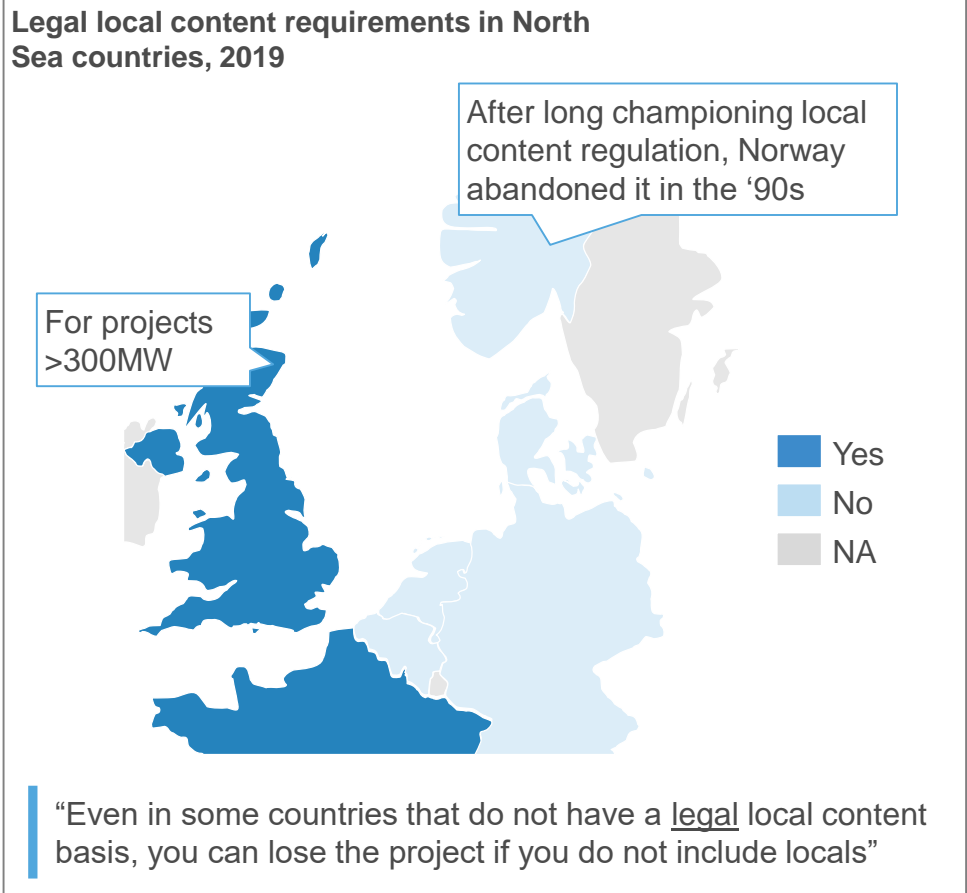
“The Netherlands has a lot of expertise when it comes to offshore wind and the increasing number of turbines definitely **represents an opportunity...** However, suppliers will need to become **more efficient to guarantee sustainable margins**”

Opinions are divided on whether the Netherlands should more actively push local content requirements on offshore projects

Local content enforcement

Indicative

France and the UK are the only North Sea countries legally enforcing local content...



...but IRO members are divided on whether the Dutch government should do the same



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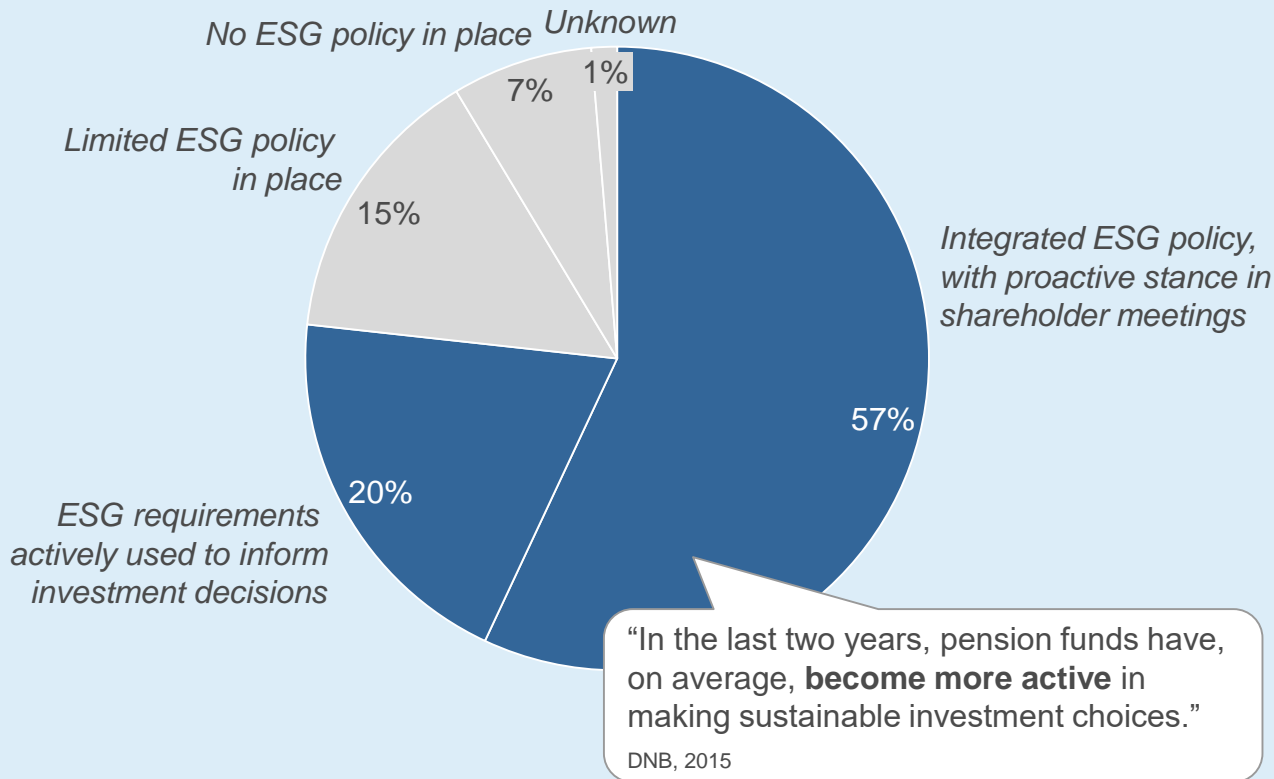
‘Doing good for the world’ is a broadly-stated ambition within the OFS sector and is not contrary to shareholder value as investors increasingly demand action on this topic

Pension fund ESG¹ policies as classified by DNB², The Netherlands, 2015

% of assets under management

Around three-quarters of Dutch pension fund assets are routinely evaluated on ESG criteria

Evaluation of 219 Dutch pension funds



Interview commentary

“More and more banks and pension funds **pay attention** to whether companies make a **positive contribution to society**, and we are pushed to do this in conversations with our shareholders and financiers”

“These targets should both be aligned: by **doing what is right for the world, profits will follow.**”

“This is not a black and white choice. In the **end of the day we have to successfully run a business** and make sure it exists decades from now.”

1. Environmental, Social and Governance

2. Central bank of the Netherlands

Source: DNB; EY-Parthenon interview program

Although sustainability is increasingly considered by IOCs, OFS players continue to experience price as the most important criterion – how long will this hold?

Development of selection criteria

IOCs are increasingly considering the environmental impact of their North Sea activities



O&G industry halves offshore methane emissions

The Dutch government and the industry organisation representing O&G companies have agreed on a methane reduction program which aims to reduce methane emissions by 50% in the next two years...

The parties also agreed to reconvene in 2020 to discuss how further to reduce emissions in the years after the current agreement expires.

– 27 August, 2019

However, the consequences for supplier selection are not yet being felt by the OFS industry

“Claiming you care about sustainability is of course **great for marketing** – look at Shell, for example. In the long term this may influence their supplier selection, but **with the current oil price is more important.**”

“International oil companies **pay a lot of lip service** to the sustainability lobby, but **in the end price is the determining factor** of whether you win a contract.”

“After price, safety considerations play a huge role in supplier selection – **sustainability is not yet at that level**”