

SURVEY OF INTERNATIONAL ACTIVITY IN THE OIL AND GAS SECTOR 2011-2012



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FOREWORD

The continued importance of our oil and gas industry is reinforced by the results from the latest annual survey of international activity in the Oil & Gas sector – produced by Scottish Enterprise in conjunction with the Scottish Council for Development and Industry (SCDI). The survey results show strong growth in international sales at a time when many parts of the world economy have been experiencing continued economic difficulty. The international sales figure of £8.2bn for 2011 represents an increase of 8.4% – almost double that of the 4.5% rise recorded in the 2010 survey. These results are very welcome and highlight Scotland's oil and gas supply chain as our single largest export sector which now operates in over 100 countries.

International sales now account for a record 47.6% of total sales from the sector. When we consider that in 2002 this figure was 31%, the ever increasing importance of an international focus to the long term future of the industry in Scotland is clear.

Scotland's Oil and Gas skills and expertise are in demand around the world, particularly in the areas of subsea and production and process management. In addition to this international activity, current confidence in the UK sector is broadly positive with new prospects being developed. Significant investments in areas such as the West of Shetland and the introduction of new enhanced oil technologies for example, signify that the domestic sector will continue to be a vital sector for many years to come. Oil and Gas also has a crucial role to play in the development of new opportunities in other sectors including Offshore Renewables, Carbon Capture and Storage as well as the global growth of Unconventional Gas.

Scottish Enterprise and our international arm Scottish Development International are already working with many companies to provide support, advice and information with the objective of increasing international trade and ensuring continued prosperity for our oil and gas supply chain. Last year we published our industry led Oil and Gas Strategy for Scotland entitled **Maximising our Future** in partnership with the Oil and Gas Industry Leadership Group (O&G ILG). (See www.scottish-enterprise.com for more information). The strategy reinforces the long-term importance of oil & gas to Scotland and sets out a clear vision for a vibrant and prosperous sector, as well as setting export ambitions. The overall theme of the strategy is around maximising the value of this sector and it identified six priority areas for focus, which includes internationalisation. As part of the strategy we have identified a number of priority markets which reflect both those which continue to be important such as in North America, and those which have significant future growth potential, such as West Africa and the Middle East. As part of this approach we are currently increasing resources in a number of priority markets and recently opened an office in Rio de Janeiro, Brazil.

The strategy highlights priorities for Scottish Enterprise, Scottish Development International, industry, government and other stakeholders to help further strengthen the oil and gas sector in Scotland. These results show that growth is strong, confident and indeed investment remains positive. We look forward to working with our partners, the industry leadership group and our customers to help ensure that oil and gas continues to be a success story for Scotland.



David Rennie
International Sector Head, Oil & Gas
Scottish Enterprise

SUMMARY OF STUDY RESULTS

Survey of International Activity in the Oil and Gas Sector 2011

- Total oil and gas supply chain sales from the Scottish market in 2011 increased by **5.8%** to reach **£17.2 billion**.
- In 2011 total oil and gas international sales were valued at **£8.2 billion**, an increase of **8.4%**
- International activity accounted for **a record 47.6%** of the Scottish supply chain sales total.
- **North America** is again the top region for Scotland's supply chain exports with **£2.6 billion** of sales targeted into this region, a **2.8%** increase since 2010.
- Strongest regional growth was in the **Middle East** market but the **African** region remained the second most important with a **5.9%** increase in sales.
- The top 5 international markets for direct exports in 2011 were **Angola, Norway, United States, Nigeria** and the **United Arab Emirates**, these were unchanged since 2010. Greatest growth in the major markets was to **Canada** and **Norway**.
- **Brazil, United States** and **Australia** were the new markets of greatest interest.
- Sales activity from the oil and gas supply chain was recorded in **106 different country markets**.
- **11%** of total international sales were delivered via SMEs (companies with less than 250 employees).

SURVEY BACKGROUND

Since 2000 Scottish Enterprise has collaborated with SCDI to undertake the annual survey of international activity in the oil and gas sector. This was done with a view to providing an on-going measurement of Scotland's success of developing business opportunities in international markets. This latest document represents the thirteenth consecutive in-depth survey which has been carried out and provides updated data for the year 2011.

The main aim of this research is to;

- measure the export activity undertaken by the supply chain associated with the oil & gas industry
- monitor diversification into non oil markets and also to examine what are the key non-oil sectors being targeted
- sales into the domestic or UK Continental Shelf region

The survey research into the service/supply base was undertaken in such a way as to try and distinguish between differing types of international activity. Hence questions were posed which enabled companies to distinguish between direct export activity, where the product or service was supplied/ managed from Scotland, and where the product or service was supplied/ managed via an overseas located subsidiary organisation.

Although the response rate and sample size will, to a certain extent, alter each year the survey is undertaken, methodology used allows us to measure growth rates which are then applied to each annual set of data. Given that great care is taken to ensure that responses are received from all the key industry players this enables us to have confidence that these published figures represent an accurate picture of the trends taking place within the oil and gas sector in Scotland.

INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE

International Sales

The research carried out defined international sales as a combination of direct exports and sales delivered via overseas owned subsidiaries. The first part of this section examines the level of direct export activity undertaken by the service/supply base, the second element looks at the activity within overseas owned subsidiaries and lastly the combined results examine the overall total.

It was clear that many businesses who supply to the oil and gas industry would not necessarily have this as the sole end market for their products or services. Thus the survey research asked companies to give an indication of exports into other markets. This data is examined in the "Sector Diversification" section on page 27.

In addition the companies who responded to the survey were categorised into four main business or product areas to help define the segment of the service/supply industry where greatest activity levels were generated. A number of companies will have lines of business which straddle more than one industry category but for analysis purposes they have been allocated to the one coding which best reflects where the majority of their business activity lies. These category areas are defined below; see Appendix A on Page 30 for more information.

Business Category 1	Product/Equipment/Materials
Business Category 2	Bulk Materials
Business Category 3	Services
Business Category 4	Engineering/Procurement/ Construction/Installation

This year, for the first time, initial analysis has also been undertaken using a new set of industry categories or definitions. An explanation of the reasoning behind this change and tables and charts of the initial results are given in Appendix B on Page 31.

(i) Export Values

This section looks at directly generated export revenues where the product or service is supplied/managed from Scotland. The results of the research are presented overleaf in Table 1.

This survey relates to the calendar year 2011 which began to show signs of economic recovery following the global decline which started in late 2008. This recovery was more evident in the Asian and emerging markets as opposed to the North American market where the recovery picture was irregular and slow. The Western European market, and in particular the Eurozone countries, barely witnessed recovery with overall little economic growth and in some cases continued recession during the period.

The oil price during 2011 steadily increased as it did during 2010. The average price during 2010 of a barrel of Brent Crude was \$80/bbl and the price at the close of 2010 had been \$94/bbl. In 2011 there was a degree of volatility with a low of \$94/bbl at the start of the year and a high of \$125/bbl in late April. The price finished in 2011 at \$107/bbl and the average for the year was \$111/bbl. This yearly average price was the first time this global oil price benchmark statistic had finished above the \$100/bbl level. The early surge in the 2011 price was partly due to a disruption in supplies from Libya earlier in the year which was gradually compensated for by an increase in output from mainly the OPEC (Organisation of the Petroleum Exporting Countries) nations.

Looking at the demand picture the trend for 2011 matched that of economic recovery with demand from the OECD (Organisation for Economic Co-operation and Development) nations declining and those of non OECD nations increasing. This simply reflects the higher economic activity levels away from the core North American and European regions.

Overall global demand for oil was 88.9 Mbpd (Million Barrels per day) in 2011 compared with 88 Mbpd in 2010, so a slight rise driven in 2011 by the Asian, Latin American and Former Soviet Union markets.

Developing economies saw consumption rise by 1.3 Mbpd in 2011 (or 3%), to 43.4 Mbpd. The data for the OECD markets shows a decline of 0.6 Mbpd (or -1.2%) in 2011, to 45.6 Mbpd. The Non-OECD Asian markets dominate the increase showing gains of 0.7 Mbpd in 2011. It is likely that demand from non OECD nations will very soon outstrip that of the OECD markets.

INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE CONTINUED

In terms of the upstream oil and gas sector, 2011 was a positive year, with continued (albeit modest) demand growth and an ever increasing oil price encouraging investments in riskier and marginal developments.

In terms of Scottish supply chain exports this clearly has benefits, but is also positive for the domestic UKCS market given its high cost nature.

TABLE 1 SCOTTISH SERVICE/SUPPLY DIRECT EXPORTS 2009 – 2011 (£M CURRENT PRICES)

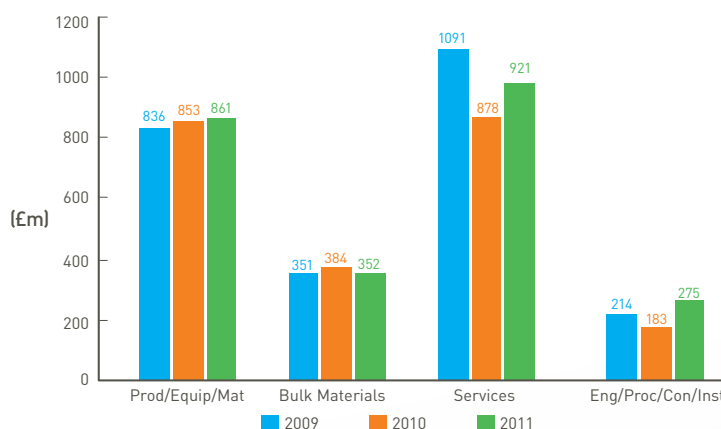
Business Category	2009	2010	2011
Prod/Equip/Materials	836.4	853.2	860.8
Bulk Materials	351.3	384.0	352.4
Services	1,090.7	877.9	920.7
Eng/Proc/Constr/Install	214.0	183.4	274.6
TOTAL	£2,492.4	£2,298.5	£2,408.5

Turning to the results of the 2011 survey. The overall figures for direct exports show a return to growth after the decline recorded in 2010. Table 1 outlines the position across all four industry categories. In total value terms, the Scottish oil and gas supply chain direct exports were valued at £2,408.5m compared to £2,298.5m in 2010, a rise of 4.8%.

The information presented in Figure 1 illustrates the sectoral breakdown of direct exports into the oil and gas sector. The decline in sales in 2010 was mainly due to a decrease in exports from the Services sector. The latest data shows a return to growth for this sector with sales up 4.9% from £877.9m to £920.7m. There is also growth in the Product/Equipment/Materials sector and the Engineering/Procurement sector. The growth is modest at 0.9% in the Product/Equipment/Materials category but the Engineering/Procurement category shows a substantial rise of £91.2m or 49.7% compared to the 2010 figures. In the final category, Bulk Materials, sales reduced by £31.6m or 8.2% over the period.

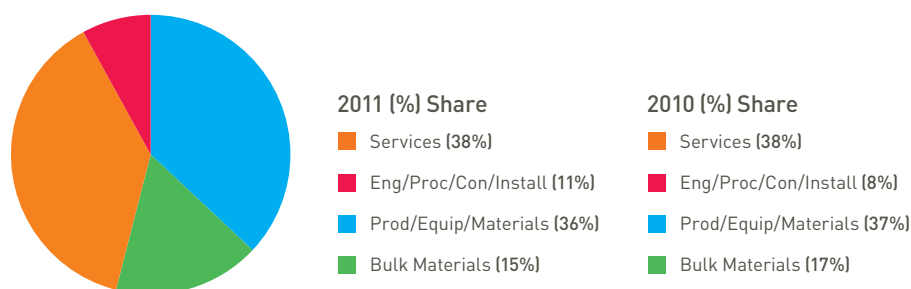
Figure 2 illustrates the proportion of direct export sales accounted for by the four industry categories.

FIGURE 1 EXPORT GROWTH BY BUSINESS CATEGORY



The Services category remains the largest export sector accounting for 38% of all sales, equivalent to 2010. The Product/Equipment/Materials category has continued to exhibit value growth over the past three years and now accounts for 36% of total sales. The sharp rise in exports from the Engineering/Procurement sector means it now accounts for an 11% share compared with 8% in 2010. The sales drop from the Bulk Materials category means its direct export share falls to 15% in 2011 compared with 17% in the previous year.

FIGURE 2 SHARE OF 2011 EXPORTS BY BUSINESS CATEGORY [%] (2010 share in brackets)

**(ii) Overseas Subsidiary Values**

This section looks at activity levels and international sales generated via overseas owned subsidiaries which although they may operate in a largely autonomous fashion ultimately report back to a Scottish based headquarters. The results of the research are presented in Table 2 below.

TABLE 2 OVERSEAS SUBSIDIARY SALES 2009 – 2011 [£M CURRENT PRICES]

Business Category	2009	2010	2011
(1) Prod/Equip/Materials	319.8	332.3	363.9
(2) Bulk Materials	12.5	5.0	5.0
(3) Services	4,406.1	4,898.9	5,391.3
(4) Eng./Proc/Constr/Install	8.1	27.0	26.5
TOTAL	£4,746.5	£5,263.2	£5,786.7

INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE CONTINUED

The growth in international sales via subsidiary operations continues unabated in this latest set of survey data. Overall figures show an increase in sales of £523.5m from £5,263.2m in 2010 to £5,786.7m in 2011 a rise of 9.9% over the period. This compares with the growth rate of 4.8% in direct exports over the corresponding period. The data in Table 2 shows that growth of just over £1 billion has been recorded during the last two years.

As has been commented upon in previous reports this growth trend in subsidiary exports simply reflects the globalisation of Scotland's oil and gas supply chain, a trend which has been gathering pace for several years. Although not exclusively centred around Aberdeen and the North East, many of the major players in the supply chain are located in this region, particularly in relation to the rapidly growing subsea sector. When this research was first undertaken in the late 1990s it would have been an aspiration of Aberdeen to become a global centre of the oil and gas industry as opposed to a hub for the North Sea. It is difficult to point to a date when that aspiration turned to reality but the body of evidence offered in this report and other research would suggest that now Aberdeen and its surroundings truly is a global hub for the oil and gas industry. From a Scottish perspective the spread of the industry and its economic impact is much wider. The continued level of activity West of Shetland, as illustrated by BPs announcements of billions of pounds of investment in their Clair Ridge development and Schiehallion field, plus Chevron's development of its Rosebank field, will bring significant benefits to the Northern Isles. In addition firms such as Subsea 7 and Technip have had major facilities in Wick

and Evanton for many years, FMC Corporation undertakes manufacture and research in Dunfermline and Bellshill, plus Wood Group employs many staff in Glasgow and North Lanarkshire as well as its Aberdeen centre.

Of the four business categories the Services sector remains, by far, dominant in terms of sales. It enjoyed another positive year in 2011 with subsidiary sales increasing from £4,898.9m in 2010 to £5,391.3m in 2011, an increase of 10%. The varieties of services companies which have established an operating overseas subsidiary are extremely wide ranging. They include companies specialising in project management, consultancy, construction, maintenance, resource management, software design, drilling, access solutions, catering, logistics/transport, engineering and design.

The Product/Equipment/Materials category is the other sector exhibiting a major impact via its subsidiary operations. Sales in 2011 were valued at £363.9m compared with £332.3m in 2010, an uplift of 9.5% over the year. The remaining two categories of Bulk Materials and Engineering/Procurement showed little or no change in sales value compared to 2010, with 2011 sales of £5m (in Bulk Materials) and £26.5m (in Engineering/Procurement).

(iii) Total International Activity

Summarising the previous two sections, this element of the report combines both categories of international activity and presents the total level of internationally derived sales from the Scottish oil and gas industry. The results of the research are presented in Table 3.

TABLE 3 TOTAL INTERNATIONAL SALES 2009 – 2011 [£M CURRENT PRICES]

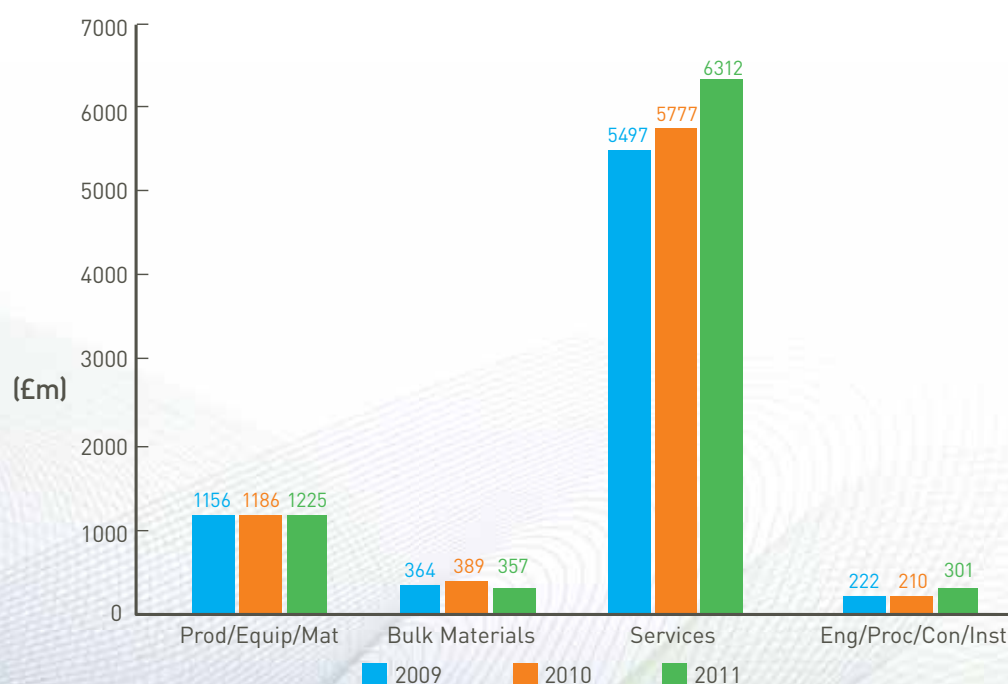
Business category	2009	2010	2011
(1) Prod/Equip/Materials	1,156.2	1,185.5	1,224.7
(2) Bulk Materials	363.8	389.0	357.4
(3) Services	5,496.8	5,776.8	6,312.0
(4) Eng./Proc/Constr/Install	222.1	210.4	301.1
TOTAL	£7,238.9	£7,561.7	£8,195.2

Examining the aggregated data an increase in total international sales from £7,561.7m in 2010 to £8,195.2m in 2011 is measured. This equates to a £633.5m or an 8.4% increase over the year. Although growth has been recorded consistently in recent years the percentage rate of growth has been slowing. However, the 2011 results have reversed this recent trend and the 8.4% growth is close to double the 4.5% increase recorded between 2009 and 2010. This does not match the double digit growth which was a feature for a number of years

but does indicate the positive impact of global economic recovery.

Growth has been recorded across three of the business categories with the Service sector again being dominant. Its total international sales value in 2011 of £6,312m is £535.2m higher than in 2010 and, as shown in Figure 4 on the next page, it now accounts for 77% of all international sales compared with the 76% share recorded in 2010 and 2009.

FIGURE 3 TOTAL INTERNATIONAL OIL & GAS ACTIVITY GROWTH BY BUSINESS SECTOR

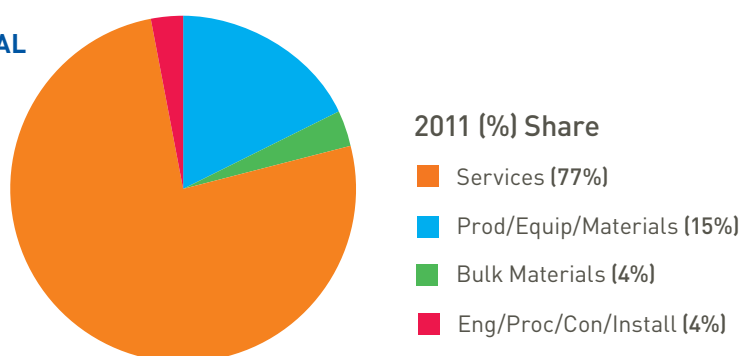


INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE CONTINUED

The Product/Equipment/Materials category is again the second most significant sector by value and has again recorded a new high for total international sales of £1,224.7m in 2011 compared with £1,185.5m in 2010. It represents 15% of total sales with the other two

categories of Bulk Materials and Engineering/Procurement accounting each for 4% of the total value. Only the Bulk Materials sector witnessed a fall in total international sales during 2011.

FIGURE 4 SHARE OF 2011 TOTAL INTERNATIONAL ACTIVITY BY BUSINESS CATEGORY [%]



In summary, the international sales data from the Scottish supply chain in 2011 is very encouraging. On the downside, the global economy has been inconsistent during this period with recovery in key Asian, Middle Eastern and Latin American markets, but Europe and North America remain sluggish, particularly in the UK and the Southern Eurozone economies. On the upside, the period saw a continued rise in the price of crude oil with the Brent Crude price finishing the year at \$107/bbl compared with its position at the start of 2011 of \$94/bbl. Indeed the average price for the year was even higher and measured \$111/bbl compared with the 2010 average of \$80/bbl. This represents a significant uplift over the 12 month period and given 2010 also saw a price rise it clearly benefits the confidence of the companies and external investors to support project developments across the globe.

The perennial issue in relation to this acceleration of developments is the ability of industry to resource the skills and talent it needs to deliver the projects. In a Scottish context this continues to be a challenge and the oil and gas sector, despite much effort, continues to be often seen in the UK as a sunset industry by prospective future employees. Recent announcements by BP in relation to the Clair Field and Shell in relation to the Fram field indicate field life now extending into the 2040s, so it is clear there are many significant and long term career opportunities likely to be available for decades to come. In an international context this is important in anchoring key skills and HQ functions in

the home market which then enables the Scottish supply chain to sell that expertise globally. Despite more modest progress than might have been hoped, export growth remains a key facet of the Scottish and UK Government strategies to help the economic recovery and the oil and gas sector will make a consistent and long term contribution to these export growth targets. The importance of anchoring jobs and growing exports from the sector has been firmly recognised in Scotland's Oil & Gas Strategy published by Scottish Enterprise in conjunction with the O&GILG. Indeed oil and gas is expected to make a critical contribution towards the Scottish Government's aim to increase the level of total exports from Scotland by 50% by 2017 but the O&GILG has indicated that 65% growth from the sector over the period is achievable.

The outlook for 2012 would appear to remain encouraging judging by the evidence so far. The oil price has remained at a high level during the year to date and the UK Government has adopted a more sympathetic attitude to the fiscal needs of the industry, and indeed the industry's role in rebalancing the UK economy by having a greater focus on manufacturing and engineering. Global recovery remains inconsistent and in some parts fragile but it would seem likely that the Scottish oil and gas supply chain will see further growth in international sales during the 2012 period.

MARKET ANALYSIS OF INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE

In addition to measuring the level of international sales, a further rationale for undertaking the research was to accurately gauge what overseas markets were principal targets for international activity. This has enabled trends to be monitored which assist in the targeting of export assistance and other measures aimed at encouraging further growth in overseas sales.

In responding to the survey, companies were asked to give details of their sales in to overseas markets and to indicate whether the sales revenue was generated by direct export activity or via an overseas subsidiary.

TABLE 4 DESTINATION OF INTERNATIONAL SALES BY GEOGRAPHIC REGION IN 2011 [£M CURRENT PRICES]

	Direct Export	Overseas Subsidiary	Total International	% Change 2010-2011
North America	163	2,466	2,629	3%
Africa	627	568	1,195	6%
Australasia	72	653	725	9%
Western Europe (excl. EU)	330	362	692	22%
FSU and Eastern Europe	99	425	524	6%
Middle East	123	334	457	82%
Latin America	95	310	405	16%
Asia Pacific	85	215	300	23%
European Union (EU)	150	77	227	8%
Unallocated	664	377	1,041	-5%
TOTAL	£2,408.5m	£5,786.7m	£8,195.2m	8%

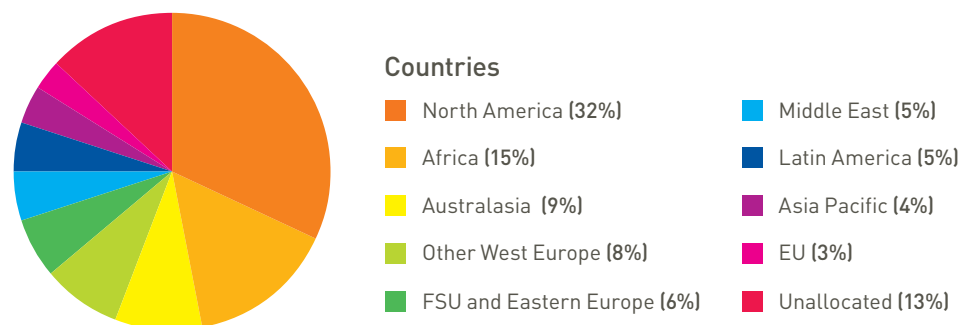
NB See Appendix A on page 30 for more details of geographic region definitions.

Geographic Analysis – Regional

Initially the responses were broken down at a broad geographic level to give an indication of the principal market regions in which activity was concentrated. Table 4 above examines the level of total international sales activity on a geographic regional basis and breaks this down into direct sales and overseas subsidiary sales.

MARKET ANALYSIS OF INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE CONTINUED

FIGURE 5 SHARE OF 2011 TOTAL INTERNATIONAL ACTIVITY BY GEOGRAPHIC REGION [%]



North America

The North American market continues to be dominant although growth in 2011 has been modest with a 3% rise in international sales to £2,629m compared with £2,558m in 2010. For the second year in succession there has been a decrease in direct exports into the region, down from £187m in 2010 to £163m in 2011. Sales via overseas subsidiary operations continued to record growth rising by 4% to £2,466m. The region now accounts for 32% of total oil and gas supply chain exports from Scotland compared with 34% in 2010. However fluctuations are common as the share was also 32% in 2009 but as high as 35% in 2008. The consistent trend is a decline in direct exports, an increase in sales via subsidiaries, and overall continued growth.

Africa

Africa as a market continued to be a strong source of business for Scottish companies. After a decline in total sales into Africa of 9% between 2009 and 2010 the period 2010-2011 saw growth of 6% with total international sales now valued at £1,195m in 2011. This growth was recorded both in terms of direct exports which rose 6.8% from £587m in 2010 to £627m in 2011 and in subsidiary sales which went up 5% to £568m compared with £541m in 2010. According to the 2012 BP Statistical Energy Survey, Africa had proven oil reserves of 132 billion barrels at the end of 2011, equivalent to 41.2 years of current production and some 8% of the world's reserves. It was noted in the last survey that the African region supplied 11% of the World's oil in 2010. This slipped back a little in 2011 to 10.4% but it remains a major producing region with huge potential for future growth. Some nineteen African countries are significant producers of oil and/or gas,

with increased revenues from higher oil prices and the commensurate investment in new discoveries making a significant contribution to economic growth in the continent. Operating risks in the region are high but so are the rewards and it remains a significant market of interest, not only for the major oil companies but also for some smaller operators such as Bowleven plc and Tullow Oil plc. The focus of activity has been very much on West Africa in recent years but activity and opportunities are now occurring in markets such as Senegal and Namibia and also on the East Coast of the continent. Oil discoveries have been made in the East African rift valley in South Sudan and Uganda through Kenya, Ethiopia and Somalia. Gas fields have been found offshore from Mozambique and Tanzania. The Italian oil company ENI has talked of investing \$50 billion in the region's oil and gas, underlining its growth potential and a future zone of opportunity for the Scottish supply chain.

Australasia

Growth into Australasia continued during the period of this latest research. Total international sales were recorded at £725m in 2011 compared with £663m in 2010, an increase of 9.4% over the year. Direct sales were little changed at £72m compared with £71m, but subsidiary sales increased from £591m to £653m in 2011. The strong presence of Scottish companies on the ground in the region has been commented upon in past surveys, so the growth in sales via these now established operations is not surprising. For the second year in succession Australasia has been the third most important market/region for Scottish supply chain sales and overall sales have risen from £276m in 2008 to the current £725m level.

Western Europe

After a 9% increase in sales into key non EU Western European markets were recorded in the 2010 survey, this latest report shows a sharper 22% rise, with total sales now valued at £692m in 2011 compared with the 2010 figure of £568m. These increases are from both direct exports and via subsidiary operations.

Middle East

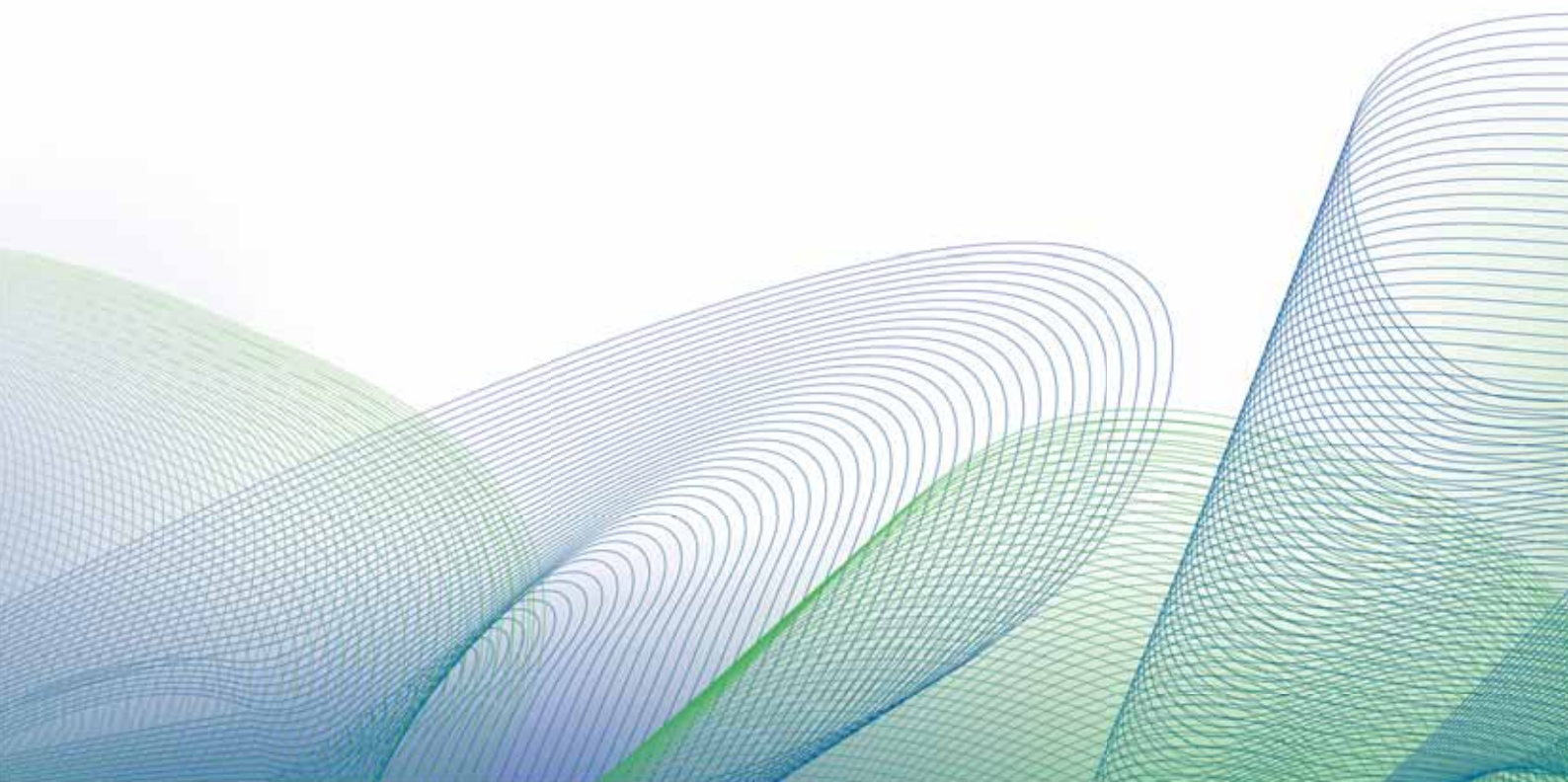
In terms of percentage change since the 2010 survey the largest leap is in sales to Middle Eastern markets where an 82% increase has been recorded over the period. Direct exports have risen 7.9% from £114m to £123m in 2011 and subsidiary sales are up 144% from £137m to £334m, an increase of almost £200m over the period.

Other Regions

Supply chain sales into all geographic regions in the 2011 survey have shown an increase. The Former Soviet Union (FSU) and Eastern European area, after a decline in 2010, has returned to growth with a 6% rise in sales value to £524m in 2011. Sales into the Latin American markets have gone up 16% and now stand at £405m and there has been a strong 23% increase in sales into

the Asia Pacific markets which took £300m of Scottish oil and gas supply chain business in 2011. In Latin America there has been good growth both in terms of direct exports and also subsidiary company sales, whereas in the Asia Pacific region the growth has been due to an increase in sales via subsidiaries and a slight decline in direct exports was noted. Finally the markets of the European Union (EU) also grew by 8% with growth in direct exports and subsidiary sales during the period.

Figure 5 opposite illustrates once more that the North American and African markets account for almost half of the international sales from Scotland's supply chain. They account for 47% of the total in 2011, down a little on the 49% share in 2010, mainly due to the rapid surge in sales into the Middle East region. North America has been the top market for trade since the survey was first commissioned in the late 1990s. The consistent growth in sales into Africa has seen it become firmly established as a major market for Scottish companies and in more recent years we have witnessed a similar trend with the Australasian market which has seen consistent growth each year.



MARKET ANALYSIS OF INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE CONTINUED

Country Analysis

Table 5 provides a more detailed analysis of the country markets in which the Scottish oil and gas service/supply base is trading.

These figures again relate solely to sales from the industry to oil and gas end user customers.

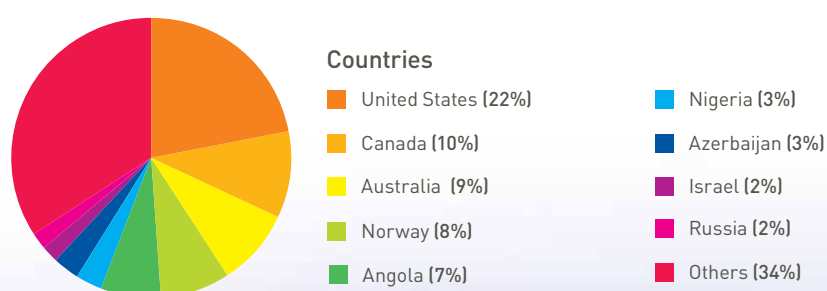
TABLE 5 DESTINATION OF INTERNATIONAL SALES BY COUNTRY MARKET IN 2011 [£M CURRENT PRICES]

	Direct Export	Overseas Subsidiary	Total International
(1) United States	161	1,636	1,797
(2) Canada	2	830	832
(3) Australia	72	653	725
(4) Norway	328	362	690
(5) Angola	337	200	537
(6) Nigeria	160	113	273
(7) Azerbaijan	42	216	258
(8) Israel	0	184	184
(9) Russia	27	128	155
(10) Trinidad & Tobago	10	126	136
(11) United Arab Emirates	102	24	126
(12) Equatorial Guinea	43	80	123
(13) Brazil	69	47	116
(14) Colombia	0	110	110
(15) Kazakhstan	24	81	105
(16) China	4	98	102
(17) Netherlands	57	18	75
(18) Singapore	36	36	72
(19) Libya	9	61	70
(20) Oman	2	55	57
(21) Gabon	0	51	51
(22) France	28	18	46
(23) Ghana	39	3	42

	Direct Export	Overseas Subsidiary	Total International
[24] Indonesia	11	25	36
[25] Chad	0	34	34
[26] Mexico	6	27	33
[27] Spain	14	18	32
[28] Qatar	3	26	29
[29] Algeria	7	20	27
[30] Saudi Arabia	4	23	27
Other named markets	147	107	254
Unspecified markets	664	377	1,041
TOTAL	£2,408.5m	£5,786.7m	£8,195.2m

The market distribution for the combined total international sales is shown in Figure 6.

FIGURE 6 SHARE OF 2011 TOTAL INTERNATIONAL ACTIVITY BY COUNTRY MARKETS [%]



MARKET ANALYSIS OF INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE CONTINUED

The top market is the United States which accounts for 22% of total international sales, a share slightly reduced from the 24% figure recorded in 2010. The shares taken by Canada, Australia, Norway and Angola are all unchanged.

The 34% "Others" category covers a diverse range of smaller markets in which the Scottish supply chain is active. The latest survey measures international sales activity in 106 different markets across the world, ranging from the Top 30 in Table 5, to markets such as Bermuda, Greenland, Kenya, Republic of Guinea and Turkey.

United States

The United States remains the top market for sales from Scotland's supply chain although for the first time in many years this latest survey shows a slight fall in the value of sales. The figure is down 1.6%, or £30m, from £1,827m in 2010 to £1,797m in 2011. Both sales from direct exports and subsidiaries declined over the period although the greatest decrease was in direct exports. Given the scale of trade with the US market the dip in sales is modest and difficult to attribute to any one factor. It may be that the moratorium on drilling in the Gulf of Mexico had an impact as although it was officially lifted in October 2010 there were considerable delays in the approval of drilling programmes which meant the impact drifted well into the 2011 period. The scale of the US market is huge and the footprint of Scottish businesses so well established that it seems highly likely that this slowdown in sales during 2011 will be temporary. New opportunities are also opening up in shale gas and key players in the Scottish supply chain, such as AMEC and Wood Group are well placed to take advantage of these in the coming years, as is the Weir Group with its recent purchase of Oklahoma-based Mathena.

Canada

The other key North American market is Canada and the picture here is particularly positive with a further sharp increase in sales into the market. In 2011 total international sales rose by over £100m and were valued at £832m compared with £731m in 2010. This comes on top of an increase of almost £200m between 2009 and 2010. There is a strong Canadian presence in the North Sea and the relationships built up over the years in the

domestic market have enabled Scotland's supply chain to make considerable inroads into the wide onshore and offshore opportunities in Canada. The potential of the Canadian market is significant with recent predictions from Canada's oil industry indicating that domestic crude oil production will more than double to 6.2 million barrels a day by 2030 from 3 million barrels a day in 2011. Almost half of Canadian production is from the Alberta oil sands which contain vast reserves and the predicted growth to 2030 is driven principally by greatly increased production from this source. The one cautionary note would be that production costs are high so vulnerability to oil price fluctuations is greater than for more conventional crude oil sources.

Australia

There was further steady growth in sales into Australia with an increase of 9.4% from £663m in 2010 to £725m in 2011. The sales level in 2009 had been £504m and £276m in 2008 so a picture of consistent growth has been emerging over recent years. This growth is being driven by a series of major new investments being undertaken in the Australian oil and gas sector which will see substantial additions to production capacity and are likely to make Australia the world's second largest exporter of liquefied natural gas (LNG). A major driver for this investment and growth is the country's ability to take advantage of the continued industrialisation of major Asian economies such as China. The suite of oil and gas investments currently in progress is significant and is estimated to account for around 35% of total business investment in Australia. As has been seen in the North Sea the use of new technology and moves into deeper water have been beneficial to the Australian industry in prolonging the life of existing fields and making significant new discoveries such as that recently announced by Chevron Corporation in the Greater Gorgon Area and the positive results from the Ragnar-1 well announced earlier in the year by domestic operator Woodside Petroleum. The picture in Australia is thus a positive one albeit not without its challenges, some of which we can recognise from the UKCS domestic market, namely skills shortages and rising costs. Nonetheless it should continue to offer an attractive opportunity for Scotland's supply chain over the next few years.

Norway

Norway is again the fourth top market and has shown some strong growth over the period. It now accounts for £690m of the international sales total in 2011, compared with £566m in 2010 and £521m in 2009, growth of 32% over this two year period. Investment in the Norwegian oil and gas sector has grown strongly in recent years as high oil prices and an exploration cost-sharing scheme with the government attracted energy firms to both mature areas in the North Sea and the frontier areas of the Arctic Barents Sea. In addition, a series of significant discoveries, such as the giant Johan Sverdrup field, has also helped give Norway's energy sector a boost. Norwegian oil and gas investments, which reached a record level in 2012, are predicted to be even higher in 2013. Although not as significant as Norway, other key European markets include the Netherlands, France and Spain.

Angola

Angola has been one of the major African markets for many years and this latest survey has it as the fifth top market for Scottish supply chain sales. There has been an increase in sales from £511m in 2010 to £537m in 2011, a 5.1% rise. In 2009 sales were £538m so in reality there has been little change over the past two year period. The country is now the second largest producer of crude oil in Africa behind Nigeria and 2011 saw many of the major international oil companies such as BP, Total and Statoil secure rights in the country's deep-water pre-salt licensing bid round. A huge deep-water discovery in Angola's Kwanza basin thought to hold some 1.5bn barrels of crude was made by Cobalt International Energy early in 2012 and it is the prospect of further deep-water exploration that has the potential to bring some of the globe's largest new discoveries into production over the next few years, potentially doubling Angola's output to 3.5m barrels a day. Clearly it is a market that offers much more opportunity for our supply chain in the coming years.

Nigeria

The second most important African market remains Nigeria and it also remains as the sixth most important market overall. 2011 has recorded some modest growth in sales, up 7.9% from £253m in 2010 to £273m in 2011, with the increase being derived from a rise in sales via overseas subsidiary operations. Nigeria remains the

largest oil producer on the African continent and has an estimated three times more reserves than its nearest competitor Angola. However, a variety of problems have prevented Nigeria from maximising the full potential of its crude oil assets, hence at between 2m and 2.5m barrels per day, Nigeria's oil production is little changed from a decade ago. Regulatory uncertainty is one of the factors that has made Nigeria's oil industry stagnate. As well as outputs being roughly the same as ten years ago, a licensing round has not been held for five years. The Nigerian government has had a Petroleum Industry Bill in its sights for some 15 years. This is intended to overhaul the industry, improve transparency, regulatory institutions and fiscal policies, and bring processes up to international standards. The law has so far been debated between government and parliament for five years, preventing billions of dollars in investment, with the major international oil operators reluctant to invest finance because the tax liabilities are unclear. In 2011 only three exploratory oil wells were drilled, down from more than 20 in 2005. Given the level of sales from Scotland into the market it remains important and could be of even greater significance if these internal issues deterring global investment can be resolved.

Other Africa

The next most significant African market in Table 5 is Equatorial Guinea with £123m of supply chain sales here in 2011 compared with £101m in 2010 and £86m in 2009. Libya is the next with £70m of sales in 2011 compared with £58m in 2010 and £127m in 2009. This shows a small recovery in trade into the Libyan market which had been overall ninth top market in 2009 prior to the 2011 conflict. Towards the end of 2011 as some stability returned to the country oil production began to recover faster than expected and this may have helped sustain Scottish sales just above the 2010 levels. Other African markets of importance are Gabon, Ghana and Chad where, with the exception of Chad, increased sales from the Scottish supply chain were recorded.

Former Soviet Union (FSU)

Azerbaijan is the top former FSU market for the Scottish supply chain and sales in 2011 were £258m compared with £217m in 2010, making it the seventh top market. Sales into Russia declined for the third year in succession and were valued at £155m in 2011

MARKET ANALYSIS OF INTERNATIONAL ACTIVITY IN THE SERVICE/SUPPLY BASE CONTINUED

compared with £199m in 2010, £259m in 2009 and £337m in 2008. In the long term though the Russian market is likely to offer great opportunities to Scottish industry as it begins to move offshore into Arctic waters and offshore Sakhalin Island. The other significant market is Kazakhstan which continued to show some growth with sales up from £73m in 2010 to £105m in 2011. Although a challenging market, particularly in terms of its geography and accessibility, Kazakhstan does offer growth potential and the Kashagan field, believed to be the largest known oil field outside the Middle East and the fifth largest in the world in terms of reserves, is being developed by the North Caspian Operating Company (NCOC) consortium, which includes ExxonMobil, Shell, Total and ConocoPhillips.

Middle East

In Table 4 the data showed that sales to the Middle Eastern markets had risen by 82% since the 2010 survey. The principal reason for this very sharp rise was a strong increase in sales into Israel, where the 2011 figure was £184m compared with £37m in 2010, making it overall the eighth top export market for the supply chain. However, 2011 saw all the other major Middle East markets also saw a rise in Scottish exports with sales to the United Arab Emirates (UAE) up from £122m to £126m in 2011; sales to Oman from £52m to £57m; and Qatar from £14m to £29m. In Saudi Arabia an increase from £13m in 2010 to £27m was also measured.

Latin America

Brazil is a key market in this region with major plans for offshore investment offering significant opportunities to the Scottish supply chain to capitalise on North Sea

expertise. In 2011 sales into the market rose from £94m in 2010 to £116m. With an increased focus on Brazil at a Scottish and UK Government level, combined with its heightened profile over the next few years when the FIFA World Cup and the Olympics will take place in the country, the opportunity for the Scottish supply chain to expand in the market will never be better. However, in the 2011 survey the top Latin American market is Trinidad & Tobago, where sales have grown from £52m in 2010 to £136m. The Government in Trinidad & Tobago has been very proactive in cutting petroleum profit taxes to encourage investment in the region to help combat the post 2008 recession. Other key markets in the region are Colombia and Mexico.

Asia Pacific and ASEAN

The top individual market in this region is China. Sales into the country from the Scottish oil and gas supply chain have grown from £63m in 2009 to £78m in 2010 and £102m in 2011 with the bulk of this being delivered via subsidiary operations. Although coal is the dominant indigenous source of energy in China the pace of its economic growth means that it will continue to invest heavily in oil and gas offshore exploration and production and as such will offer growing opportunities for Scottish companies in the next few years. ASEAN markets which have shown growth include Singapore where sales have doubled from £36m in 2010 to £72m in 2011 and Indonesia where sales have increased from £24m to £36m during the period. Market sales into India remain unchanged since 2010 at £22m and no longer appear in the top 30.

Figures 7-8 graphically illustrate the key markets for Scottish based oil and gas supply/service companies

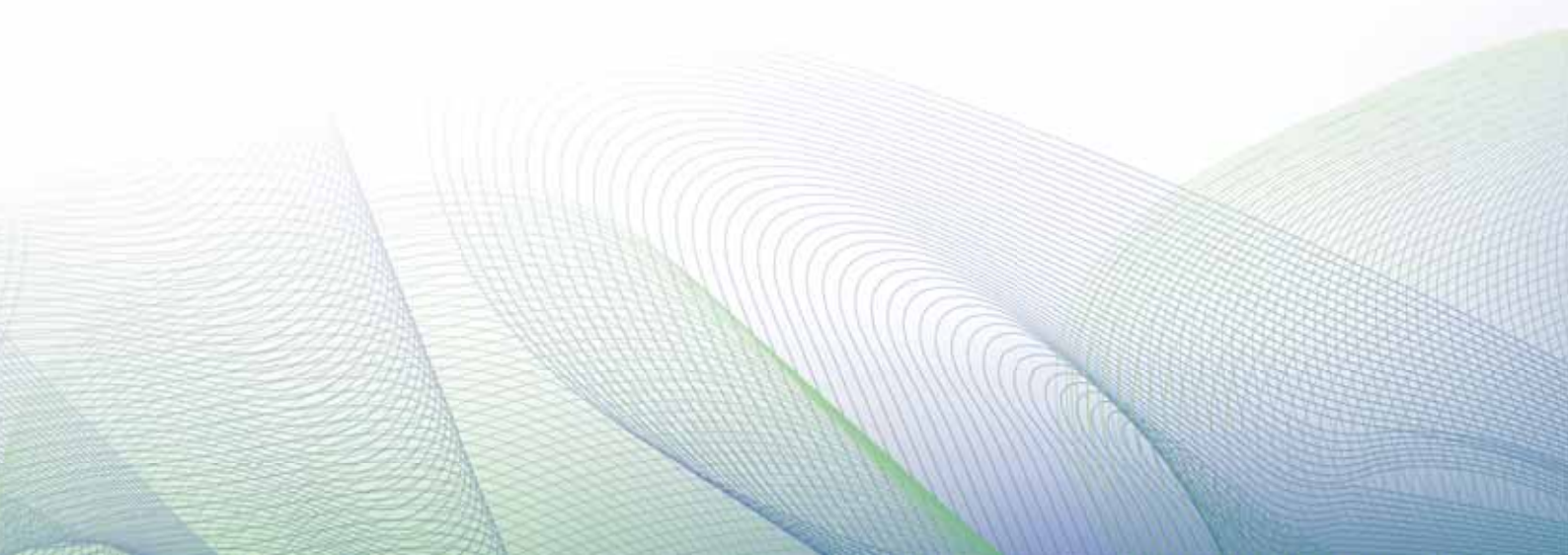


FIGURE 7 SHARE OF 2011 DIRECT EXPORT ACTIVITY BY COUNTRY MARKETS [%]

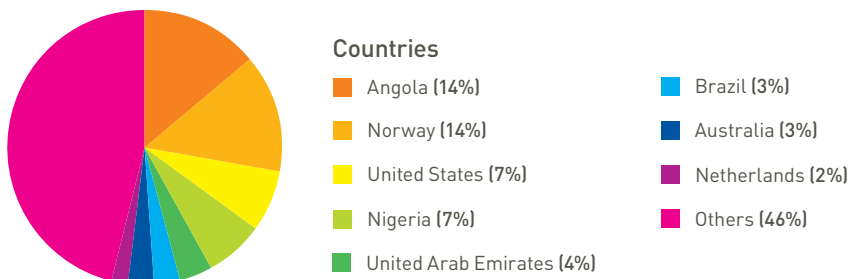
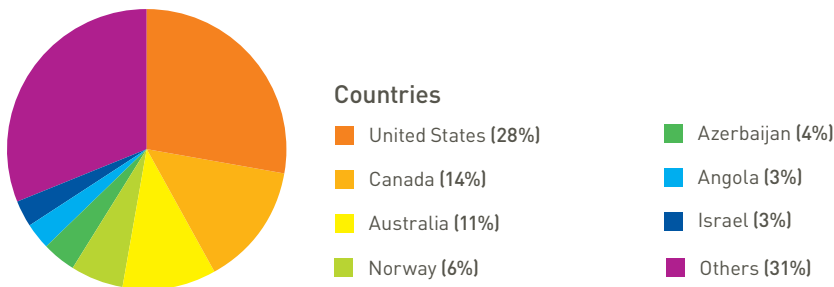


FIGURE 8 SHARE OF 2011 OVERSEAS SUBSIDIARY ACTIVITY BY COUNTRY MARKETS [%]



For the fifth year in a row the Angolan market is the most important in terms of direct exports and accounts for a 14% share of the £2.4 billion market. It is closely matched by Norway where a 14% share is also taken, equating to £328m of direct sales. The United States and Nigeria are the next most significant with a 7% share equalling £161m and £160m sales respectively.

As shown by Table 5, activity in the United States is heavily dominated by subsidiary sales and Figure 8 shows that the US market accounts for 28% of total subsidiary sales, followed by Canada at 14% and Australia at 11%. Subsidiary operations are established in a very wide range of markets in addition to the major ones illustrated in Table 5 and include Brunei, Iraq, South Africa and Thailand.

FUTURE MARKETS

The survey also asked respondents to indicate future plans for their business in international markets and outline a potential timescale ranging from within the next 12 months, 1-2 years, and 3-5 years. Most of the responses related to plans within a 12 month period.

Table 6 below provides a breakdown of responses in each geographic area, and highlights the top country specified in each area.

TABLE 6 NEW MARKETS OF INTEREST, NUMBER OF RESPONSES FOR EACH GEOGRAPHIC AREA

	Within 12 months	1-2 years	3-5 years	Total
Asia Pacific (Malaysia)	12	8	2	22
Africa (Angola)	14	5	2	21
Middle East (Saudi Arabia/Qatar/UAE)	11	3	1	15
Latin America (Brazil)	6	6	2	14
North America (USA)	5	6	1	12
FSU and Eastern Europe (Russia)	6	3	2	11
Western Europe (excl. EU) (Norway)	3	4	0	7
Australasia	3	3	0	6
EU	0	0	0	0

In broad geographic terms the Asia Pacific market was of most interest to companies looking at new business opportunities followed by the markets of Africa. In the Asia Pacific region Malaysia is mentioned the most in responses which, given it slipped out of the Top 30 table in this latest survey, is perhaps surprising. However given the country's ambition to be the number one Asian hub for deep-water oilfield services then there are likely to be good opportunities for the Scottish supply chain.

As illustrated in table 5 Angola is the top African market for the Scottish supply chain. As was noted earlier there are major opportunities opening up across

the African continent and it would be anticipated that future surveys would show an increasing new market focus on emerging oil provinces in countries such as Kenya, Uganda and Senegal as well as offshore Mozambique and Tanzania.

Of the other global regions Brazil, United States, Australia, Canada, Norway and Russia were most listed by survey respondents. As discussed in the previous section all of these offer immediate, medium and long term potential for Scottish companies seeking to internationalise.

SMALL AND LARGE EXPORTERS

The statistics in Table 7 were derived by calculating the proportion of sales accounted for by SMEs (i.e. those with up to 249 employees) and large companies

(i.e. 250 plus employees). This enables the relative contributions of small and large companies to be assessed.

TABLE 7 RELATIVE CONTRIBUTIONS OF SME AND LARGE COMPANIES 2011

	SME Company Share (%)	Large Company Share (%)
Direct Exports	29	71
Subsidiary	4	96
TOTAL INTERNATIONAL SALES	11	89

The 2011 breakdown of the results for SMEs and Large Companies show no change compared to the 2010 data in terms of the percentage share of total international sales being accounted for by SMEs and Large Companies. In overall terms they again indicate that 11% is accounted for by small and medium sized businesses and 89% by larger firms.

Applying the above percentage figures to the original data in Tables 1-3 the performance in value terms for both the SME and Large Company categories was estimated. Tables 8 and 9 show the trends for both SMEs and Large Companies over the last three years.

TABLE 8 SME INTERNATIONAL SALES 2009 – 2011 [£M CURRENT PRICES]

	2009	2010	2011
Direct Exports	698	658	706
Subsidiary Sales	142	212	246
TOTAL	£840m	£870m	£952m

TABLE 9 LARGE COMPANY INTERNATIONAL SALES 2009 – 2011 [£M CURRENT PRICES]

	2009	2010	2011
Direct Exports	1,794	1,640	1,702
Subsidiary Sales	4,604	5,052	5,541
TOTAL	£6,398m	£6,692m	£7,243m

Table 8 which looks at the results for SMEs, shows that in 2011 there has been an increase in both direct exports and sales via subsidiaries. Direct exports were up 7.3% from £658m in 2010 to £706m in 2011 and subsidiary sales rose 16% from £212m to £246m over the same twelve month period. This results in an overall 9.4% increase in total international sales from the SME sector between 2010 and 2011 and they now stand at £952m. As in previous years direct exports continue to dominate activity in the SME category.

The Large Company data also records growth for both direct exports and those via sales from subsidiary companies. Direct sales are up 3.8% from £1,640m in 2010 to £1,702m in 2011 and sales from subsidiaries are up 9.7% from £5,052m to £5,541m over the same period. The total increase is 8.2% and a value of £7,243m was recorded in 2011 from the Large Company category. In a reverse of the position for SMEs overseas subsidiary sales dominate the figures for Large Companies.

UNITED KINGDOM ACTIVITY IN THE SERVICE/SUPPLY BASE

Domestic Sales

Although not a core part of the survey, which principally was designed to measure international sales activity, respondents were asked to indicate the value of their domestic sales i.e. sales from throughout the United Kingdom (UK) to regions within the UK marketplace. A breakdown of these results in Table 10 and Figure 9 illustrate the changes within the four main business categories as defined below:

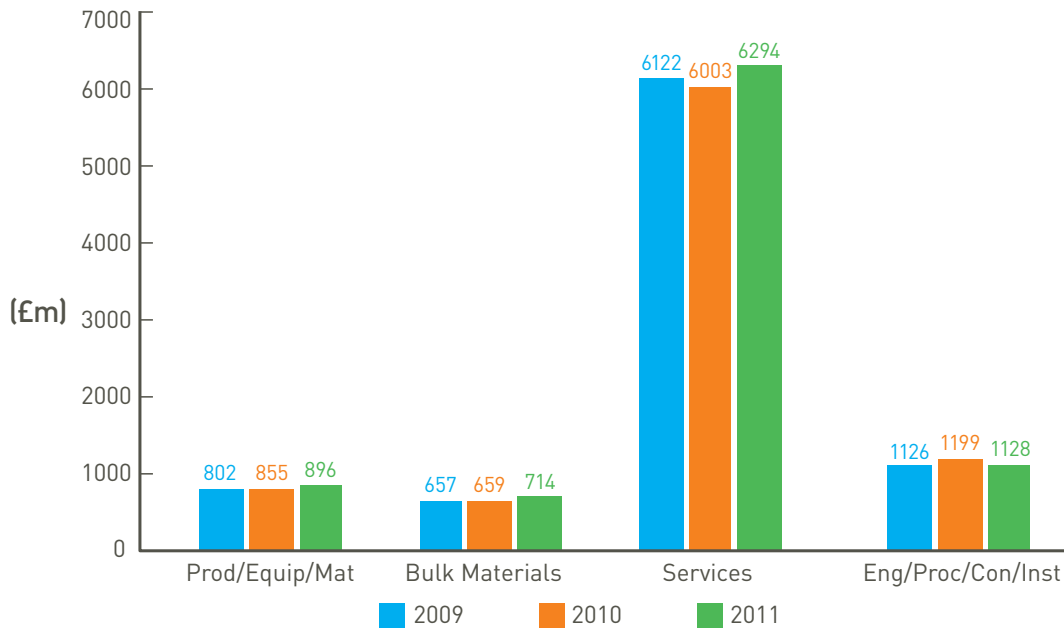
Once again businesses were asked to indicate their total domestic sales but then also to define the proportion of these which were sold to end user customers in the oil and gas industries. It is these latter estimates which are focused on.

Business Category 1	Product/Equipment/Materials
Business Category 2	Bulk Materials
Business Category 3	Services
Business Category 4	Engineering/Procurement/ Construction/Installation

**TABLE 10 SCOTTISH SERVICE/SUPPLY SALES TO THE UK DOMESTIC MARKET 2009 – 2011
[£M CURRENT PRICES]**

Business category	2009	2010	2011
(1) Prod/Equip/Materials	801.9	855.0	895.7
(2) Bulk Materials	657.1	658.8	713.6
(3) Services	6,122.4	6,002.6	6,294.4
(4) Eng./Proc/Constr/Install	1,125.6	1,199.3	1,128.3
TOTAL	£8,707.0	£8,715.7	£9,032.0

FIGURE 9 UK OIL AND GAS SALES GROWTH BY BUSINESS SECTOR



In 2011 domestic sales were valued at £9,032m compared with £8,715.7m in 2010. This is a £316.3m or 3.6% rise over the period, which compares with the 8.4% rise in international sales recorded in Table 3. Given the rise in domestic sales the year before was only 0.1% the 2011 data can be seen as an indication that confidence is returning to the UKCS market.

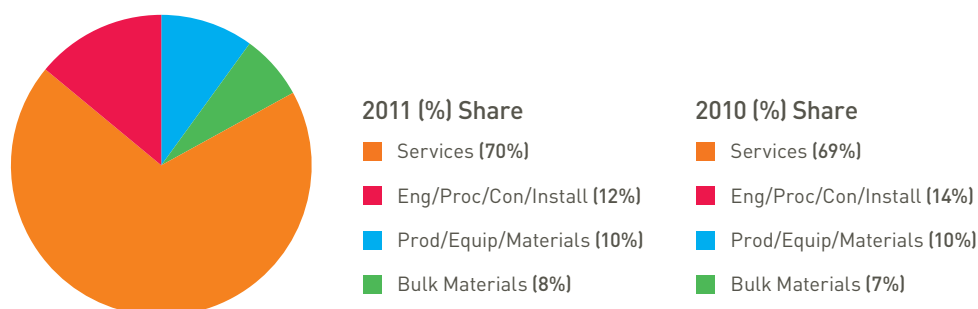
As for international sales the Services sector is the major industry category and here sales rose from £6,002.6m to £6,294.4m a 4.9%, or £291.8m, rise. The second largest business category of Engineering/Procurement witnessed a decrease in sales of 5.9%, down from £1,199.3m in 2010 to £1,128.3m in 2011. As for the Services sector the other two categories both

recorded growth. Product/Equipment/Materials rose 4.8% from £855m in 2010 to £895.7m in 2011 and the Bulk Materials category was up from £658.8m to £713.6m, an increase of £54.8m or 8.3%.

The share of UKCS sales accounted for by the four business categories is illustrated in Figure 10. Having grown sales over the 2010-11 period compared to the 2009-10 period, the Service sector has seen its share increase from 69% to 70%. The decline in Engineering/Procurement sector activity means its percentage share has fallen back from 14% to 12%, whilst the Product/Equipment/Material category share is unchanged at 10% and the Bulk Material category sees an increase from 7% in 2010 to 8% in 2011.

UNITED KINGDOM ACTIVITY IN THE SERVICE/SUPPLY BASE CONTINUED

FIGURE 10 SHARE OF 2011 UK SALES ACTIVITY BY BUSINESS CATEGORY[%] (2010 share in brackets)



The anecdotal evidence during 2011 was that confidence was beginning to return to the oil and gas sector after the global financial crisis which had started towards the end of 2008. Although more resilient than many other industries, oil and gas had been affected by the economic slowdown in key markets such as Europe and North America, as the recession began to hit, growth slowed and demand for oil and gas decreased. The emerging Asian markets bounced back fairly quickly and this was key in enabling the industry to plan ahead with confidence.

In a UK context the positivity which had been emerging suffered a setback when the UK Government decided to further increase supplementary corporation tax on the oil and gas companies as part of its 2011 Spring Budget. A number of projects were put on hold for reassessment in the light of the new fiscal arrangements, amongst them major developments such as Statoil's Mariner and Bressay projects. The scale and complexity of oil and gas industry projects is such that developments cannot be ceased immediately but the scale and pace of developments can be slowed down and this was undoubtedly true in the latter part of 2011. As was noted earlier the pointers for the year had been good and the oil price had increased from \$94/bbl at the beginning of the year to \$107bb at the end, with a major spike in the Spring meaning the yearly average price for 2011 was \$111/bbl. 2011 had seen the conclusion of the 26th UK Offshore Licensing Round and in all 190 exploration licenses were finally awarded, which compares well with the 171 in the 25th Round which closed in 2008. The 27th Round was launched in

February 2012 and witnessed a record number of 224 applications, with an initial batch of 167 licenses being awarded and others awaiting further environmental assessment.

Increasingly we see smaller operators and international operators showing an interest in the UKCS market and this diversity is undoubtedly beneficial to the international growth of the Scottish oil and gas supply chain. As working relationships build this then opens up opportunities in the domestic markets of these international players. Historically Canada would be a good example of this process in action. Major Canadian operators such as CNR, Talisman and Nexen have all established themselves in a major way in the UKCS over the past decade and at the same time we have seen rapid growth in the sales of the Scottish supply chain into the Canadian market.

Interest in the UKCS is continuing at a high level and talk of a significant, albeit smaller, UK industry being around in the 2040s and even 2050s is more common place. Nonetheless the seedcorn of this longevity is exploration and appraisal (E&A) work and the 2011 data shows a further significant decline, with only 49 E&A wells drilled, compared with 62 in 2010, 64 in 2009 and 105 in 2008. The tax increase in the 2011 UK Budget is likely to have been a factor in this decrease but it remains a concern. Initial indications for 2012 show some recovery in the position and hopefully the improving industry/government relationship of recent months will give the industry the confidence it needs to further explore in newly acquired licensing blocks.

INTERNATIONAL AND DOMESTIC MARKET SALES COMPARISONS

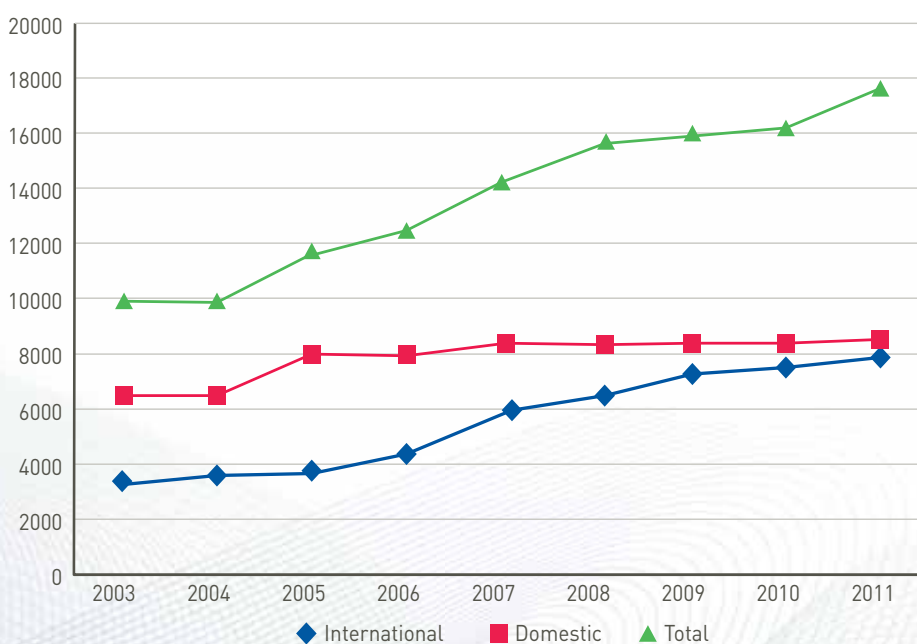
Having carried out the survey for a number of years, it was considered valuable to take a closer look at the relative trends in international and domestic sales since 2002. Whilst the growth in international activity is welcome, is it actually substituting for a decline in the UKCS market or is it part of a wider growth picture?

Table 11 below details the overall Total International sales figures and Domestic sales data between 2003 and 2011, as well as the sum of these. Figure 11 illustrates the growth trend in these same categories again over the nine year period.

TABLE 11 OIL AND GAS SUPPLY CHAIN INTERNATIONAL AND DOMESTIC MARKET SALES 2003 – 2011
[£M CURRENT PRICES]

	2003	2004	2005	2006	2007	2008	2009	2010	2011
International	3,394	3,654	3,754	4,764	5,695	6,558	7,239	7,562	8,195
Domestic	6,481	6,406	7,916	8,147	8,497	8,816	8,707	8,716	9,032
Total	9,875	10,060	11,670	12,911	14,192	15,374	15,946	16,278	17,227
International % Share	34.4%	36.3%	32.2%	36.8%	40.1%	42.6%	45.4%	46.4%	47.6%

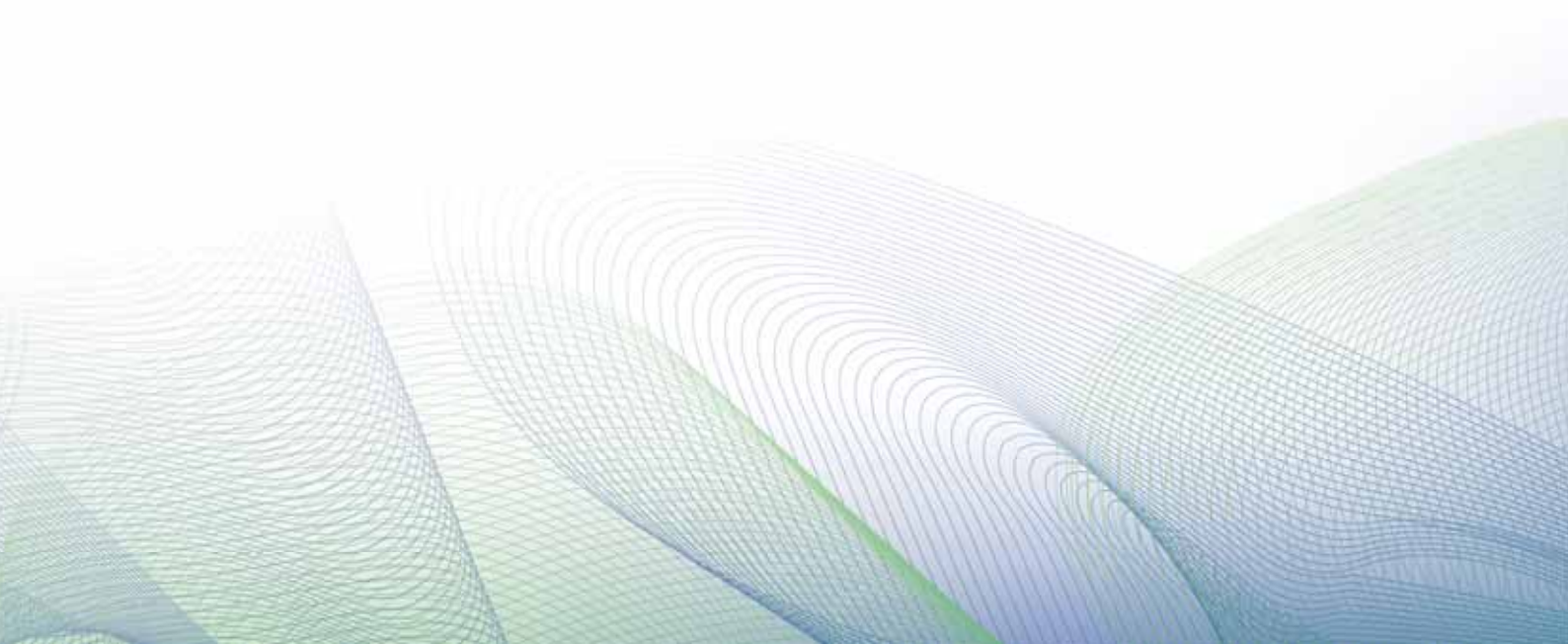
FIGURE 11 OIL AND GAS SUPPLY CHAIN INTERNATIONAL AND DOMESTIC MARKET SALES (2003 – 2011)



INTERNATIONAL AND DOMESTIC MARKET SALES COMPARISONS CONTINUED

The combined UK and International sales picture once again shows overall growth for the 14th year in a row. The latest results for 2011 show steady increases both for UKCS domestic sales and also for international sales. With a higher growth rate recorded for international activity over the period, it continues to account for an increasing share of the total and now represents 47.6% of total sales compared with 46.4% in 2010 and 45.4% in 2009.

The total supply chain sales (domestic and international) are now above the £17 billion level for the first time at £17.2 billion, an increase of 5.8% compared with the 2010 figure of £16.3 billion and 8% compared with the £15.9 billion recorded in 2009. In recent years the total growth rate has been slowing but the 2011 result of 5.8% growth is higher than the 2.1% recorded between 2009 and 2010 and gives tangible evidence to the anecdotal evidence of a strong upsurge in global oil and gas sector activity post 2010. The rising oil price has undoubtedly been critical to this and has helped the industry invest in new and existing projects despite the lingering effects of the late 2008 global economic downturn.



SECTOR DIVERSIFICATION

Each year the survey incorporates a question designed to examine the extent to which companies traditionally selling into the oil and gas sector have begun to diversify their business.

Table 12 summarises the information received in 2011.

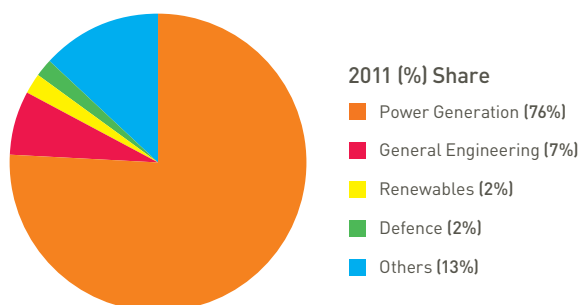
TABLE 12 SCOTTISH SERVICE/SUPPLY TRADING WITH NON OIL AND GAS SECTORS 2011 (£M)

Business Sector	UK Value	International Value	Total
Other General Engineering	51.3	6.3	57.6
Others	48.8	45.6	94.4
Power Generation	33.8	613.5	647.3
Defence	17.4	0.4	17.8
Renewables	16.5	2.7	19.2
Other Civil Engineering	12.3	0.1	12.4
Carbon Capture and Storage	4.2	0.5	4.7
Nuclear	2.5	0	2.5
TOTAL	£186.8m	£669.1m	£855.9m

Table 12 shows that an estimated £855.9m of sales were targeted at non oil and gas sectors by the survey respondents. This figure is a substantial increase on that recorded in the 2010 survey when the figure was £634.8m. In 2009 it had been £669.4m.

SECTOR DIVERSIFICATION CONTINUED

FIGURE 12 SHARE BY SECTOR OF 2011 NON OIL AND GAS SALES [%]



As in previous years the greatest sector where cross over occurs is that of Power Generation and as Figure 12 illustrates some 76% of sales are generated within this sector. General Engineering, Renewables and Defence also show double digit sales. Activity under the "Others" category, where £94.4m of sales are recorded, is focussed on a wide variety of target markets including Medical, Training, Construction and Nuclear Decommissioning.

For many, sales into the Renewables category will look low. It is important to emphasise again that the primary focus of this particular survey is the oil and gas supply chain and hence the above results cannot be taken as

indicative of the wider "low carbon" supply chain in Scotland. This survey gives an indication of the diversification of sales from companies active in the oil and gas market and attempts to monitor whether there is movement from oil and gas to low carbon. Bearing in mind the caveat above as regards the main focus of this research, the latest data suggests this is not yet significant and what diversification there is has a focus on the power generation market rather than emerging low carbon sectors. If and when the offshore wind sector begins to deliver regular and consistent business opportunities, potentially in the next 5 years, the results in Table 12 should begin to show some major changes.

CONCLUSIONS

The main aim of the survey is to undertake annual measurement and comparisons of the level of international sales of the Scottish oil and gas supply chain. This international dimension to the supply chain has grown and developed over the years and has come about as a result of the expertise gained in the UKCS. The research also takes the opportunity to gauge the value of domestic sales generated by the same Service/Supply base and, in addition, examines the extent of diversification into non-oil and gas end user markets. This was the thirteenth time the research has been carried out and further develops the data set which has been produced since 1997.

The 2011 survey results are overall very positive for the Scottish supply chain. The global economy had begun to pick up although the picture was still inconsistent and the developing economies of India and China were certainly moving at a faster pace than the developed North American and European economies. However, the oil price remained strong and helped drive investment across the globe. The level of direct exports was 4.9% higher compared with 2010 and the level of overseas subsidiary sales was 9.9% above the 2010 figure. Overall total international exports in 2011 were calculated at £8,195.2m compared with £7,561.7m in 2010, an 8.4% or £633.5m increase over the period.

After a very low growth figure of 0.1% reported in the 2010 survey, this latest research shows a 3.6% increase in the value of sales into the domestic UKCS market with these now valued at £9,032m in 2011 compared with £8,715.7m in 2010. This means that the combined sales figure for domestic and international sales has reached yet another record high of £17.23 billion, 5.8% or almost £1 billion above the £16.28 billion figure in 2010. International sales have also reached a proportionate new high and now account for some 47.6% of total sales.

North America remains the top export market but sales into the United States actually showed a small decline for the first time, although this was compensated for by increased activity in the Canadian marketplace during the year. There was sharp growth in sales into Australia, which rose by 9.4% and also in sales into the African market where a 6% rise was noted. Angola and Nigeria remain the key African markets for the Scottish supply chain. In total, sales activity from the Scottish supply chain was measured in 106 different country markets during 2011.

In summary, the steady performance of the Scottish oil and gas supply chain in 2010 showed signs of gathering pace in 2011 as parts of the global economy started to emerge strongly from recession or at least economic slowdown. Total sales were up 5.8% compared with the 2.1% noted in the 2010 report. In the short term the impact of the UK Government tax rise in Spring 2011 seems likely to have led to a reduction in exploration and appraisal drilling which reduced significantly from 2010. Looking forward, the relationship between the oil and gas industry and the UK Government improved in 2012 and a better understanding was reached on fiscal incentives to help develop new fields such as the deepwater fields west of Shetland. This of course helps develop the supply chain beyond its main North East heartlands and will help spread the economic benefits across the North of Scotland and the Islands. It is hoped that this improved industry/ government relationship will continue, as fiscal stability and appropriate incentives will be critical in enabling the UK to maximise its oil and gas assets over the next 30-40 years.

In a global context the International Energy Agency (IEA) recently revised its forecast for global oil demand growth both for 2012 and 2013, citing higher consumption in China, the US and Brazil. Clearly as demand increases, supply will aim to follow and this should drive field development opportunities across the world leading to potential new business for the Scottish supply chain. Thus a lot of the fundamentals are in place which should see international and domestic sales continue to increase in the coming years. There are a number of caveats and access to capital for developments, particularly for smaller oil companies in the UK, this continues to be more difficult than it was pre 2008. The European and UK economic outlook remains sluggish but the non OECD markets should continue to drive demand. Access to the correct level of technical skills and experience to deliver the projects already in the pipeline and those likely to emerge remains a challenge and may dampen the pace of development in the UK and perhaps other markets such as Australia. However, overall the outlook for the Scottish supply chain is a positive one and the challenges which do exist, such as the attraction of more skilled people into the industry, can be resolved with consistent and long term planning by the industry and its wider stakeholders.

APPENDIX A

Geographic Region Definitions

Region	Main Markets
North America	United States, Canada
Western Europe (Excl' EU)	Norway, Faeroes, Switzerland
Latin America	Brazil, Mexico, Columbia, Venezuela, Trinidad, Argentina
European Union	Denmark, Netherlands, France, Germany, Italy
FSU and Eastern Europe	Russia, Azerbaijan, Kazakhstan
Middle East	Iran, Qatar, Saudi Arabia, UAE, Oman, Syria
Africa	Egypt, Ivory Coast, Nigeria, Equatorial Guinea, Angola, Libya
Asia Pacific	Singapore, Vietnam, Brunei, China, Indonesia, Malaysia, Thailand
Australasia	Australia, New Zealand

Business Category Definitions

1. Products/Equipment/Materials	Pumps, drilling equipment, computers, wellhead equipment, ROVs, Instrumentation/Process Control Equipment.
2. Bulk Materials	Chemicals, Valves, Building Materials, Plastic/Composites
3. Services	Surveying, Logistics, Certification, Repair/Maintenance, Drilling Services, Diving, Testing/Inspection, Seismic Services.
4. Multidiscipline	Engineering, Procurement, Construction, Installation, Commissioning. (Platforms, Subsea, Pipelines etc)

APPENDIX B

Explanation of Analysis by New Industry Categories

As mentioned in the introductory remarks of the International Sales section at the beginning of the report, we have analysed the 2011 data not only by the four Business Category Definitions outlined in Appendix A and also by a different set of sub sector categories listed below:

1. Drilling & Well Services
2. Health & Safety
3. Logistics/Transportation
4. Project Management Services
5. Subsea
6. Operations
7. Maintenance

Part of the rationale for this is to align the output from the survey to the work being undertaken within the Scottish Government's Oil & Gas Industry Leadership Group. The aim going forward is to produce international and UK sales data for these seven key priority industry sectors. In addition, the expansion of analysis from four to seven categories will allow for more detail to be provided using industry terminologies to better reflect the key sub sectors within the oil and gas industry.

The survey data analysis by the four existing business categories has been undertaken since the report was first started in the late 1990s. Therefore to move over to new categorisations and allow comparison and trends to be measured within these categories will, as a matter

of course, take time. Inevitably many companies will have lines of business which straddle more than one industry category but for analysis purposes have to be allocated to the one coding which best reflects where the majority of their business activity lies. This new set of data is a first cut at trying to achieve this and provides the additional detail sought. The methodology and analysis will be refined over the next two years and it is planned to eventually publish the report based on these new categories. The 2015 publication will be the first one where three years of data will be available and at that point the new categories will form the main body of the report. In the interim period they will be contained within an Appendix.

New Analysis Results – International Sales

Tables A, B and C are the equivalent of Tables 1-3 in the main report and likewise Figure C1 is the equivalent of Figure 4.

There is limited scope for commentary based on one year's data but the figures in Table A certainly reflect the strength of the subsea sector in Scotland and its ability to internationalise its sales, with 47% of total direct exports being accounted for by this sector alone. On the other hand, sales via subsidiary businesses is heavily dominated by Operations, Project Management Services and Drilling & Well Services.

As illustrated in Figure C1, Operations is the most significant sub sector in terms of total international sales, accounting for 41% of the total, followed by Project Management Services at 19%, with Subsea next at 15%.

TABLE A SCOTTISH SERVICE/SUPPLY DIRECT EXPORTS 2011 [£M CURRENT PRICES]

Key Activity	2011	% Share of Total
Drilling & Well Services	265.2	11%
Health & Safety	15.1	1%
Logistics/ Transportation	84.6	4%
Project Management Services	56.4	2%
Subsea	1,121.5	47%
Operations	769.0	32%
Maintenance	96.7	4%
TOTAL	£2,408.5	

TABLE B OVERSEAS SUBSIDIARY SALES 2011 [£M CURRENT PRICES]

Key Activity	2011	% Share of Total
Drilling & Well Services	951.5	16%
Health & Safety	1.3	0%
Logistics/ Transportation	449.7	8%
Project Management Services	1,530.9	26%
Subsea	133.5	2%
Operations	2,562.5	44%
Maintenance	157.3	3%
TOTAL	£5,786.7	

TABLE C TOTAL INTERNATIONAL SALES 2011 [£M CURRENT PRICES]

Key Activity	2011	% Share of Total
Drilling & Well Services	1,216.7	15%
Health & Safety	16.5	0%
Logistics/ Transportation	534.3	7%
Project Management Services	1,587.3	19%
Subsea	1,254.9	15%
Operations	3,331.6	41%
Maintenance	254.0	3%
TOTAL	£8,195.2	

FIGURE C1 SHARE OF 2011 TOTAL INTERNATIONAL ACTIVITY BY KEY ACTIVITY [%]

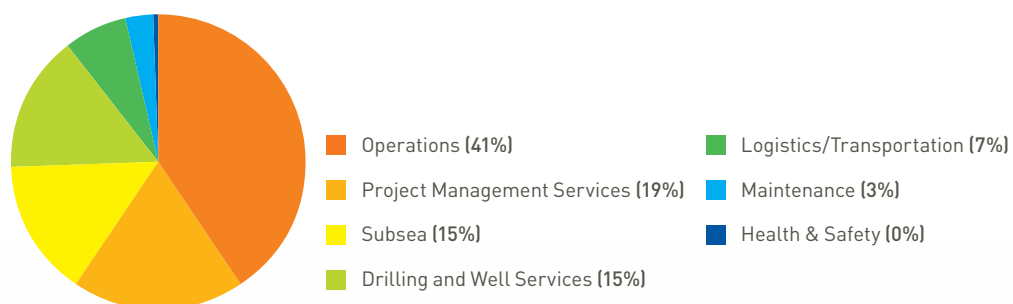
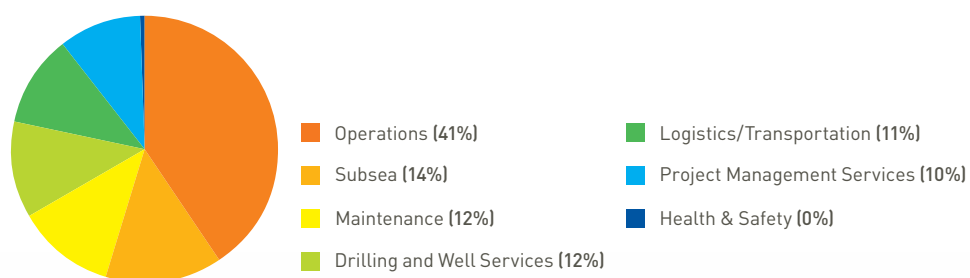


TABLE D SCOTTISH SERVICE/SUPPLY SALES TO THE UK DOMESTIC MARKET 2011 [£M CURRENT PRICES]

Key Activity	2011	% Share of Total
Drilling & Well Services	1,066.0	12%
Health & Safety	33.7	0%
Logistics/ Transportation	939.0	11%
Project Management Services	885.3	10%
Subsea	1,272.3	14%
Operations	3,733.9	41%
Maintenance	1,101.6	12%
TOTAL	£9,032.0	

FIGURE D1 SHARE OF 2011 UK SALES ACTIVITY BY KEY ACTIVITY[%]



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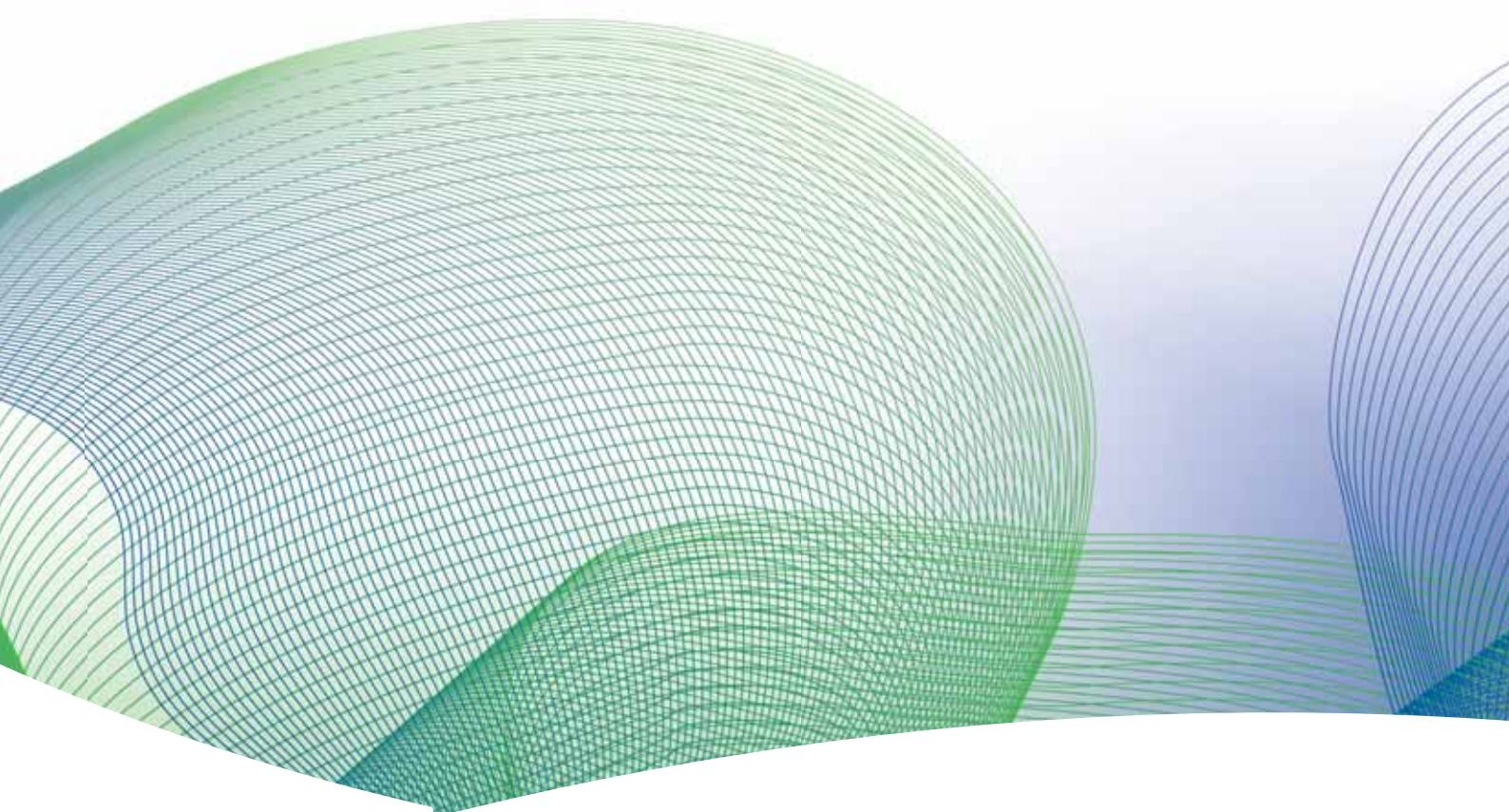
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