

Power to the mid-market

It would have passed you by – a small survey in the energy sector conducted in one of the more remote parts of the UK.

Obscure it may be, but *The Aberdeen City and Shire Export Survey 2010* is a microcosm highlighting the potential for small to medium-sized companies (SMEs) to develop specialist skills that are now prized internationally.

The survey encompassed 236 companies, operating primarily in the oil and gas sector, with a base in the north-east of Scotland. Of the total responses, 157 were from SMEs in the sector. Offering a range of support services, they're far from major players in the energy sector. However, their services have a huge impact on helping operators worldwide make profits and conform with health and safety and quality standards.

As a result of living and breathing the oil industry on their doorstep in the globally minor and declining oilfields of the North Sea for several decades (15-24 billion barrels of oil equivalent remains recoverable in the North Sea), they have developed expertise and knowledge that others internationally want to buy.

So much so, in fact, that the goods and services they exported in the past year were worth GBP 600 million (USD 957m) – that's GBP 3.5m (USD 5.58m) each. The largest proportion of respondents stated that their approximate value of international business was in the region of

GBP 250,000 a year; 15% of companies stated that their turnover from international sales equates to between GBP 2m (USD 3.1m) and GBP 5m (USD 7.75m).

Over the next two years, 52% of these businesses expect exports to increase by up to 20%; and 28% expect exports to increase by over 20%.

Key export markets for Aberdeen SMEs are in the barchart below. The potential is still greater, says Tom Faichnie, energy partner at UHY's member firm in Scotland, Campbell Dallas. "Companies do not do enough market research, forecasting, or preparation of personnel – expansion is still very much opportunity-driven. Companies need bespoke, practical, reliable, cost-effective services and guidance. Our aim is to offer a comprehensive portfolio of services."

Yet, says Tom: "The skills developed in the North Sea have provided our companies with market leading credentials and a knowledge base which will increasingly be in global demand. The industry excels in finding solutions to complex problems, developing existing technology, an ability to quickly design and innovate along with adhering to high quality technical, health and safety and environmental standards.

"The era of 'easy oil' is over, and significant new discoveries are likely to be in deeper water and 'unconventional sources' where technology must continually advance to develop the reserves in a cost-effective manner. This expertise places our local businesses in a strong position to capitalise on this trend."

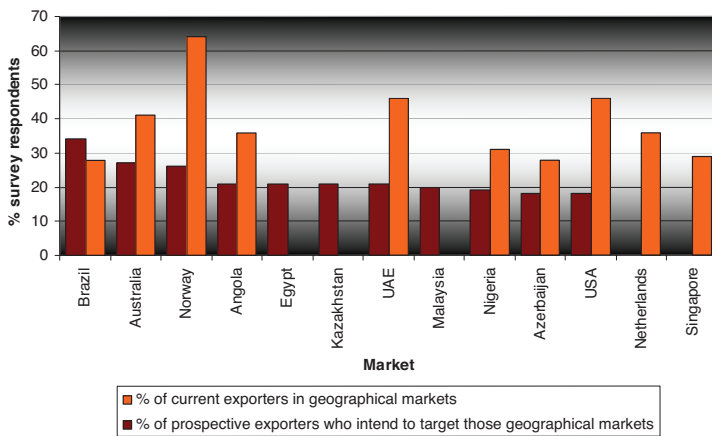
One of Campbell Dallas' clients is an Aberdeen company which was offered a new contract in Brazil by one of its largest customers (the company already operated in Brazil). "Whilst adding significant revenue to the group, the high tax regime and issues of remitting cash to the UK meant that it was better for the company to reject the contract," says Tom. "We worked with Scottish Development International to find ways to efficiently remit cash to the UK to enable the company to accept the contract and therefore increase its operations in Brazil."

Meanwhile, across the Atlantic, UHY's energy specialists in the US, headquartered at Houston, are lending their expertise to support for Scottish SMEs. The Houston team works with some of the world's major oil and gas players, such as ATP Oil & Gas Corporation, which operates in both the North Sea and the Gulf of Mexico, acquiring and developing fields with proven undeveloped reserves that are economically attractive.

Other UHY US clients include Geokinetics, which specialises in working in extreme environments - from arid deserts of the Middle East and the jungles of South America, to the environmentally sensitive Alaskan Foothills, and the mountains of the Andes.

With its headquarters in Houston, Geokinetics is one of the largest independent, international land and shallow water geophysical service companies offering specialised geophysical solutions to the petroleum and mining industries worldwide. Its presence spans the globe with offices in 29 major countries, and a workforce covering 60 nationalities.

Key export markets for Aberdeen 2010



UHY in the US also works with various drilling companies such as Vantage POB and BassDrill Ltd. The US firm's largest oilfield drilling client is Champion Technologies, which has a significant presence in Aberdeen and around the world.

A client of the US firm's Enterprise Risk Advisory Services is ATP Oil & Gas Corporation, which works in both the North Sea and the Gulf of Mexico, acquiring and developing fields with proven undeveloped reserves that are economically attractive.

"Our energy practice is committed to building meaningful relationships with our energy industry clients in the upstream, mid-stream, power and oilfield services market segments," says UHY LLP audit partner, Conrad Johnson.

"Our Houston office features more than 450 professionals of which over 200 serve companies in the energy sector. We serve more than 150 companies with operations in all segments of the energy industry. As a result, we have local and international resources dedicated to providing energy industry technical accounting to effectively and efficiently address the many difficult issues in today's complex business environment.

"The integration of our services and resources into a single, industry-focused practice delivers superior service and value to our clients. Tangible benefits to our clients include our ability to:

- **Share the latest research and points of view on emerging energy trends**
- **Locate individual experts on each issue, wherever they are based**
- **Collaborate on accounting and tax issues unique to energy enterprises**
- **Develop industry specific benchmarks, based on leading practices."**

Services offered by UHY Advisors in the US include: tax services; enterprise risk advisory services; forensic, litigation and valuation services; business process outsourcing and flexible staffing; and assurance and business advisory services.

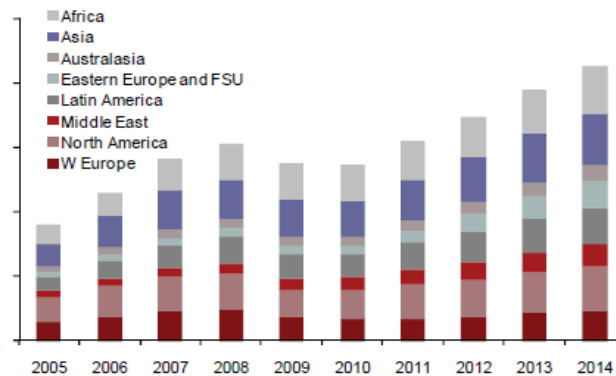
UHY member firms' services to the energy sector are now so significant that the network has created an energy special interest group bringing together all elements of the global network involved in the sector into one unified entity to provide services to energy clients globally still more effectively.

As a result, the Aberdeen firm is working closely with colleagues in Houston and representatives from the UHY network in London, Nigeria, Singapore, Norway, Mexico, Brazil, Australia, Kazakstan and UAE (Dubai).

"If one of our clients needs something quickly from Nigeria, for instance," says Tom Faichnie, "we know that our contacts in the office there not only have a thorough understanding of the energy industry, but will deliver for our clients immediately."

Globally, spend in the energy sector is growing, reaching a new high of USD 490 billion in 2011, according to Barclays Capital. The global market will see an increase in offshore exploration and drilling; an increase in deepwater exploration (USD 231 billion in 2011 alone); and new fields internationally leading the way over the traditional fields of North America.

Expenditure on oil and gas in the world's regions since 2005, with projections up to 2014, is shown here (source: *EnergyFiles*, a forecasting service):



Although overall spending globally is set to increase, it will be dominated by Latin America, the Middle East/North Africa, and Southeast Asia – reflecting the upsurge of consumption among emerging markets (Source: *Barclays E & P Spending survey*).

Over the next decade, the prime focus for exports will switch from the more traditional routes into the US, Norway and West Africa towards exploiting huge potential in markets such as Brazil and Australia, according to researchers Maxwell Drummond, whose survey of industry respondents shows the majority believe global exploration and production will be focused in Latin America and Australasia.

Also high on the radar for SMEs, says Tom, are export markets such as Iraq, Equatorial Guinea and Vietnam where exporters have shown far stronger interest since the last Aberdeen energy export survey in 2008.

The Aberdeen survey shows that the top markets in which energy sector exporters are currently active are: Norway, the US, Australia, United Arab Emirates and Angola. Current energy sector exporters list their current future target markets (in terms of turnover) as: Brazil, Australia, Norway, Angola, Egypt and Kazakhstan.

"But the step into new international markets for SMEs is not without many challenges," says Tom. "Finding the right partner to facilitate internationalisation is a critical step. It's all about who you know – and the locals have the power. You need to stand out. Showcase your skills and industry experience, understand the differing business

culture you find yourselves in and establish personal relationships. Be there, make an effort. It's essential to build a friendship. Visits may be time-consuming, but costs will undoubtedly be outweighed by business benefits."

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